Hydro Tasmania

The power of natural thinking

Annual and Sustainability Report 2010

Hydro Tasmania

www.hydro.com.au

4 Elizabeth Street
Hobart Tasmania 7000
Postal Address: GPO Box 355
Hobart Tasmania 7001 Australia

Phone within Australia: 1300 360 441
Phone international: +61 3 6271 6221
Fax: +61 3 6230 5363
Email: contactus@hydro.com.au

Entura

www.entura.com.au

89 Cambridge Park Drive
Cambridge Tasmania 7170
Phone: +61 3 6245 4500
Fax: +61 3 6245 4550
Email: info@entura.com.au

Melbourne
Level 25, 500 Collins Street
Melbourne Victoria 3000
Phone: +61 3 8628 9700
Fax: +61 3 8628 9764
Email: info@entura.com.au

New Delhi
12th Floor, Eros Corporate Tower
Nehru Place
New Delhi India 110 019
Phone: +91 11 4651 8513
Fax: +91 11 4651 8512
Email: info@entura.com.au

Brisbane
Level 1, 52 Merivale Street
South Brisbane Queensland 4101
Postal Address: GPO Box 715
Brisbane Queensland 4001
Phone: +61 7 3840 5430
Fax: +61 7 3844 6157
Email: info@entura.com.au

Momentum

www.momentum.com.au

Postal Address:
PO Box 353 Flinders Lane
Melbourne Victoria 8009
Phone: 1300 662 778
Fax: +61 3 9620 1228
Email: info@momentum.com.au

Photographers

Alastair Bett
David Bluhdorn

Accreditations of paper stocks utilised in this document

- Australian made
- PH neutral
- Carbon neutral
- Eco bleaching process
- Environmental management system
- Forest management
- ISO 14001 environmental accreditation

Directors' Statement

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

In accordance with Section 55 of the *Government Business Enterprises Act 1995*, we hereby submit for your information and presentation to Parliament the report of the Hydro-Electric Corporation for the year ended 30 June 2010. The report has been prepared in accordance with the provisions of the *Government Business Enterprises Act 1995*.

David Crean
Chairman Hydro-Electric Corporation
October 2010

Roy Adair
CEO Hydro-Electric Corporation
October 2010

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

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

Contents

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

Introduction

About this report

The Annual and Sustainability Report 2010 is Hydro Tasmania's sixth consecutive annual report to include sustainability performance. It covers the financial year from 1 July 2009 to 30 June 2010.

It integrates Hydro Tasmania's legislative requirements for annual reporting under the *Government Business Enterprises Act 1995* (GBE Act) and the commitment to report sustainability performance under our Sustainability Code.

The information provided in this report has been guided by the Global Reporting Initiative (GRI) G3 sustainability reporting guidelines and electric utility sector supplement, the Energy Supply Association of Australia sustainable practice framework and the International Hydropower Association Sustainability Assessment Protocol 2006.

Hydro Tasmania Consulting changed its name to Entura after the reporting period in September 2010 and we use that name throughout the report even when referring to activities for 2009-2010.

Determining materiality

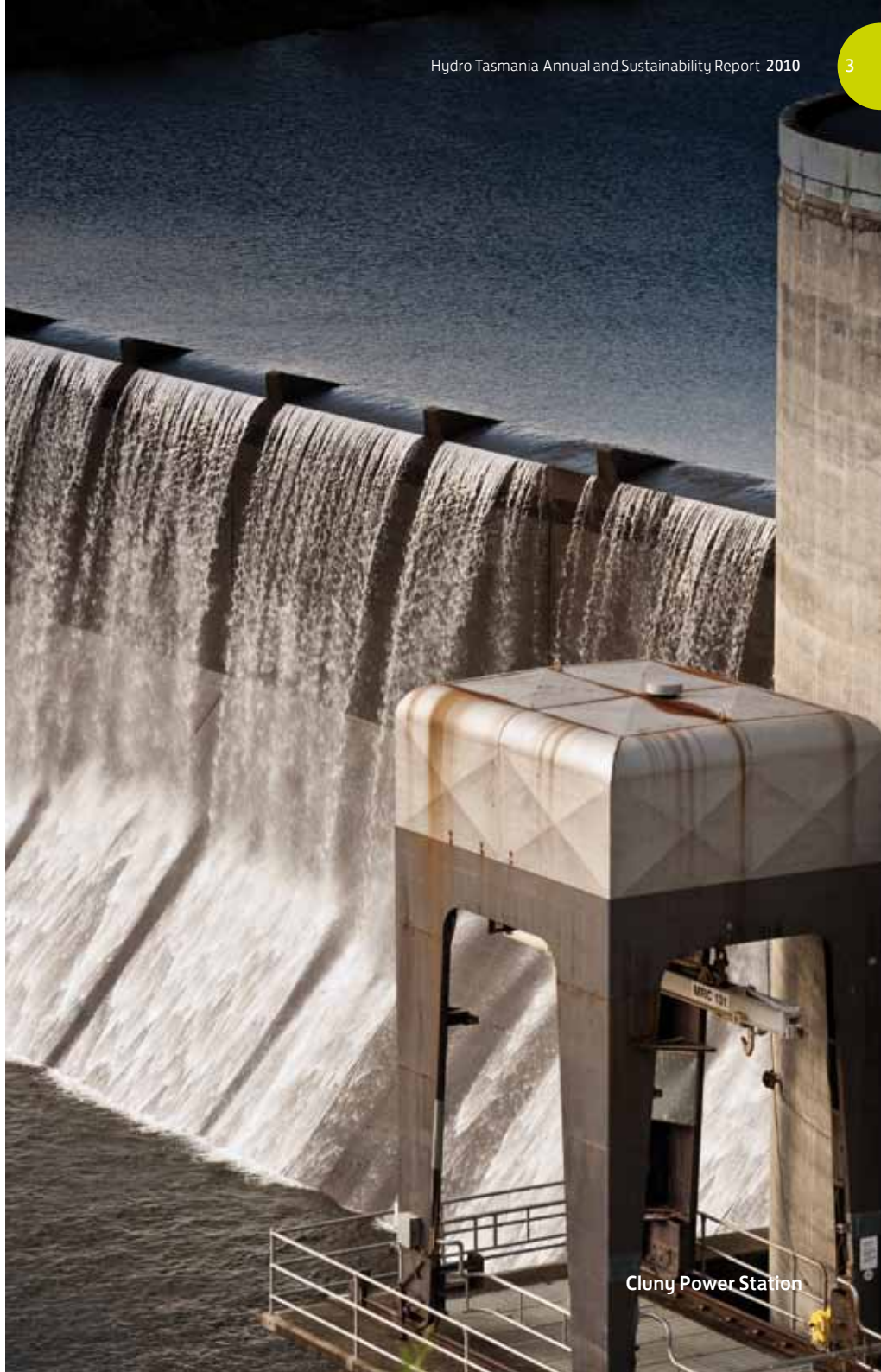
Our expectation is that different groups of stakeholders will find different sections of this report of interest. Hydro Tasmania's stakeholder groups are listed on page 62. Our primary audience is the people of Tasmania where our operations have significant economic, social and environmental impacts.

The content of the report was determined by Hydro Tasmania and stakeholders' material issues, our sustainability self-assessment and core GRI indicators that apply to the business.

For the first time, the survey to determine materiality included stakeholders in other states of Australia. The survey was sent to 95 organisations on our stakeholder register and we received 31 replies. Hydro Tasmania senior executives provided issues with reference to business risk. A frequency and priority matrix was applied and we regarded those ranked from high to extremely high as material for reporting purposes. Material issues found to be important to both Hydro Tasmania and to stakeholders for this report were:

Economic: market behaviour and pricing; renewable energy, research and innovation (including Bass Strait islands); storage levels and financial position; consulting performance; Basslink negotiations and availability; brand – delivering the promise; realising the customer strategy; and financial performance.

Assets and resource use: electricity supply; asset safety (including dam safety); water management and multiple use of water; electricity supply and management of generation infrastructure.



Cluny Power Station

Governance: aligning sustainability performance management with strategy and risk management; compliance (including trade practices).

Employees: safety risks; enterprise agreement negotiations; business transformation, culture and engagement; employee performance management, competencies and career development.

External stakeholders: stakeholder relationships, partnerships and engagement; supplier relations and engagement; government relations and influence in decision-making.

Ecosystems and heritage: environmental management approach (including the environment and sustainability management system); impacts on biodiversity; greenhouse gas emissions and carbon neutral target.

Data collection and basis

We have noted GRI's G3 decision tree for boundary setting based on control and impact. Figure 2 shows Hydro Tasmania's ownership structure which guides this requirement. Using the G3 guideline, our significant controlled entities are Momentum and Entura's Indian consulting subsidiary and the significant joint venture is Roaring 40s. We include narrative and disclosures on management approach for Roaring 40s.

Entura is part of Hydro Tasmania and included in all data. At this time the only aggregated data for Momentum and the India consulting office are for finance. Therefore reporting on the performance of these entities is limited and all data excludes Momentum and India unless otherwise stated. Data aggregation is expected to occur during the next two to three years.

Financial statements comply with International Financial Reporting and Australian Accounting Standards and are in accordance with the GBE Act. Financial data includes all entities over which Hydro Tasmania has control, including Entura's Indian operating subsidiary and Hydro Tasmania's share of all incorporated and unincorporated joint ventures. All monetary amounts are in Australian dollars.

Generation data are reported in net terms at our market connection points. We measure water storage in gigawatt hours of energy or in percentage full of energy. See details on page 132.

Greenhouse gas data are collected from all Hydro Tasmania's controlled Australian facilities and comply with National Greenhouse and Energy Reporting System (NGERS) requirements for scopes 1 and 2. In addition we include Scope 3 and data from the Indian consulting office. NGERS data are verified annually by external specialists.

Employee data in the employee section include only Hydro Tasmania and Entura employees and the numbers are calculated on head count. Definitions are the same as the GRI G3 guidelines definitions where possible and otherwise the differences are stated.

This report has been assured by Banarra. Hydro Tasmania believes assuring the report will give our readers confidence in the information presented. Banarra's assurance statement is on page 21.

Data for the report are peer reviewed.

Errors in the 2008-2009 report

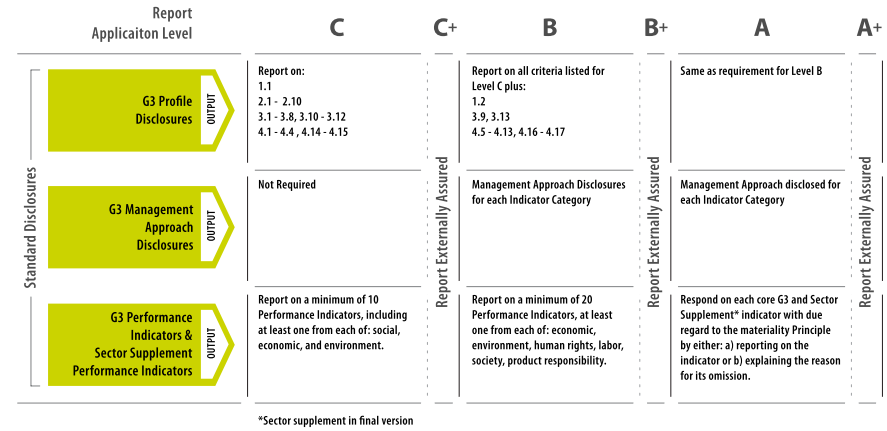
We inserted a correction notice in the cover of last year's report before distribution that advised:

- inside front cover – capital expenditure was $81.2 million, not $79.8 million; net profit after tax was $291 million, not $287 million
- page 6, fifth paragraph – net profit after tax was $291 million, not $287 million.

There are no restatements for the 2008-2009 report.

GRI application

Banarra provides an affirming opinion of Hydro Tasmania's assessment that this report conforms with an A+ rating on page 21.



Contact

Readers are welcome to provide feedback and comments about this report so that we can continue to improve its value to readers. There is a feedback form on page 139 or send an email to: contactus@hydro.com.au.

If you have any queries regarding this report or its contents, please contact our CEO Roy Adair:

Email: ceo@hydro.com.au; or

Post: GPO Box 355
Hobart, Tasmania 7001
Australia

About Hydro Tasmania

The Hydro Tasmania group brand was launched in September 2010.

- **Hydro Tasmania –** generating more renewable energy in Australia than any other generator; trading energy and energy environmental products; Australia's largest manager of water, managing substantial water resources as an energy source; based in Tasmania.
- **Momentum –** retailing electricity to small and medium businesses in mainland regions of the National Electricity Market; offering energy contracts, energy efficiency advice and GreenPower products sourced from wind; based in Victoria.
- **Entura –** providing consulting services to global power, water and environmental markets, with a particular focus on the Asia Pacific region; based in Tasmania with offices in Melbourne, Brisbane, and New Delhi, India.

Since the partial purchase of Momentum Energy Pty Ltd in 2008 we have developed strategies to realise the synergies between retail, generation and consulting services. In September 2009 we completed the acquisition of Momentum. A major task was to develop a brand for each group member so that it could differentiate itself in the market and at the same time demonstrate the connection between them to build on the stability and market knowledge of Hydro Tasmania's long history.

Our joint venture with Asian company CLP Group, Roaring 40s Renewable Energy Pty Ltd, specialises in wind farm development and supplies new renewable energy to market. Its three wind farms and one under construction will bring the total installed capacity to 317 MW.

In June 2010 we welcomed Roy Adair as our new Chief Executive Officer. Vince Hawksworth left Hydro Tasmania in April to take up a new position in New Zealand.

Table 1: Hydro Tasmania's scale at 30 June

		2006	2007	2008	2009*	2010**
Group total employees~	Head count	886	817	838	880	923
Total revenue	$ million	504	493	474	626	727
Total equity	$ million	907.4	958	1395	1665	1882
Net debt	$ million	1076	1141	872	904	863
Total installed capacity	MW	2518	2615	2510	2510	2281
Total electricity generated	GWh	10351	9064	8269	7881	8167
Total assets	$ billion	3.85	4.25	4.8	5.2	5.1

~includes all employees of Austalian and Indian offices.

*Hydro Tasmania acquired Momentum Energy Pty Ltd.

**Hydro Tasmania acquired full ownership of Momentum Energy Pty Ltd.

Lower Lake Margaret Power Station

Figure 1: Hydro Tasmania's business structure at 30 June 2010

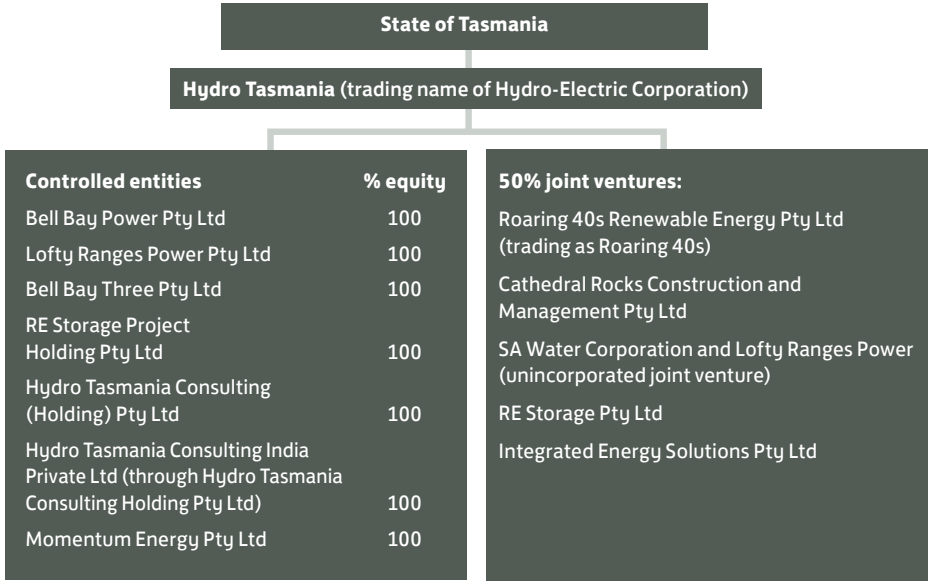


Figure 2: Hydro Tasmania's ownership structure at 30 June 2010
(for more information see pages 119-124 in financial statements)

Legislative framework

Hydro Tasmania is the trading name for the Hydro-Electric Corporation, which is a registered business, 100 per cent owned by the State of Tasmania. The principal pieces of legislation under which we operate are: 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 Bryan Green MP, Minister for Energy and Resources, has portfolio responsibility for Hydro Tasmania.

Awards

Hydro Tasmania received the following awards during 2009-2010.

- Engineering Australia – national Engineering Excellence Award 2009 in the category of World Class Hydro Machine Operation for the integrated improvements in achieving low vibration levels in Poatina No. 1 machine. Awarded to the alliance of Hydro Tasmania and Alstom.
- Engineering Australia – Tasmanian Engineering Excellence Award 2009 for the design of the Lake Margaret hilltop pipeline replacement. Awarded jointly to the design team of Hydro Tasmania, Johnstone McGee & Gandy and Hazell Bros.
- Engineering Australia – Tasmanian Engineering Excellence Award 2009 for a student showing the highest proficiency in fourth year engineering design – awarded to Sarah Kube, a graduate mechanical engineer with Hydro Tasmania.
- 2009 Engineers Australia – Images of Engineering. The winner was a photo taken by Entura's Ambrose Canning in Papua New Guinea on the Dauli mini-hydro project.
- State Project Management Achievements Awards 2009 – Regional Development category for the Lake and Macquarie rivers irrigation project. The award was for innovation in project management, in this case for stakeholder education in contract management and in compliance with environmental and other requirements.
- Australasian Fleet Managers Association's Fleet Environment Award 2009 which recognised Hydro Tasmania's achievements in reducing emissions from vehicular fuel use.
- 5th Annual Safe Work Australia Awards – national finalist in category B: Best Solution to an Identified Workplace Health and Safety Issue for the gantry built for safe access to the Catagunya Dam wall and spillway during the restoration project.
- Australian Human Resources Institute Awards 2009 – a national finalist in the health and wellbeing category for the Healthy Hydro program.
- 2010 Tasmanian Awards for Environmental Excellence. Winner, Large Business Sustainability category for the sustainability program.
- esaa Sustainability Report Award 2010 – highly commended Annual and Sustainability Report 2009.
- Australasian Reporting Awards – Bronze award for the Annual and Sustainability Report 2009.

Achievements and challenges

Table 2: Achievements and challenges

	Achievements	Challenges
Economic	Strong financial result: profit $72.9 million Dividend declared of $10.2 million Reduced debt by $41 million	Competitive dynamics in energy market
Long-term	Clear growth strategy to increase returns to owners Efficiencies have given confidence of a 'break even' result with below average rainfall	Fulfilling our mission of developing new renewable energy projects due to delays in the national emissions trading scheme and carbon pricing mechanism Becoming an integrated energy business
Growth	Full acquisition of Momentum – diversifies our revenue and geographic customer base	Entura growth Building the brands and realising synergies between them
Governance	Continual improvement of systems and procedures	Regulatory enquiries into market behaviour
Generation assets	Capital expenditure of $78.4 million	Balancing capital allocation between existing asset improvements and new opportunities
Water resource	Energy storages at preferred operating levels all year – 36.3% at end of year	Establishing sustainable water allocations for irrigation
Employees	Engagement level at 63% – in the top quartile of Australian benchmark	Establishing a competitive business culture
Capability	143 people over three years through in-house development programs	Ensuring capability in the right skills
Safety, health and wellbeing	Lower lost time injury frequency rate Healthy Hydro participation reached 76.2%	Stress and fatigue
External stakeholders	Stakeholder engagement framework developed	Consistent approach to stakeholder engagement
Community	Good interaction on heritage and generation projects	Promoting our role in the community
Suppliers	Improved accounts payable system	Encouraging sustainability in the supply chain
Ecosystems	Threatened species research	Cost-effective water quality monitoring across the system
Heritage	Lake Margaret heritage preserved – upper and lower power stations	Managing multiple aspects of heritage risk
Carbon status	Bass Strait islands developments – innovative renewable energy alternatives to diesel	Implementing measures for energy efficiency across the business

The new woodstave pipeline at Upper Lake Margaret Power Station

Chairman's review

Hydro Tasmania has faced many challenges over the past 12 months but once again, as our long history has demonstrated, we have responded to them through a combination of professionalism, innovative solutions, leadership and a whole-of-business commitment to sustainability.

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

This focus on future growth opportunities has been done while responding to the commercial realities of competition within Tasmania and on mainland Australia. During the next 12 months, Tasmania's electricity industry will be subject to an independent review established by the State Government. Hydro Tasmania believes this will be a positive opportunity to set a clear direction for the State's energy supply and we look forward to making a significant contribution while continuing to build on the financial success of the past year.

Strong performance

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

We recorded a profit before fair value adjustments of $72.9 million, up from $38.6 million last year, while net operating cash (cash after all expenses, including interest payments and tax, but not including capital expenditure and dividend payment) was $178 million, up from $43.8 million. Net debt at the end of the year was $863 million, down from $904 million the year before.

Hydro Tasmania has worked hard at becoming more efficient in the context of reduced rainfall and the consequent substantial derating of our average inflows (from 10 000 GWh up to 2006 down to 8700 GWh currently). We are now confident of achieving a 'break even' result when we have significantly below average inflows. This would not have been achievable prior to Basslink.

Growth strategy

Hydro Tasmania has set a clear strategic direction for the next five years. This encompasses structured financial consolidation and discipline, electricity sales growth, primarily through our mainland retail arm Momentum, increasing our innovative capability and maintaining our commitment to fully integrating sustainability into our business planning.

Hydro Tasmania completed the purchase of Momentum in September 2009, almost a year earlier than planned. The Victorian-based business retails electricity primarily to business customers and some residential customers in a number of mainland states and has achieved consistent customer growth.

Chairman, David Crean

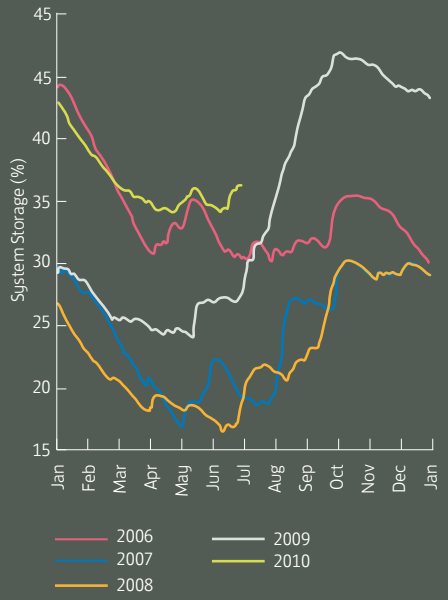


Figure 3: System storage

The mainland growth strategy has only been possible because of Basslink. After four years of operation Basslink has demonstrated its value in exporting renewable energy at high prices and importing energy at low prices to help rebuild storages, as well as its capacity to help drought-proof the State while assisting in providing security of supply to Tasmania.

Entura

Entura (formerly known as Hydro Tasmania Consulting) has gone through significant structural transition over the past five years. This has seen a predominantly Tasmanian-focused business grow to become a national and international operation with over 60 per cent of its revenue now coming from clients external to Hydro Tasmania with offices in Hobart, Melbourne, Brisbane and New Delhi in India.

The focus has turned to new markets as the consulting industry has faced challenges in the past two years from the aftermath of the global financial crisis, and Entura has not been immune.

New opportunities have emerged in the Asia Pacific region. Entura has developed strong connections in the Malaysian state of Sarawak where the government is committed to a significant hydro-industrialisation process over the next 20-30 years. We have signed a memorandum of understanding with Sarawak Energy Berhad as a preliminary step to forging what we hope will be an ongoing and successful commercial relationship. Hydro Tasmania is very conscious of the sensitive nature of hydro development in the region and will use and pass on the knowledge and experience we have built up over almost 100 years as well as our leadership in environmental management and sustainability.

Business Development

Another exciting and innovative prospect for Hydro Tasmania is through our Business Development team as it pursues the development of renewable energy solutions for the Bass Strait islands. This innovative development has achieved $15 million in federal government funding through the REDP (Renewable Energy Development Program).

Hydro Tasmania is developing a renewable energy system to replace generation from the substantial greenhouse gas-producing diesel system currently in operation on both King and Flinders islands. The full Bass Strait islands program, which includes projects developed in partnership with CBD Energy, depends on funding from the Tasmanian Government. The construction of wind, solar and biodiesel generation, carbon block thermal storage and vanadium redox battery storage, together with the world's first application of flywheel and smart grid technology, is seeking to achieve over 65 per cent annual contribution from renewable electricity generation on King Island. This project will demonstrate potential renewable energy solutions for remote areas across Australia and the rest of the world.

Our people

The Bass Strait islands project and the innovative projects being undertaken by Entura are but some examples of the smart, innovative thinking that drives our business and our people and makes Hydro Tasmania an industry leader. Our strong financial result, clear strategic direction and emerging opportunities are a reflection of the dedication and skill of our people.

As Chairman, and on behalf of the Board, I want to express my appreciation for the hard work undertaken by everyone at Hydro Tasmania in achieving our strong results and setting us on an exciting path for future growth.

Leadership

I would like to take this opportunity to thank our former CEO Vince Hawksworth for his leadership through the challenging years of his tenure and acknowledge his significant role in the achievements and emerging opportunities I have mentioned.

On behalf of the Board, I welcome our new CEO Roy Adair, who took up his position in late June, and look forward to exciting times ahead as we work together to achieve great outcomes for Hydro Tasmania.

Finally, I would also like to thank my fellow Board members for their hard work, skill and dedication in assessing and responding to the many challenges, opportunities and risks confronting our great organisation over the past 12 months.

CEO's report

The year has seen the business make considerable progress towards achieving corporate plan objectives as well as its corporate purpose of driving a sustainable future.

The theme of strong performance in the last 12 months has prevailed across a wide range of areas, including financial, environmental and community. This progress is enabling Hydro Tasmania to position itself well for the future so that we might deal robustly with the challenges of a volatile hydrological cycle and the uncertainty which currently characterises Australia's detailed strategy for dealing with a carbon-constrained future.

Financial performance

The strong operating result for 2009-2010 has set a challenging benchmark for future performance which we must maintain to attain our goal of financial sustainability. Our ability to reduce our level of debt by $41 million in the course of the year has also contributed significantly to this objective.

The improvement in financial performance is mainly attributable to higher levels of rainfall which improved hydro storages compared to recent years, the continuous improvement of our operating cost-base and strong financial management and stewardship.

Emissions trading scheme

Hydro Tasmania is the integrated generator and retailer in the National Electricity Market (NEM) with the lowest level of carbon intensity. This strong advantage afforded to us by our ability to produce large volumes of very low emission electricity from hydro and wind assets has still to be reflected by the recognition of a carbon price.

The implementation of an emissions trading scheme, originally targeted for 1 July 2010, was formally deferred by the federal government until 2013. This casts a veil of uncertainty over the future, not only for Australia and the manner in which it responds to the global challenge of climate change, but also for Hydro Tasmania in realising the true value of its operating asset base.

Market prices continue to be dominated by black and brown coal electricity generation which accounts for more than 80 per cent of Australia's electricity production. Until this situation is resolved with greater clarity the value of Hydro Tasmania's electricity production capability will continue to be materially unrecognised.

Environment and community

As a business we are aiming at being accountable to our stakeholders for our actions. This means a consistent approach to listening and responding to stakeholders and considering their views in our business decisions.

Hydro Tasmania, in keeping with the true values of a business committed to sustainability, has continued to strengthen the sustainable management of its water resource and generation capability. The business has been recognised for its commitment to reducing emissions and the quality of its sustainability reporting.

CEO, Roy Adair

Hydro Tasmania has also undertaken two projects in the course of the year which have enhanced our low-emission hydro generation capability while also contributing strongly to our involvement with local communities. The Red Hills Creek diversion and the Lower Lake Margaret redevelopment projects have enabled us to add another 35 GWh of production capability.

The Lower Lake Margaret project defines the essential qualities and values of Hydro Tasmania. This project resulted in the reopening of a power station that had originally been commissioned in 1935 but with strong elements of heritage preservation that have enabled us to recognise the importance of our past through the innovative use of the technological advances of today.

The project also highlighted our ability to interact effectively with the west coast community in terms of utilising local resources and contractors. As a result there is now increased local interest in creating a tourist facility that will attract a high level of interest and visitation.

Health and safety

Hydro Tasmania has a strong culture of safety. While the long-term injury frequency rate dropped last year from 2.8 to 2.1, we have yet to achieve a year with zero lost-time injury incidents. Our Safety Improvement Plan is focused on achieving this goal while driving our preventative initiatives and 'safety first' culture.

The Healthy Hydro program continues to make excellent progress in raising employee awareness of the importance of a healthy lifestyle, diet, exercise and work balance. We will continue to develop initiatives in this area with the aim of improving the overall health and wellbeing of our people.

Customer focus

Hydro Tasmania is a market-driven business and, to this end, we place considerable emphasis on building a long-term, synergistic relationship with our customers.

Through our retail arm Momentum we have grown our customer base in mainland Australia and will be materially augmenting that customer base during 2010-2011. Our ability to supply low carbon intensive products to an increasingly environmentally-aware market affords Hydro Tasmania an important supplier differentiation which customers value.

At the end of the year we concluded the terms and conditions of an agreement to supply Aurora Energy with electricity for the non-contestable retail customers who account for approximately 30 per cent of total electricity consumption in Tasmania. The manner in which the comprehensive negotiations were concluded augurs well for our ongoing relationship with a valued customer.

Positioning for the future

The NEM is facing a wide range of challenges. Hydro Tasmania, with its very low emission electricity generating base and the wealth of expertise and experience within its workforce, is well placed to deal with the uncertain future ahead.

To better equip ourselves to deal robustly with these challenges we are actively implementing a number of initiatives that build upon the solid foundations that already exist within the business. These initiatives cover a broad spectrum and will leave the business strongly placed for the future. They include:

- introducing a unifying brand that recognises the unique qualities of Hydro Tasmania, its diversity and its wider market focus
- rationalising our operating cost base so that we can deal robustly with changing market conditions and hydrological constraints
- optimising the management of our hydro generation asset base

Launching the new brand in September 2010

- improving our access to the mainland regions of the NEM through working with others to increase the effectiveness of Basslink
- enhancing our interaction with the community through the introduction of our 'good neighbour' policy. This will see us build upon the many areas in which we actively engage with the community and give freely of the time of our workforce in the interests of creating a more sustainable community relationship.

Team Hydro

The strong performance this year is a tribute to the hard work, commitment, capability and professionalism of Hydro Tasmania's workforce. I feel extremely privileged to be part of such an enthusiastic and highly capable team and look forward to working with them in addressing the significant challenges that lie ahead.

Statement of Corporate Intent

The Statement of Corporate Intent is a summary of the Corporate Plan and is presented to the Treasurer and Minister for Energy in May. At times, the information differs from that provided in the report because of its earlier preparation.

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 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; and
- the conduct of scientific and commercial research in the above disciplines.

The Corporation also operates a retail electricity business, for which Ministerial approval was received on 1 July 2008.

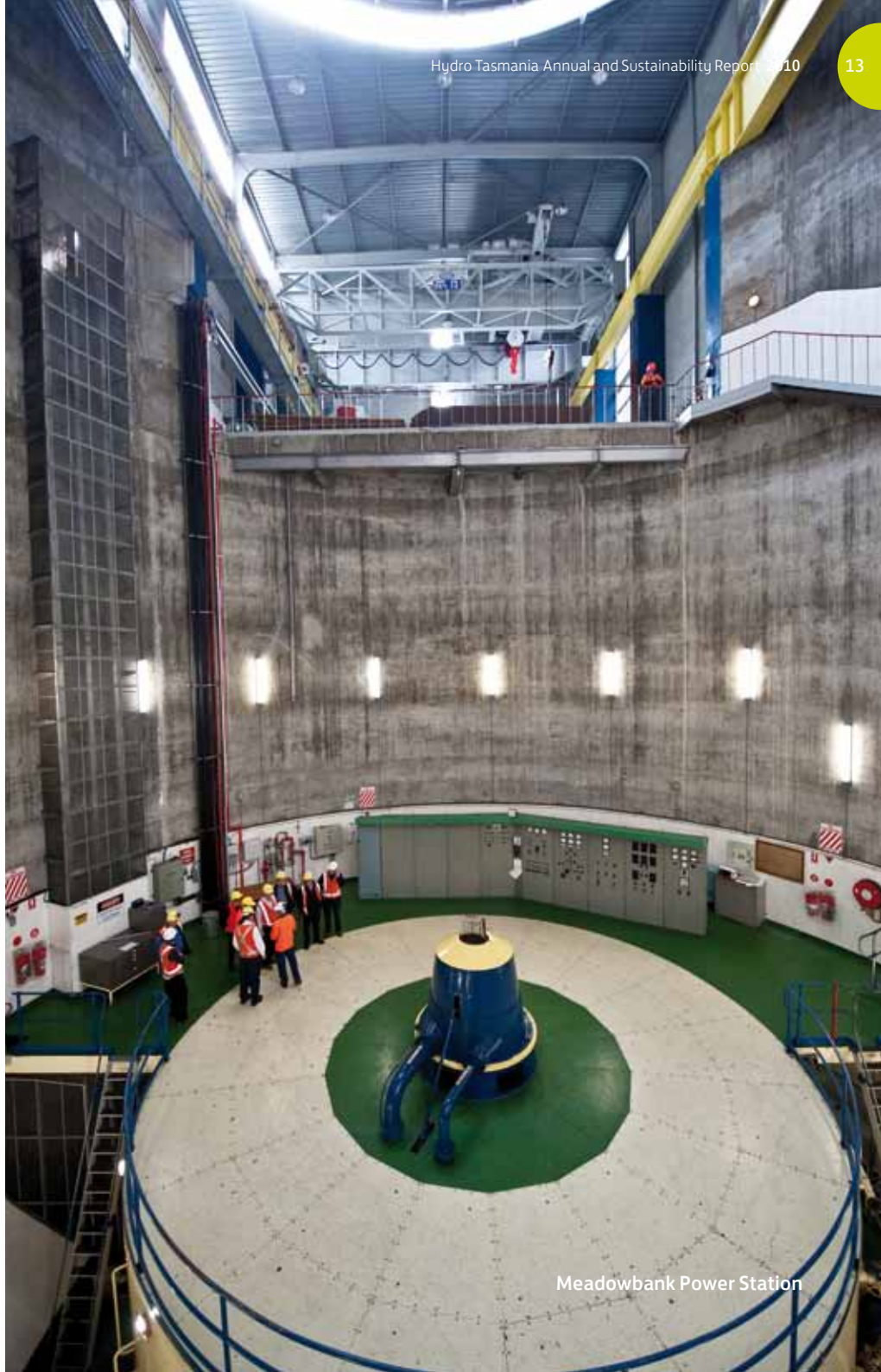
Hydro Tasmania's principal objectives, as prescribed by the *Government Business Enterprises Act 1995*, are to perform its functions and exercise its powers so as to be a successful business by:

- operating in accordance with sound commercial practice and as efficiently as possible; and
- 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	

[1]The 27 power stations and associated dams, canals and infrastructure listed in section 1.1 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.*



Meadowbank Power Station

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. Hydro Tasmania realises further value through its ownership of the retail energy business, Momentum Energy Pty Ltd (Momentum). Momentum is headquartered in Melbourne and has customers in Victoria, South Australia and New South Wales.

Hydro Tasmania also operates Hydro Tasmania Consulting, an international consulting business with offices in Hobart, Melbourne, Brisbane and New Delhi, India. The consulting business provides expert engineering and environmental services in the areas of renewable energy, power engineering and environmental and water management.

In addition, the business owns the Huxley Hill Wind Farm on King Island 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. The business has developed a proposal to install additional renewable energy developments on the Bass Strait islands. Partial funding of this project has been secured from the federal government. The Renewable Energy Investment Development Board (REIDB) has recommended that the Tasmanian Government provide the remainder of the funding for this project.

Hydro Tasmania holds further wind farm interests in Tasmania and South Australia as joint owner of Roaring 40s Renewable Energy Pty Ltd (Roaring 40s) with CLP Power Asia Limited (CLP Group). Hydro Tasmania is also a joint owner of a mini-hydro generator in South Australia, with SA Water. It also owns the Bell Bay Power Station which ceased operations on 1 April 2009.

Operating Environment

There have been several key factors which have impacted on Hydro Tasmania's operating environment since the 2009 Corporate Plan was lodged, the most notable being the continued uncertainty regarding the federal government's introduction of a Carbon Pollution Reduction Scheme (CPRS). Following earlier delays and rejection of the CPRS legislation by the federal parliament, the Prime Minister has announced that the implementation of a CPRS will be extended until after the conclusion of the current Kyoto commitment period, which finishes at the end of 2012. Therefore, it is now unlikely that a CPRS will commence prior to 1 July 2013 and substantial uncertainty remains in the market regarding the impacts and timing of a CPRS. These factors have resulted in a substantial drop in energy prices and market liquidity. However, while the CPRS remains government policy, business planning assumes that a CPRS will be introduced within the current five-year planning horizon.

The federal government's stimulus measures for solar hot water systems and photovoltaics have triggered significant investment which, despite the increase in the renewable energy target, has resulted in flooding of the renewable energy certificate (REC) market and a substantial fall in REC prices. This has led to many renewable energy projects being shelved and from Roaring 40s' perspective has led to the timeframe for the Musselroe project being pushed out until market conditions improve. Until clarity emerges regarding the federal government's announced introduction of the large-scale renewable energy target (LRET), market conditions for wind projects will remain uncertain.

The effects of the global financial crisis (GFC) have lingered. While the Australian economy appears to be recovering from the GFC ongoing impacts on Hydro Tasmania continue in the form of a higher cost of debt, which has resulted from continuing high credit spreads coupled with the Corporation's poor capital structure, and a marginal reduction in electricity revenues resulting from lower customer demand. Hydro Tasmania Consulting has also been significantly affected by a reduction in customer demand stemming from the GFC.

In December 2009 the Tasmanian Government confirmed its long-standing commitment that the hydro system would remain in public ownership. While the State has three objectives for Hydro Tasmania being commercial return, prudent water management and facilitation of State development, the State's intention to remain as owner gives further weighting to the view of the business that the Tasmanian Government's priority is shifting toward achievement of a commercial return.

The next three to five years are expected to see continued privatisation of government-owned generation and retail businesses in the National Electricity Market (NEM), which is likely to result in the further concentration of gentailers, with AGL and Origin continuing to dominate. There will be continued uncertainty regarding the impact of the CPRS on customers and suppliers and, in Tasmania, the Corporation's market share is likely to reduce.

With the commissioning of Aurora Energy's Tamar Valley (AETV) Power Station, Tasmania's competitive landscape in the energy sector has changed significantly. Under this revised Tasmanian market framework, responsibility for security of supply has shifted to the market. This represents a fundamental change. Prior to the introduction of competitive generation the responsibility for security of supply was borne by Hydro Tasmania alone. The business does, however, continue to manage its water storages consistently with its prudent water management obligations.

Significant winter inflows in 2009 ensured the Corporation's storage situation improved substantially. At 31 March 2010 system energy in storage stood at approximately 34.9 per cent with overall inflows for the 2009 calendar year totalling approximately 9800 GWh. This has greatly improved Hydro Tasmania's risk position and operating flexibility.

In October 2009 Roaring 40s sold its Asian wind farm interests to the CLP Group with the associated sales proceeds funding the required equity contribution to the Waterloo wind farm in South Australia. Roaring 40s' withdrawal from Asia will provide greater

strategic alignment with Hydro Tasmania, where the focus on wind farm development in Australia will be used to back supply for the Corporation's growing customer base.

In September 2009 Hydro Tasmania brought forward the acquisition of the remaining 49 per cent share of its subsidiary Victorian retail business, Momentum. The acquisition was accelerated to provide Hydro Tasmania earlier access to the full benefits and synergies that 100 per cent ownership of Momentum would provide.

Strategic Direction

Strategic Overview

Hydro Tasmania's Ministerial Charter sets out the Minister's expectations as they relate to the Corporation's strategic directions. These are:

- to further develop the Corporation's strong reputation in its use of renewable energy resources;
- to respond positively to the increasing competition in the national and Tasmanian energy and electricity industries; and
- to prudently grow those areas related to, or arising from, Hydro Tasmania's principal purposes which will enhance its position locally, nationally and internationally where such growth will add value to both Hydro Tasmania and the State of Tasmania.

In response to these expectations, Hydro Tasmania's strategy is focused on growing an integrated energy business.

The GFC has shown that in these less certain times financial resilience for the business is now more important than ever. As well, inflow volatility will be greater than the business has experienced in the past which, when combined with the increased economic volatility arising from Australia's linkage to the Chinese and Indian markets, together with the impacts of climate change, means the Corporation must exercise tighter discipline in adhering to its BBB financial strength target.

Achieving BBB financial strength will reduce financial risk and improve the business' ability to withstand volatility, reduce the cost of debt and importantly provide the business with greater flexibility to take advantage of options when they arise. To achieve BBB the business will need to increase its cash earnings and reduce costs. In setting the BBB target it is recognised that while business planning assumes receipt of average inflows there will be consequences of inflows being above or below average. When inflows are greater, then average profits will improve creating the opportunity to pay down debt accelerate asset or investment spend or increase dividends consistent with the path to BBB. When inflows are lower the path to BBB may be compromised and it will be necessary to consider maintaining that path against Hydro Tasmania's other strategic imperatives.

In adopting a BBB financial strength target there are a variety of options available and scenarios which may impact on the achievement of the target. Developing a greater understanding of these options and scenarios will allow the business to consider how it can maximise the probability of achieving BBB financial strength by 2015.

Hydro Tasmania's renewable generation, its established name, water management skills and technical expertise are competitive advantages which provide solid foundations for growth. In practical terms business growth will be reflected by increasing cash earnings from either the existing asset base or from new investment. As growth prospects are limited in Tasmania greater opportunity for growth exists on the mainland and diversifying the business' exposure to the Tasmanian market will reduce risk. While the business acknowledges that its growth prospects are greater on the mainland it is important to emphasise the ongoing importance of the Tasmanian customer and asset base to Hydro Tasmania.

The business is committed to achieving total sales of 15 000 GWh by growing retail business sales to at least 5000 GWh by 2014. This growth will be supported by a combination of new investment and contracting in the market. In arriving at the optimum mix it will be necessary for the business to develop greater understanding of the respective risks and value propositions of each approach. It is also understood that there is a trade-off between growth and achieving target financial strength, so all investments must be cash positive in a short time and linked to achieving the Corporation's customer and revenue strategy. Any growth created from new investment will be capital intensive and it will be necessary to explore innovative methods of raising capital. It also means that the business must be disciplined about what it does and does not do and cognisant of how it arrives at those choices. To this end the business has developed a strategic decision-making framework to ensure the strategic alignment of major decisions and investments.

The role of Roaring 40s has changed from being Hydro Tasmania's growth vehicle to where it will now support the two key strategies of growing the retail customer base to at least 5000 GWh and achieving BBB financial strength. Future Roaring 40s' wind farm developments will support Hydro Tasmania's retail growth through the generation of energy and RECs in target markets.

The retail growth strategy will only be achieved by gaining more customers. The business will target all business customers of all sizes which will be supported by the implementation of a brand strategy that builds on the brand values of the Hydro Tasmania Group, while targeting particular strengths in the retail and consulting markets. Being vertically integrated will allow the business to deal with market risks but this means it will also need to make day-to-day decisions about its positioning in the value chain. To do this successfully it will be necessary to create a business that is agile, customer-driven and strategic.

In simple terms the Corporation's strategic objectives can be summarised as follows:

- grow consolidated annual sales to 15 000 GWh by 2014, by being a customer-driven business with at least a 5000 GWh retail customer base; and
- achieve a commercial return and be disciplined in adhering to the target to reach BBB financial strength by 2015.

Key Performance Indicators

To monitor progress against the above strategic objectives, Hydro Tasmania has set a range of key performance indicators. Financial performance indicators are based on the detailed five-year financial forecasts and are supplemented by relevant non-financial indicators. The selected key performance indicators are contained in the following table.

Key Performance Indicators ($ million)

	Forecast	Key Performance Indicators				
	2010	2011	2012	2013	2014	2015
Financial indicators						
Operating Profit	84.1	74.7	101.0	110.1	150.0	212.4
Capital Expenditure	132.0	159.9	116.8	89.4	83.1	82.6
Net Debt	828.6	864.6	833.2	799.1	741.2	653.5
Funds from Operations (FFO)	164.5	134.4	140.2	143.9	179.0	224.0
FFO/Interest Coverage Ratio	3.7	3.1	3.1	3.1	3.6	4.4
Non-financial indicators						
Total sales (GWh)	11,250	12,200	13,150	14,100	15,476	16,576
Lost Time Injury Frequency Rate	2	<2	<2	<2	<2	<2
Engagement score in top quartile benchmark*		Top Quartile Score	Top Quartile Score	Top Quartile Score	Top Quartile Score	Top Quartile Score
Greater than 80% of surveyed stakeholders rate performance as 'good' or 'better'*		80%	80%	80%	80%	80%
Returns to Tasmanian Government						
Government Guarantee Fee	5.6	7.9	12.7	14.3	15.4	15.5
Income tax equivalent**	0.0	43.9	37.9	44.3	46.8	64.9
Ordinary dividend	5.3	11.8	15.6	28.3	38.5	52.5
Rates equivalent	2.9	3.0	3.1	3.1	3.2	3.3
Special dividend	0	0	0	0	0	0
Total Returns to Government	13.9	66.5	69.2	90.0	103.9	136.2
Dividend (% of NPAT)	20%	30%	40%	50%	50%	50%

*These KPIs are measured by a survey and the surveys are yet to be conducted for FY2010.

**The tax equivalent forecast does not include tax payable from the federal government grant for Bass Strait islands renewable developments.

Definitions:

Operating Profit – Profit before tax and fair value movements.

Capital Expenditure – Total capital expenditure including core asset, IT, fleet and minor assets.

Total Debt – All borrowings long and short term less cash and money market investments.

Cash from Operations – Total revenue net of operating expenses, interest and tax.

FFO/Interest Cover Ratio – Operating cash (excluding interest) divided by net interest expense.

Pieman River and Reece Power Station

Roaring 40s

Roaring 40s is a renewable energy developer, specialising in wind farms. It is a 50:50 joint venture between Hydro Tasmania and Asian energy business CLP Group. The head office is in Hobart with offices in Launceston and Melbourne. The team at Roaring 40s has a significant amount of experience in the renewable energy industry. With this experience and expertise, Roaring 40s has become one of Australia's leading wind energy developers. It specialises in identifying sites and developing, constructing and operating wind farms.

Table 3: Summary of Roaring 40s portfolio at 30 June 2010

Name	MW	Location	Status
Woolnorth Bluff Point	65	North-west Tasmania	Operational
Woolnorth Studland Bay	75	North-west Tasmania	Operational
Cathedral Rocks	66	Eyre Peninsula, South Australia	Operational*
Waterloo	111	Clare Valley, South Australia	Construction
Musselroe	168	North-east Tasmania	Pre-construction
Robertstown	75	Robertstown, South Australia	Advanced development
Stony Gap	120	Stony Gap, South Australia	Advanced development
Sidonia Hills	80	Kyneton, Victoria	Advanced development
Waterloo II	18	Clare Valley, South Australia	Advanced development
Titiokura	30	Hawkes Bay, New Zealand	Development
Te Waka	34	Hawkes Bay, New Zealand	Development
Various projects	605	Various Australian and New Zealand sites	Feasibility/land agreements/wind monitoring
TOTAL	1414		

*Cathedral Rocks Wind Farm is a 50:50 joint venture between Roaring 40s and Spanish company Acciona.

In July 2009, despite the tight credit conditions as a result of the global financial crisis, Roaring 40s reached financial close for the Waterloo wind farm project. Waterloo was the first Australian wind farm to obtain project finance since the onset of the financial crisis. This was an exceptional achievement in challenging market conditions. Construction is expected to completed by late 2010.

Roaring 40s faced challenging conditions during 2009-2010. Lower than forecast wind speeds and lower than expected energy prices, as well as technical issues at some sites, combined to suppress profit this year. Lower than expected wind speeds are of particular concern as they will potentially have a long-term impact on profitability. Roaring 40s conducted a review of forecast energy output and consequently reduced forecast figures between 8 and 14 per cent.

Uncertainty surrounding the Australian Government's CPRS and suppressed REC prices due to a flood of domestic solar RECs have stalled the viability of further developments in Australia. For Roaring 40s this means that Musselroe cannot proceed to construction until conditions improve and limits the further development of other proposals. Stabilisation of the REC price and availability of finance are two of the many factors contributing to a decision on the viability of Musselroe. Roaring 40s is well-positioned to take advantage of the growing domestic market for renewable energy when development conditions improve through its experienced and diverse team, and pipeline of projects.

Health, safety and environment

Occupational health and safety remains a key priority for the business. Roaring 40s is also committed to ensuring that it undertakes developments in a manner that is sensitive to environmental and community concerns. Roaring 40s recruits highly qualified and experienced people and engages contractors who reflect or are aligned with its core values and who demonstrate commitment to safety and the protection of environmental values. Occupation, health and safety and environmental management, including occurrence response, emergency planning, risk assessment and planning, operational management and compliance auditing, are carried out in accordance with the AS/NZS 4801 standard for occupational, health and safety management systems and the ISO 14001 standard for environmental management systems. Roaring 40s' operational sites (including Cathedral Rocks Wind Farm) retain certification against both standards.

Managing avian issues

Roaring 40s is currently conducting focused on-site research to further its knowledge in a range of areas and continues to trial potential mitigation strategies and solutions to minimise the small impact of turbines on birds. Various initiatives and programs are targeted at the orange-bellied parrot, including a project providing off-site habitat and foraging resources in Tasmania. Roaring 40s' eagle offset package is now largely complete with the finalisation of long-term covenants covering over 430 hectares of eagle nesting habitat, including the nests of at least 13 breeding pairs (wedge-tailed eagles and white-bellied sea eagles); the completion of Soaring – an eagle education kit targeted at school students of all ages; completion of an aerial nest survey campaign identifying several new eagle nest sites across Tasmania; and the ongoing financial support of key eagle research being conducted by Tasmania's Forest Practices Authority.

The success and extent of the nest protection component of the offset package was recently acknowledged by the Tasmanian Environment Protection Authority at the Tasmanian Awards for Environmental Excellence.

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

Performance

2

Sustainability

Hydro Tasmania is committed to creating a sustainable future and this is one of our values.

As a renewable energy business we are in a good position to contribute to sustainable energy developments and a sustainable global environment. On the other hand, we are accountable for the impact we have on the local environment, society and economy in which we operate. Since 2004-2005 the annual report has been part of this accountability.

We are embedding sustainable practices into our operations. To date, we have incorporated the Sustainability Code and its six principles into some key decision-making tools, such as risk management and strategic planning and into key business activities such as generating power, stakeholder engagement and procurement and tendering. Employees have also incorporated sustainability into their approach to daily operations in areas such as asset management, water management and trading. Our challenge is to further embed sustainability principles into decision-making processes.

Our sustainability program and our reporting were acknowledged by three awards in 2009-2010. See the details on page 6.

In our stakeholder survey for materiality we asked for an assessment of our overall performance related to our sustainability principles and received a rating of 73 per cent of good or excellent. A further 17 per cent rated us as satisfactory.

This year, Hydro Tasmania continued to play a pivotal role in the development of a new sustainability assessment protocol for the international hydropower industry. Two Hydro Tasmania employees have been working as the coordinator and industry representative on the Hydropower Sustainability Assessment Forum – a group comprising industry, environmental and social non-government organisations, banks and governments. It is anticipated that the work of the Forum will be completed later in the 2010-2011 financial year.

Hydro Tasmania engaged Banarra to assure this report as we have done for the past five years. The assurance is challenging and a good source of feedback for improvement in the processes and systems that come under scrutiny. It also provides greater confidence for our readers that what we report is accurate, transparent and balanced.

The Board's Environment and Sustainability Committee is the highest body with oversight of integrating the Sustainability Code into business activities. The Sustainability Working Group, with representatives from senior positions across the business, provides guidance and advice on sustainable practice and reporting.

Sustainability self-assessment results

Hydro Tasmania self-assesses its sustainability performance against the six sustainability principles and assigns a score as shown in the spidergram – figure 4.

The principles are subdivided into elements and attributes so that we can assess our performance against meaningful criteria, as described in the summary in table 5.

The scoring system is adapted from the International Hydropower Association Sustainability Assessment Protocol 2006. Scoring is applied by a nominated principle champion and peer reviewed within the Sustainability Working Group. A guide to our scoring criteria is provided in table 4.

All the scores are provided in table 5.

The overall score is an average of the principles' scores and this year was 3.8, a slight increase on last year but not reaching our target of 3.9.

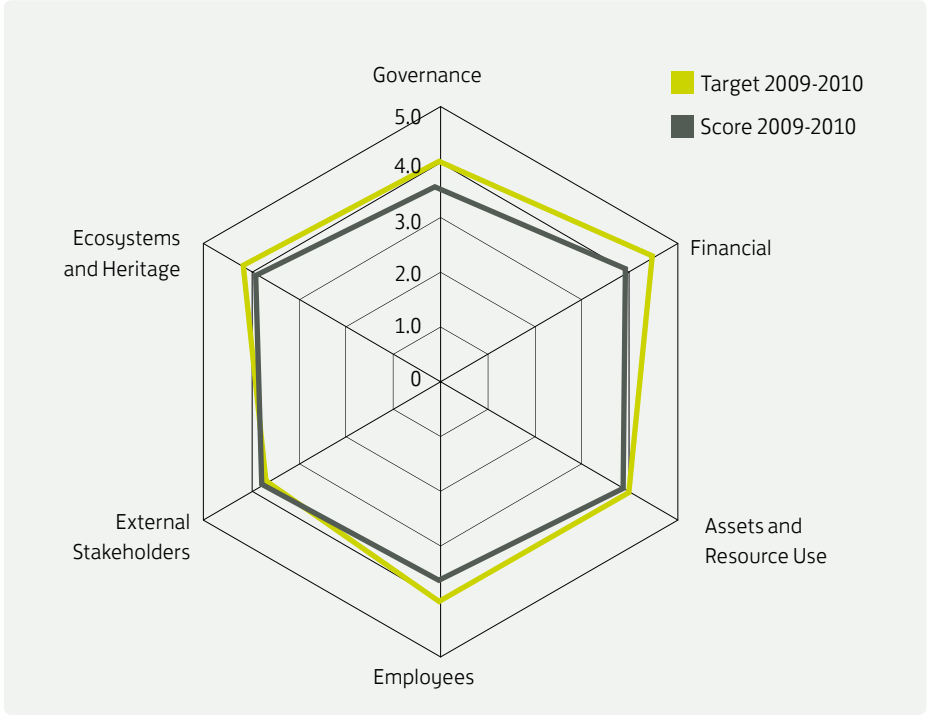


Figure 4: Hydro Tasmania's sustainability self-assessment results for 2009-2010

Inspecting the intake at Cluny Dam

Table 4: Legend to scoring sustainability performance

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

Banarra assurance statement

AA1000 Licensed Assurance Provider 000-15

Independent Assurance Statement

Hydro Tasmania Annual and Sustainability Report 2010

To Hydro Tasmania's stakeholders,

Banarra was commissioned by Hydro Tasmania to assure its Annual and Sustainability Report 2010 (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 sixth reporting cycle with Hydro Tasmania, so we have built on our previous understanding of the organisation and its progress.

Assurance scope

The assurance scope is a Type 2 engagement under AA1000AS (2008) and the scope includes:

1. assessment, to a moderate level of assurance, of 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
2. evaluation of the reliability of the performance information within the material issue areas outlined below. The evaluation was at a moderate level except for Scope 1 and 2 greenhouse gas emissions which were evaluated at a high level. The performance information was verified using the GRI G3 Sustainability Reporting Guidelines Electric Utilities Sector Supplement or other publicly available assurance criteria, as stated in the table below.

Material issues and performance information included in assurance scope

Report Section	Material Issue	Assurance Criteria
	Moderate Level of Assurance	
Employees	Employee performance management, competencies & career development.	GRI LA11 & EU14
	Employee engagement (including EPA negotiations).	GRI LA4, AA1000APS (2008) Inclusivity Principle
	Employee health & safety.	GRI LA7 & EU16
External Stakeholders	Supplier relations & engagement.	GRI EC6, Hydro Tasmania Procurement Policy
	Water management, multiple users of water resources.	GRI SO1
Ecosystems & Heritage	Australian GHG emissions Scope 3.	GRI EN 17
	GHG emissions intensity.	GRI EN16 (excluding net generation figures)
	Carbon neutral target.	GRI EN18
	Impacts on biodiversity.	GRI EN12 & EN14
	High Level of Assurance	
Ecosystems & Heritage	Australian GHG emissions Scopes 1 & 2.	GRI EN3, EN4 & EN16 National Greenhouse and Energy Reporting System Measurement Technical Guidelines June 2009

Banarra Assurance Methodology

Our methodology included:

- interviews with four members of Hydro Tasmania's Executive Leadership Team, including the acting CEO, Andrew Catchpole, and 31 employees concerning sustainability management, governance and strategy, policies, material issues and implementation of responses;
- review of Hydro Tasmania information and documentation relating to operational planning, risk assessment, sustainability governance, materiality, stakeholder engagement and response management;
- visiting Hydro Tasmania's headquarters in Hobart, Tasmania;
- an independent check of Hydro Tasmania's material issues and stakeholder views, including analysis of peer reports, media articles on Hydro Tasmania in FY10, Hydro Tasmania's own documentation and engagement records and issues identified from Banarra's interviews;
- checks of the reliability, 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 assurance criteria, re-performing calculations, cross-checks with

corroborative evidence, and testing of source data;

- checks of the accuracy of sampled qualitative information relating to the material issues in scope (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 A+; and
- 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. Findings and recommendations on the nature and extent of Hydro Tasmania's adherence to the Principles are provided below.

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

Hydro Tasmania has appointed a manager with specific responsibility for overall stakeholder engagement, and is implementing a stakeholder engagement framework. The framework is intended to provide structure and consistency to processes for receiving, considering and responding to feedback. Hydro Tasmania is also building employee competencies to engage externally with communities and suppliers, and to engage internally with the company on issues and concerns.

Hydro Tasmania has comprehensively researched its Tasmania-based stakeholders to achieve a thorough understanding of its relationships with those stakeholders, their views and expectations, and their capacity and preferences for engagement. Stakeholders are assessed in terms of their influence, expectations and relevance to projects and issues.

Hydro Tasmania undertakes annually a number of surveys seeking feedback from a range of stakeholders and has encouraged some stakeholders, such as suppliers, to engage with the business on sustainability. Whilst engagement is increasingly proactive there is not yet a consistent and co-ordinated approach across all stakeholder groups. In particular, we recommend that Hydro Tasmania broaden its research and engagement with its stakeholders in mainland Australia and overseas.

Stakeholder engagement outcomes are reported within relevant decision-making forums and, where appropriate, to the Executive Leadership Team (ELT) or the Board to inform strategy.

Banarra identified a strong awareness of the need for, and value of, stakeholder accountability and inclusivity in Hydro Tasmania's various codes and charters and from interviews with senior managers and employees. To help further integrate accountability in its management approach and strengthen stakeholder engagement initiatives, we recommend that Hydro Tasmania develops an overarching, formal and public commitment to stakeholder accountability.

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

Hydro Tasmania has again this year applied a report materiality process that takes account of inputs from stakeholders and key internal sources. Twenty material issues were identified and all but one of these (targets around business strategy) are included in the Report. Banarra's independent review found evidence to support the materiality or stakeholder interest in 13 of these 20 issues, as well as 11 further issues not initially identified by Hydro Tasmania.
Whilst these additional issues were subsequently responded to in the Report, we recommend Hydro Tasmania review its approach to determine why these issues were not detected through its own process.

Whilst the materiality process uses appropriate criteria to evaluate and prioritise issues in terms of their relevance and significance to the business and to stakeholders, Banarra recommends that formal guidelines be developed to increase the transparency and replicability of the process. The process could be enhanced further by prioritising issues of importance to the business separately from those of importance to stakeholders. This would enable issues of high importance to stakeholders, but considered less material by the business, to remain visible.

We recommend that the outputs of the report materiality process be considered alongside those of other corporate processes in relation to risk, environment, safety, sustainability and strategy to provide a whole of organisation approach to materiality that goes beyond annual reporting.

Responsiveness – has Hydro Tasmania responded to these issues?

Hydro Tasmania has a number of processes for managing and responding to material and stakeholder issues, but acknowledges that better integration of these processes will result in a more holistic and consistent response to issues. To this end, Hydro Tasmania is looking to rationalise and streamline some of its response mechanisms, such as the various overlapping processes for managing environmental and safety risks.

Hydro Tasmania's overall operational plan and strategy have been aligned with its sustainability principles and this process is being extended to the strategies of the various business units. Hydro Tasmania is also commencing the mapping and alignment of key business decision-making processes with its sustainability principles.

For some responses, Hydro Tasmania has yet to develop a strategic approach. Hydro Tasmania implements a number of localised projects to reduce impacts on threatened species, however it does not have a clear overarching strategy for managing biodiversity impacts. Banarra recommends that clear goals and objectives are established to guide future decision-making on the prioritisation and resourcing of biodiversity projects. Hydro Tasmania could also develop a proactive response to employee feedback from surveys and other input mechanisms.

Banarra identified instances of Hydro Tasmania involving stakeholders in formulating responses to issues in relation to water users and the redevelopment of the Lake Margaret Power Scheme. However, the integration of stakeholder feedback into decision-making varies across the business. Hydro Tasmania could be more strategic and consistent in involving stakeholders in its response processes.

Hydro Tasmania has delivered a comprehensive account of its sustainability endeavours in its Report. The Report addresses a range of key issues for the business, and how Hydro Tasmania has managed and responded to those issues. Banarra recommends that Hydro Tasmania reviews its reporting to ensure the narrative more clearly communicates overall performance, context and the significant successes and challenges during the reporting year. Clearer articulation of boundaries around the data would also help stakeholders assess the completeness of the information presented.

Many of the commitments and responses in relation to the year's performance are reported in broad terms, making it challenging for stakeholders to assess the response and the progress made. We recommend that Hydro Tasmania ensures its accounting for performance is clear and concise, that the response speaks to the commitment, and that targets are specific, measurable and time-bound so that stakeholders can assess progress.

Performance Information Verification

Based on our methodology we conclude that:

- there is evidence that the performance information for Australian energy and greenhouse gas emissions (Scopes 1 and 2) is correct in all material aspects and is a fair representation of Hydro Tasmania's performance in this area in FY10;
- there is no evidence that performance information is not correct in all material aspects and is not a fair representation of Hydro Tasmania's performance in FY10, in relation to the following material issues: employee performance management, competencies and career development; employee engagement (including EPA negotiations); employee health and safety; supplier relations and engagement; water management and multiple users of water resources; Australian greenhouse gas emissions (Scope 3); greenhouse gas emissions intensity; carbon neutral target; and impacts on biodiversity.

We are pleased that Hydro Tasmania has improved the documentation of its data calculation protocols, assumptions, definitions and compilation methodologies. Banarra notes some further opportunities for improvement, in particular with relation to employee data, although these are not considered to have a material effect on reported information. We also recommend Hydro Tasmania documents its internal data checking and other quality control procedures in processing and compiling performance data.

Global Reporting Initiative

We concur with Hydro Tasmania's own assessment that it has achieved GRI application level A+.

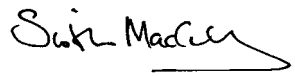
Hydro Tasmania has expanded on its GRI disclosures this year and committed to reviewing most areas where there are gaps. Of note, there are gaps in reporting against electric utilities sector specific GRI indicators in relation to contractors. Whilst Hydro Tasmania has provided explanations for these gaps that satisfy GRI reporting requirements, we recommend it review its approach to gathering contractor workforce information to assess its materiality to the business and interest to stakeholders.

Responsibilities and Independence

Hydro Tasmania was responsible for preparation of all the Report content, 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 based on 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.

Paul Davies
Lead Auditor and Sustainability Assurance Practitioner



Siobhan MacCarthy
Sustainability Assurance Practitioner

Banarra
Sydney, Australia
10 September 2010

Table 5: Sustainability performance summary

Sustainability performance summary 2009-2010

Principle	Element	Attributes	Target 2009-2010	Total 2009-2010 Score	Total 2008-2009 Score	Total 2007-2008 Score	Key issues that influenced score
GOVERNANCE	Governance	**Performance Attributes**					
		Vision, values, ethical standards, strategies and business principles.		4.00	4.00	4.00	– These are clearly set out in documents and available to all staff on the intranet. Posters of our values are visible in all sites. There is consistent discussion about values in our business activities.
		Incorporation of key sustainability objectives in vision, values, ethical standards, strategies and business principles.		4.00	4.00	4.00	– There is significant incorporation of the Sustainability Code into our values, business principles (i.e. policies) and it guides our strategic planning.
		Meeting legislative and regulatory requirements and other commitments.		3.00	3.00	3.00	– Our compliance system generally meets requirements and is embedded across the business. It identifies breaches and their significance. There is a systematic process for root cause analysis and for suitable rectification.
		Process Attributes					
		Policy implementation, including management systems, monitoring for effectiveness and review.		2.50	3.00	3.00	↓ Our policy framework is not yet complete. Some management systems are certified and regularly improved, others not well defined.
		Business structure, including Board and management structures and defined roles, authorities and responsibilities.		5.00	5.00	4.00	– Our business and governance structure is efficient and effective with defined roles, authorities and responsibilities.
		Identifying legislative and regulatory requirements and other commitments, measuring conformance and performance reporting.		3.00	4.00	3.00	↓ Our compliance plans are reasonably effective in identifying compliance for critical functions and obligations through a breach reporting process. There are some gaps in non-critical areas. Plans are regularly audited and reviewed.
	SCORE		**3.90**	**3.58**	**3.83**	**3.50**	
ECONOMIC PERFORMANCE	Long-term business value	**Performance Attributes**					
		Growth in business value.		4.00	3.50	4.00	↑ Net assets increased by $216 million (total $1881.9 million). Operating costs per MWh of generation increased to $80.08 (up $2.57). This value is negatively affected by the consolidation of Momentum expenses and despite generation below expectations, represents only a modest increase.
		Expectations in terms of returns to the Tasmanian Government		4.00	4.00	4.00	↑ Dividend declared of $10.2 million, significantly higher than forecast in the previous year's Corporate Plan.
		Process Attributes					
		Long-term business planning.		4.00	4.00	4.00	↑ Hydro Tasmania has developed a robust strategy that focuses on financial strength, sustainable returns to government and customer growth.
		Robust processes in place to ensure that the business: • acts on behalf of and in the long-term best interest of its owners • increases the value of the business to the owners over the long term.		5.00	4.00	4.00	↑ Robust processes. Hydro Tasmania complies with all GBE Act requirements in regard to shareholder owner expectations and submits an annual Corporate Plan that is agreed to by Government. ↑ The strategic planning process is designed to ensure our strategic direction is in the best interest of owners. ↑ Trading Enterprise Value implemented.
		sub score		**4.25**	**3.88**	**4.00**	
	Growth and customers	**Performance Attributes**					
		Understanding and meeting customer requirements.		4.00	3.70	3.50	↑ 2009-2010 research showed customer satisfaction above industry average for Momentum. ↑ Understanding of requirements through Customer and Revenue Strategy and subsequent brand marketing research.
		Understanding short and likely long-term demand for services.		4.00	3.80	3.00	↑ Market research for brand included projecting future market needs based on market trends. – Monthly contracted load forecast provides data for retail demand. – Embedded market research and customer relationship management provides continual assessment of short and long-term service requirements.
		Identification and development of new solutions to meet changing market demands.		3.50	3.20	3.00	↑ Continual assessment of retail and wholesale energy products to meet the market.

Key to symbols:

↑ upward influence on score – neutral, did not influence score ↓ downward influence on score

Principle	Element	Attributes	Target 2009-2010	Total 2009-2010 Score	Total 2008-2009 Score	Total 2007-2008 Score	Key issues that influenced score
ECONOMIC PERFORMANCE	Growth and customers	Commitment to product stewardship and sustainable pricing.		4.00	3.80	4.00	↑ Water pricing and policy has been established. – Entura benchmarks its rates against market data.
		Compliance with appropriate ethical marketing and selling standards, legislative requirements and other relevant commitments.		4.00	3.50	3.50	↑ Wholesale and retail energy products comply with Australian Financial Services Licence conditions and regulations. – Momentum has a process to review external communications including a legal review. – Entura has an established review process for marketing activities.
		Commitment to research and development, including implementation of new and emerging technologies.		4.00	3.70	3.30	↑ A business-wide research and development program is established and includes new product development. ↑ R&D includes investigations into new and emerging technologies for application to renewable energy products.
		Process Attributes					
		Process for understanding market conditions and influences.		4.00	3.50	3.00	↑ Business risk management system tracks emerging and strategic risks. – Strategic marketing approach for understanding market needs.
		Process for managing customer relationship life cycle.		3.50	3.00	3.50	↑ Momentum has a retail client life cycle management process. ↑ Entura uses a business development and account management framework.
		Strategic research and development processes including new and emerging technologies.		4.00	2.50	3.30	↑ R&D program processes aim for outcomes based on strategic priority. – R&D business-wide committee continues to work well. ↑ New product development undertaken for smart grid product and delivering energy to the Bass Strait islands.
		sub score		**3.89**	**3.41**	**3.34**	
	SCORE		**4.50**	**4.07**	**3.64**	**3.67**	
ASSETS AND RESOURCE USE	Asset safety and reliability	**Performance Attributes**					
		Dam, power station and associated infrastructure safety performance.		4.00	4.00	4.00	– The dam portfolio has been assessed against the ANCOLD criteria for public safety. ↑ Site works to mitigate risk in 2009-2010 focused on the completion of the major Catagunya Dam refurbishment. – Continued focus on addressing identified risks, including asset compliance program improvement and primary protection asset program of work.
		Assets (generators and turbines) and hydrological resource: level of present reliability and likely future reliability.		4.00	4.00	4.00	↑ Modernisation projects for Poatina completed. – Design and site work preparation for Tungatinah modernisation on schedule.
		Process Attributes					
		Dam, power station and associated infrastructure safety program and plan.		4.50	4.50	4.00	– The dam surveillance program continues to function robustly. ↑ Improved focus and delivery on asset compliance activities. ↑ Reviewed hazard identification and risk management process.
		Asset management strategies and systems to ensure present and future reliability of turbines, generators and associated infrastructure.		4.00	4.00	4.00	– Review of asset management process under way, including risk management process.
		Hydrological management strategies and systems to ensure present and future reliability of the resource.		4.00	4.00	4.00	↑ 1000 GWh project – 80 GWh added to capability.
		Emergency preparedness program to deal with unplanned asset failures and severe hydrological conditions.		4.00	4.00	4.00	↑ Completed a major update of the Dam Safety Emergency Plan (DSEP), tested functionality and took learnings to apply to continual improvement. ↑ Emergency response exercises were undertaken at power stations.
		sub score		**4.08**	**4.08**	**4.00**	
	Resource use	**Performance Attributes**					
		Practicable efficient use of the assets (turbines and generators).		4.00	4.00	4.00	– Lake Margaret Power Station recommissioned; mini-hydro added. ↑ Poatina modernisation is complete.
		Practicable efficient use of the hydrological resource in the context of the whole system.		4.00	4.00	3.00	↑ Storage inflows at expected levels for 2009-2010. Storages at 36.3% at 1July 2010. ↑ Use of hydro system meant Basslink net import less than half the previous year. 1056 GWh for 2009-2010; 2560 GWh for 2008-2009.

Principle	Element	Attributes	Target 2009-2010	Total 2009-2010 Score	Total 2008-2009 Score	Total 2007-2008 Score	Key issues that influenced score
ASSETS AND RESOURCE USE	Resource use	Minimising the use of material and the production of waste.		3.00	2.50	3.00	↑ Reduced vehicle fleet fuel use significantly since 2005. Received a national award from the Australian Fleet Managers Association Environmental Awards in 2009. – Hazardous waste is managed via the Environmental and Sustainability Management System (ESMS). – Non-hazardous waste and reduction actions throughout the business are not a key risk or priority.
		Process Attributes					
		Asset management strategies and systems to ensure efficient operation of turbines, generators and associated infrastructure in the context of the whole system.		4.00	4.00	4.00	↑ Improved production outcomes – embedded rotation of production managers through generation operations in trading.
		Hydrological management strategies and systems to ensure efficient use of the resource in the context of the whole system.		4.50	4.50	4.00	– Long-term water management strategies assessed independently as prudent and appropriate. – Effective stakeholder engagement to manage competing requirements for water.
		Strategies and systems to ensure efficient use of material and minimisation of waste.		3.00	2.00	2.00	↑ Non-hazardous waste and recycling assessed as not a key risk for Hydro Tasmania. Consolidated collection contracts during 2009-2010 which are expected to improve record-keeping in future. Hazardous substances are managed through ESMS.
		sub score		**3.75**	**3.50**	**3.33**	
	SCORE		**4.00**	**3.92**	**3.79**	**3.67**	
EMPLOYEES	4a. Attraction, capability, and retention	**Performance Attributes**					
		Workforce size and skill levels.		3.5	3.5	3.0	– Challenges in meeting skills for retail. – Some traction into leadership development/change agent – more improvement to follow. – Focus on managerial capability and skill development through leadership, change, coaching, talent management.
		Workforce social and gender balance.		3.0	3.0	3.0	– Board members – 43% female (3 members). – Executive Management Level (EML) and Senior Officer Bands – 13.7% females, 86.3% males. – Continued with existing policies and procedures supporting gender diversity.
		Level of employee satisfaction.		4.5	4.5	4.0	– Employee engagement remains high – 63 per cent overall score.
		Employee turnover and continuity.		3.0	3.5	3.0	↓ Focus on internal promotion, cross-skilling, cross-advertising and secondments throughout the business. ↓ Increased turnover rate from 10.58% to 12.67%.
		Process Attributes					
		Workforce planning and recruitment programs.		3.0	3.0	3.0	– Workforce planning is a priority commitment by the business in the Employee Partnership Agreement. – HR Policy review began and continues into next year.
		Training and development programs.		3.5	3.5	3.0	– Training and development programs aligned with business strategy. – Upskilling/development focus – capability and transformation work. ↑ E-learning launch. ↑ Program implemented to improve managers' skills for undertaking performance development reviews.
		sub score		**3.4**	**3.5**	**3.2**	
	Safety, health, and wellbeing	**Performance Attributes**					
		Levels of employee safety, health and wellbeing.		4.0	4.0	3.0	↑ 76.2% participation in Healthy Hydro. ↓ Absenteeism trending up over the past four years.
		Process Attributes					
		Employee safety, health and wellbeing program.		3.5	3.5	4.0	– Safety Improvement Plan effective in improving key safety risks. ↑ Healthy Hydro focused on stress and fatigue and fit-for-work programs.
		sub score		**3.8**	**3.8**	**3.5**	
	SCORE		**4.0**	**3.6**	**3.6**	**3.3**	
EXTERNAL STAKEHOLDERS	Community engagement and support	**Performance Attributes**					
		Level of stakeholder satisfaction and support.	4.0	4.0	3.5	4.0	↑ Stakeholder survey included 'Hydro Tasmania actively engages with the community and stakeholders' – 89% of respondents agreed. ↑ Improved stakeholder engagement for some specific projects achieved better results, building on lessons from previous years.
		Process Attributes					
		Process for stakeholder engagement.	4.0	2.5	2.0	2.0	↑ Some improvement in process due to adoption of stakeholder engagement framework. The process is not consistently applied across the organisation.
		sub score		**3.3**	**2.8**	**3.0**	

Key to symbols:

↑ upward influence on score – neutral, did not influence score ↓ downward influence on score

Principle	Element	Attributes	Target 2009-2010	Total 2009-2010 Score	Total 2008-2009 Score	Total 2007-2008 Score	Key issues that influenced score
EXTERNAL STAKEHOLDERS	Suppliers and partners	**Performance Attributes**					
		Level of sustainability performance of partners, suppliers and service providers.		4.0	3.5	3.5	↑ Completed key supplier and partner sustainability self-assessment with different group of suppliers and partners from previous year – 77% self-assessed score.
		Relationships with major partners, suppliers and service providers.		4.0	3.9	3.0	↑ Completed supplier satisfaction survey inviting entire supplier base to participate. Score of 80% satisfaction with Hydro Tasmania given by a solid representative sample of 249 suppliers.
		Process Attributes					
		Goods and services specification / evaluation / selection process, including consideration of sustainability issues.		4.0	3.7	3.5	↑ Tender evaluation including sustainability considerations are more widely used than previously. Some contracts awarded where price was higher, but sustainability considerations weighted the selection decision.
		Dispute resolution process.		4.0	4.0	3.0	– No significant disputes with our business. Suppliers commented in satisfaction survey that disputes were not a significant issue.
		sub score		**4.0**	**3.8**	**3.3**	
	SCORE		**3.5**	**3.6**	**3.3**	**3.1**	
	Ecosystems and heritage	**Performance Attributes**					
		Achievement of objectives for environmental health, including implementation of practicable opportunities to enhance environmental values.		3.5	3.5	3.0	↑ Successful operation of Lake Trevallyn's elver ladder. – Lagoon of Islands poor water quality mitigation not yet implemented. ↑ Lake levels remained higher than required to implement environmental and social risk band.
		Agreement and support from regulators and other stakeholders.		4.0	4.0	4.0	↑ State Recreational Boating Infrastructure Plan developed in collaboration with IFS and MAST. ↑ Three-year review of the Gordon River Basslink Monitoring Program for 2006 to 2009 completed. ↑ A new approach to maintenance and new works in the World Heritage Area agreed with Parks and Wildlife Service recognising the Environment and Sustainability Management System (ESMS).
		Practicable influence on the behaviour of other resource users.		4.0	3.0	3.0	↑ Renewed ESMS Aspects and Impact Register across the business aligned to the Integrated Business Risk Management process. – Continued collaboration with other land and water management stakeholders. ↑ 'Keeping it Clean' hygiene manual published in collaboration with Natural Resource Management (NRM) associations.
		Requirements / targets for protection and conservation of historic and indigenous heritage values.		4.0	4.0	4.0	↑ Upper and lower Lake Margaret power stations redevelopment incorporated retention and enhancement of cultural heritage values. ↑ Catagunya Dam refurbishment completed which retained the significant engineering heritage values.
		Process Attributes					
		Strategies and systems to measure environmental health, understand environmental values and identify stakeholder concerns.		3.5	3.5	3.0	– Annual review undertaken and Environmental Management Plan implemented. ↑ Developed a key performance indicator showing the environmental health of lakes.
		Program and plans to establish and achieve environmental objectives.		4.0	4.0	3.0	– Five programs in place to achieve environmental objectives: aquatic, land, cultural heritage, sustainability, and energy and greenhouse. – Environmental Plan updated based on the reviewed environmental aspects and impacts register.
		Planning consistent with relevant legislation and international standards.		4.0	4.0	4.0	– ESMS recertified to ISO 14001.
		sub score		**3.9**	**3.7**	**3.4**	
ENVIRONMENT AND HERITAGE	Carbon status	**Performance Attributes**					
		Tonnes of CO_2 equivalent.		4.0	4.0	3.0	↑ Carbon intensity associated with generating electricity dropped significantly to 3.5 tCO_2-e/GWH in 2009-2010 from 43 tCO_2-e GWH in 2008-2009.
		Success in meeting objectives of plans to reduce greenhouse gas (GHG) emissions and enhance GHG sinks.		3.0	3.0	3.0	↓ Hydro Tasmania emission target of 14 000 tCO_2-e was not met. ↑ Actual emissions from the business were 29 419 tCO_2-e, down from 638 200 in 2008-2009. – Assessed existing and potential carbon sinks.
		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.		4.0	3.0	4.0	↑ The management of GHG data is efficiently undertaken throughout the business and verified. – A review of energy and emissions reduction targets and objectives is in train for implementation during 2010-2011.
		sub score		**3.7**	**3.3**	**3.3**	
	SCORE		**4.0**	**3.8**	**3.5**	**3.4**	
OVERALL SCORE			**3.9**	**3.8**	**3.6**	**3.4**	

Scores are decided on a 0-5 scale explained on **page 20**. Scores are averages of sub-scores. Overall score is an average of principles' scores.

Economic performance

Mission: building our financial strength and delivering sustainable returns to our owners, the people of Tasmania.

Hydro Tasmania aims to be a successful integrated energy business operating across the National Electricity Market (NEM). Our economic goal is to build financial strength and deliver sustainable, commercial returns to the owner.

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.

Management approach

Hydro Tasmania operates an annual business planning cycle, which culminates in setting a budget and five-year Corporate Plan. We manage revenue using a Trading Enterprise Value approach. We report monthly to the Board on performance against budget and quarterly to the Tasmanian Treasury on economic performance against budget. We seek to manage our economic risk profile through prudent financial risk policies in respect of electricity trading, treasury, credit and finance.

Financial results for 2009-2010

Hydro Tasmania's 2009-2010 profit before fair value adjustments was $72.9 million, close to the best performance since disaggregation in 1998 and an improvement of $34.3 million on the previous financial year. Profitability reflects the achievement of both significant cost savings and a strong revenue performance. Revenue performance demonstrates the success that we can achieve in a year in which inflows are close to expected levels.

Hydro Tasmania's net debt at 30 June 2010 was $863 million, which is the lowest level since NEM entry. The reduction in net debt has led to lower than forecast interest expenses.

Financial results for the last five years are provided in table 6.

Lake Burbury

Table 6: Financial results

Year ending 30 June	2006 $m	2007 $m	2008 $m	2009 $m	2010 $m
Profit/(loss) before fair value	46.8	19.5	(58.0)	38.6	72.9
Profit/(loss) before tax	(67.1)	113.5	224.2	417.9	332.1
Cash flow from operating activities	140.0	37.4	25.0	43.8	178.0
Net debt	1076	1141	872	904	863
Weighted average cost of debt	6.15%	6.46%	6.54%	6.62%	6.98%
Capital expenditure operations	126.4	54.2	54.9	81.2	95.5
Cash investment in R40s	3.0	10.0	23.0	10.0	5.0
Other expansion and acquisitions	12.8	-	-	17.8	34.5
Total assets	3851	4249	4846	5213	5131

Momentum

Hydro Tasmania acquired the remaining 49 per cent share of the Victorian retailer Momentum Energy Pty Ltd in September 2009, one year earlier than expected. During 2010 we have continued to invest in building Momentum's customer base.

The purchase of Momentum provides us with direct access to electricity customers and the opportunity to realise synergies between retail, generation and consulting services. As part of realising the synergies between these income streams, we have rebranded the Hydro Tasmania group.

We expect that integrating systems between Hydro Tasmania and Momentum will provide cost efficiencies to both companies through reducing duplication and inefficiencies. Our challenge in integration is to appreciate and successfully benefit from the different cultures of the two organisations.

Returns to Government

During the year we paid a dividend of $5.3 million, declared from the profit for 2008-09. We have declared a dividend of $10.2 million for 2009-2010 which will be paid during 2010-2011. The increase in dividend reflects the significant increase in profit before fair value.

This is the second year Hydro Tasmania has not paid income tax equivalents to the State of Tasmania, reflecting low taxable income during the years of low inflows. The government guarantee fee payment has increased, reflecting an increase in the average guarantee fee rate paid on Hydro Tasmania's debt portfolio.

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 2009-10 this cost was $6.6 million. The operation of this service is outsourced to Aurora Energy Pty Ltd.

On the Bass Strait islands, Hydro Tasmania is funding (either directly or in partnership) innovative projects to improve energy supply and reduce diesel consumption. Our investment in these projects this year was $429 364. Further information on these projects is provided on page 71.

Global financial crisis

The effects of the global financial crisis (GFC) have lingered. While the Australian economy appears to be recovering, ongoing impacts on Hydro Tasmania continue in the form of a higher cost of debt, which is a result of continuing high credit spreads coupled with Hydro Tasmania's capital structure, and a marginal reduction in electricity revenues resulting from lower customer demand. Entura has also been significantly affected by a reduction in customer demand stemming from GFC impacts.

Inspection: *Tasmanian Premier David Bartlett, centre, at the Upper Lake Margaret power station with Labor MHA Brenton Best, left, and Hydro Tasmania's Tony Potito, right*

Long-term business value

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

The cost per megawatt hour of generation was $79.92, which was $2.40 higher than last year. This increased cost reflects the consolidation of Momentum's operating expenses and, while generation was below expectation, represents only a modest increase in the operating cost measure.

Net asset value at 30 June 2010 was $1882 million, which is $216 million higher than last financial year and represents an increase in the long-term value to our owners. The reduction in forward electricity prices has improved the mark-to-market value of our electricity contracts, leading to an improvement in net asset value. Although market electricity prices have fallen, the value of our generation assets is unchanged as the fall in electricity prices has been offset by the achievement of cost efficiencies and optimisation of revenue.

Renewable energy development

The renewable energy industry continues to face limited growth due to the uncertainty about implementing the Australian Government policies for the Carbon Pollution Reduction Scheme (CPRS) and Renewable Energy Target (RET).

The effect of the uncertainty around the CPRS has been to lower the expected carbon prices in the short term which has reduced projected revenues for renewable generators. It has also caused lower liquidity in contracts markets as participants avoid committing to longer-term contracts.

The market expects that when the RET scheme is introduced it will increase the price of RECs and stimulate renewable energy investments in Australia. In the meantime the price of RECs remains low, which also has reduced our expected revenue from this source.

Hydro Tasmania's potential growth is hampered by this uncertainty – Roaring 40s and clients of Entura are finding investment difficult. Entura has also delayed offering new products and services related to these policies.

However, Roaring 40s achieved financial close on the Waterloo Wind Farm – see more on page 18.

Growth and customers

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

Hydro Tasmania's sales growth will come principally from growth in both retail and wholesale energy in regions of the National Electricity Market (NEM) other than Tasmania.

The Customer and Revenue Strategy was initiated in 2008-2009 to find how best to leverage the combined products of Hydro Tasmania, Momentum and Entura. The project team took a multi-staged strategic marketing approach with in-depth research and wound up this year having identified products, customers and how we can differentiate ourselves in the market. As a result we have a new brand which distinguishes the businesses in the group and at the same time demonstrates the connection between them. We are continuing to develop products for our customers in our chosen market niches.

Management approach to product responsibility

Hydro Tasmania complies with legislation and regulations in regard to customer health and safety, product information and customer privacy. Compliance is subject to reporting and internal controls and all compliance obligations, including marketing, are reviewed annually. Marketing communications are subject to regulatory and internal procedures and, as members of the Australian Marketing Institute, all our marketing team members comply with the Institute's code.

Hydro Tasmania's wholesale and retail energy products are subject to obligations under financial market, trade practices and electricity market legislation and regulation. Trading is also subject to stringent internal management controls under the Trading Policy and procedures as well as the compliance system. Retail products are additionally subject to the pricing regulations of South Australia, New South Wales, Queensland and the ACT. We meet the requirement to provide product information by the Essential Services Commission in Victoria. GreenPower, a retail product, is accredited and is audited annually. Our retail business, Momentum, complies with the requirement to provide assistance for financial hardship and to overcome language barriers for consumers.

Entura's products are subject to standards and legislative and regulatory regimes for planning, environment and occupational health and safety. These obligations are also controlled by Hydro Tasmania's compliance system.

Energy trading model

Hydro Tasmania earns the great majority of its revenue from contract and spot sales in the NEM. Our trading objective is to maximise trading value, which is achieved by securing revenue through contract sales.

Winning partnership: *Representing a successful partnership for a national Engineering Excellence Award 2009 are from left, Andrew Fitton (Alstom), Fabian Kaica (Hydro Tasmania), Mark Hollick (Alstom) and David Van Emmerik (Hydro Tasmania)*

Hydro Tasmania backs these contracts by generating electricity at times of high spot prices. At times of low spot prices and low contract prices (for example, during off-peak periods), we back some of our wholesale contracts by purchasing electricity from the market.

Hydro Tasmania's financial performance is driven by the volume of retail and wholesale contracts it is able to back using water in storage and electricity purchases and by the price of those contracts. (Fluctuations in contract prices are a key driver of fair value adjustments to Hydro Tasmania's profit.) Spot prices are less significant for our financial performance, although high spot prices (particularly in Tasmania and Victoria) can impact positively or negatively on Hydro Tasmania's financial performance, depending on our generation and contract position at the time.

Raise contingency ancillary services

During the course of the 2009-2010 financial year, the Tasmanian Energy Regulator has been undertaking a price regulation process in relation to Hydro Tasmania's provision of raise contingency ancillary services to meet the Tasmanian requirement.

Hydro Tasmania is the sole provider of raise contingency ancillary services in Tasmania, although submissions made by Aurora Energy (Tamar Valley) Pty Ltd (AETV) to both the Tasmanian Energy Regulator's price determination process and an earlier frequency operating standard review by the AEMC Reliability Panel indicate that AETV is able to provide these services if it chooses to do so, as are other new entrant generators.

The Tasmanian Energy Regulator's decision to regulate these services follows a finding by the Regulator that the promotion of competition, efficiency and the public interest warranted regulation. Hydro Tasmania considers that the analysis supporting this finding is flawed, but considering the controversy which has attached to pricing of the services and, in particular, erroneous views about the cost to Hydro Tasmania of providing the services, Hydro Tasmania believes there are benefits from the regulation process.

Details concerning the price determination process, including reports and submissions, can be found on the Tasmanian Energy Regulator's website, at **http://www.gpoc.tas.gov.au/domino/otter.nsf**.

The Australian Competition and Consumer Commission (ACCC) has queried Hydro Tasmania's compliance with regard to raise contingency ancillary services. More information is on page 46.

Research and development

Hydro Tasmania's research and development program investigates the application of new renewable energy technologies to develop marketable products and innovative ways to build the capability of our generation infrastructure. Projects under way involve solar and ocean power, using hydrogen as an energy storage medium and transport options. We are investigating water conveyance infrastructures to improve the efficiency of the existing power system. Environmental studies on threatened species will provide information to manage our operations in a way that maintains sustainable habitats. More information on our R&D program is on our website.

Latest data from the Australian Bureau of Statistics, which is for 2008-2009, shows R&D expenditure in the Australian electricity, gas, water and waste services industries was around 1.1-1.3 per cent of expenditure. Based on Hydro Tasmania's tax concession claim during the same period our rate was 0.73 per cent.

King Island

King Island is a showcase for renewable energy development, demonstrating the practical application of innovative technologies in the quest to reduce the reliance on fossil fuel in remote communities.

Hydro Tasmania is responsible for all aspects of electricity generation on the island, located off Tasmania's north-west coast. Over the past 12 years, we have been looking at innovative ways to reduce the reliance on diesel fuel, including opportunities in partnership with the private sector.

The island's wind farm was built in 1998 and various projects over the years have improved the amount of renewable energy generated from the five turbines. Solar power was introduced onto the island in 2008 by CBD Energy Ltd.

During the year the Australian Government committed $15.28 million to help fund a significant increase in renewable energy capacity on King Island through a portfolio of innovative projects using new and existing technologies. The Tasmanian Government has also indicated its support.

Other potential opportunities being considered for King Island include carbon block energy storage and using biodiesel, as it continues on its journey to be entirely powered by renewable energy.

Successful team: Geelong Football Club's CEO Brian Cook shows Momentum staff the 2009 AFL premiership trophy

momentum
The power of natural thinking
Hydro Tasmania

Momentum

Momentum Energy Pty Ltd is an electricity retail company dedicated to giving businesses a forward thinking and competitive energy offer.

Within the 2009-2010 financial year Momentum achieved record success in revenue, sales and volume of contracted load. A focus on building its commercial and industrial customer portfolio has resulted in new business from manufacturing, education bodies, councils and the banking sector to name a few. Momentum's growth across the broader electricity market has continued and the depth, quality and mix of customers it has attracted, continue to move the business forward at a rapid pace.

This pace spurred the need for a larger office space and its new premises at 628 Bourke St Melbourne give the business room for the future.

The full acquisition during the year by Hydro Tasmania has driven significant growth and change. Integration into the broader Hydro Tasmania group has enhanced efficiency, strengthened processes and promoted innovation in product and strategy development.

Momentum remains focused on building and enhancing the underlying business platforms that will see it grow in a profitable and controlled manner. Strong and consistent performance in line with the corporate values is paramount as well as the continued high contribution from employees at professional standards that set Momentum apart from the competition.

Momentum is a member of the Energy Retailers Association of Australia.

Products:

- Standard energy contracts
- Energy efficiency advice
- GreenPower products sourced from wind generation.

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 website:
www.momentumenergy.com.au.

entura Hydro Tasmania | The power of natural thinking

Entura

In September 2010, Hydro Tasmania Consulting changed its name to Entura. The reason is to better differentiate the business in the market and to symbolise the boundary-less nature of its operations, with an increasing national and international focus. Entura is an anagram of 'nature'. The 'en' applies to our expertise in engineering, energy and environment, while 'tura' refers to the durability and future of our solutions which are built to last. In this report the new name is used even though at the time the business operated under its old name.

Entura is part of the integrated package of energy products and services from Hydro Tasmania. It provides services for the power industry, renewable energy developments, water management and infrastructure and environmental management. Its projects are spread across Australia and the Asia Pacific region, with offices in Cambridge (Tasmania – head office), Melbourne, Brisbane and New Delhi, India, and project offices in Adelaide and Sydney.

Entura continues to support Hydro Tasmania in delivering its operational and capital programs, providing valuable skills to assist in the modernisation and refurbishment of the hydropower system as well as delivering the cultural heritage and aquatic program. Through providing consulting services, Hydro Tasmania retains access to world-class services while also offering these services to clients nationally and internationally through Entura.

Challenging market conditions

This has been a challenging year for Entura. Volatile market conditions, some challenging projects and a competitive market all had an impact on its results. Market conditions were caused by low renewable energy certificate prices affecting renewable energy developments and the residual impact from the GFC. The market has been very competitive over the last 12 months with heavy discounting making winning projects tough.

The market conditions were compounded further with a process change across the industry over the last few years. Clients in the energy and water sectors have been moving from direct award or traditional open tendering to panel-based tendering and design and construct panels for major work programs. Clients who have only recently adopted the approach have been slower than expected to release work. Like many consulting businesses across Australia, the tough conditions also had an impact on staffing levels but Entura is confident of a turnaround in the coming year as the market recovers.

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

Sarawak Energy Berhad (SEB)

Hydro Tasmania has been working with Sarawak Energy Berhad (SEB) over the past two years and, in May 2010, signed a memorandum of understanding to recognise a 'shared vision for a successful working relationship together'.

SEB is a state-owned electricity generation, transmission and distribution business based in Kuching, Malaysia, and employing around 2700 people. The Sarawak Government has a 30-year plan to develop energy resources, including 20 000 MW of hydropower.

Through Entura, we will be able to assist in the delivery of new renewable energy growth opportunities for the region while providing the knowledge and experience of almost 100 years in the industry to build local skills and capabilities in what is challenging and often sensitive local environment.

The relationship with SEB offered great learning opportunities for both businesses. A key component of Hydro Tasmania's involvement is to bring to the relationship a commitment to strongly-held sustainability and safety principles, as well as community and stakeholder engagement and management.

Sarawak-based projects that Entura has been involved in over the past year include a number of hydropower feasibility studies at Metjawah, Belaga, Punun Bah and Pelagus, providing geological advice for hydropower studies, working on a Sarawak wind mapping atlas and the pre-feasibility of upgrade works at Batang Ai. We are also working on a three-year consultancy for the Sarawak Ministry of Public Utilities providing safety advice on the Bakun Dam.

Shared vision: The Second Minister of Planning and Resource Management and Minister of Public Utilities of Sarawak, Y B Dato Sri Haji Awang Tengah Ali Hasan, left, with Hydro Tasmania Chairman Dr David Crean

New markets

As a response to this challenging environment, Entura continued to push into new markets. The business is well-positioned in the Queensland market and the Brisbane office provides a local base for further growth in this area.

Within its first 12 months of operation, Brisbane achieved its ISO 9001 accreditation and its engineering accreditation. At 30 June 2010 there were eight permanent full-time employees, principally employed in power engineering and project management disciplines.

Entura is targeting the Asia Pacific region for international growth, leveraging from its experience in the region such as upgrade and modernisation work for PNG Power and in Sarawak, a state of Malaysia, and hydropower projects in India. It is also investigating some emerging opportunities in Africa.

Our major international achievement this year was to establish our relationship with Sarawak Energy Berhad (see box). The relationship was established to assist in the development of the country's hydropower resources. The arrangement covers such issues as conduct, health, safety, environment, equal employment opportunities, stakeholders and treatment of employees and contractors, and includes secondment of Hydro Tasmania and Entura employees into key positions to help build the capability of the Sarawak business.

The office in New Delhi has been established for five years and has built a solid reputation in the Indian market. It has secured several high-profile projects and is working with two new major hydropower developers. It has grown to a size where it fully supports a range of projects from pre-feasibility to tender and detailed design. The growing wind market provides opportunities in India over the next two years. This year the office won its largest project to date for the tender design of the Dibbin Hydro Electric Project (120 MW) as well as the technical review of the high-profile Upper Subansiri Hydro Electric project (2000 MW), which also involves our hydropower experts from Australia.

In India, Entura achieved a 50 per cent increase in sales this year. The office has 24 permanent employees whose main focus is the hydropower sector – a very large market in the region.

For more information on Entura, visit the website **www.entura.com.au.**

Table 7: Entura projects – a sample

Project name	Client	Location	Description
Solar Atlas	Victorian Government	Victoria	Entura is developing a solar atlas for the state of Victoria, the first of its kind in Australia. A solar atlas is a tool that measures solar radiation in real time, every minute of the day to assess the capability for future construction of solar generation sources. The project is a partnership between Entura, the Australian Bureau of Meteorology and PowerCor, Victoria's largest electricity distributor.
Dibbin Hydro Electric Project	KSK Dibbin Hydro Power Limited	India	The project has a total installed capacity of 120 MW with a surface power house and provision of generation peaking power. The plan includes an 80-metre high concrete dam. The scope included review of the existing detailed project report, tender design and detailed design for the project.
Dam Safety	Sarawak Energy	Malaysia	Advise the Ministry of Public Utilities on two issues: 1. Dam safety before, during and immediately after impoundment to comply with international best practice. 2. Legal and regulatory framework and institutional setup in safety management of dams.
Dam Safety	Hydro Tasmania	Tasmania	Review of the Hydro Tasmania Dam Safety Emergency Plan and assistance in undertaking a successful Dam Safety Emergency Plan test involving internal and external parties.
Tina River Hydropower Feasibility Study	Ministry Mines Energy and Rural Electrification	Solomon Islands	Investigating potential schemes between 12 MW and 20 MW on the Tina River, located about 20 km from Honiara in the Solomon Islands. It includes the possibility of replacing all or part of the diesel-powered generation.

Catagunya Dam

Economic performance sustainability self-assessment scores

	2006	2007	2008	2009	2010	Target 2011
Score	3.9	3.6	3.7	3.7	4.1	-
Target	4.0	4.0	3.5	4.0	4.5	4.2

See table 5 on page 25 for a summary of key issues that influenced this year's score.

Economic performance commitments

Performance against 2009-2010 commitments

Commitment		Progress
Implement the financial strategy aimed at improving financial returns, reducing the volatility of returns and improving our underlying financial strategy.	–	Hydro Tasmania produced a strong profit result. Strong operating performance helped reduce debt and improve financial strength consistent with our financial strategy.
Position the trading portfolio for CPRS and hydrological risks – RECs/NGACs trades.	–	Ongoing. CPRS has been delayed by the federal government to 1 July 2013. Storages have been rebuilt significantly over the last 12 months and we continue to utilise Basslink imports to support contract commitments in Tasmania.
Foster closer relationships with major industrial customers and be responsive to their requirements.	–	Ongoing. Currently in negotiations with a number of customers for long-term electricity price hedge arrangements.
Increase market research for Entura clients through greater engagement.	–	Ongoing. We will continue to seek feedback and build strong client relationships.
Align the Bass Strait islands (BSI) research targets and commitment with carbon reduction.	✓	Implemented. The BSI research targets and commitments have been developed to yield a significant carbon reduction.

From 2008-2009		
Develop an approach and guide for intellectual property (IP) management.	✓	Complete – draft standard has been prepared. A working group formed to implement the standard.
Return Lake Margaret Power Station to service.	✓	Complete – Lake Margaret Power Station (upper) was commissioned in November 2009.
Commission solar and resistor projects on King Island.	✓	Fully commissioned: solar commissioned April 2008; resistor in December 2009.

Commitments for 2010-2011

- Launch the new Hydro Tasmania brand family.
- Identify and implement economically competitive options to back our target sales growth.
- Implement a differentiated market strategy.
- Continue to implement a financial strategy aimed at improving financial returns, reducing the volatility of returns and improving our underlying strength.

Assets and resource use

Mission: world-class asset and resource management.

Hydro Tasmania's ability to generate electricity depends on the management of both generation assets and water.

Our journey towards world-class asset management continues so that we sustain a reliable supply of energy, protect the community from any harm arising from our operations and support other electricity market products.

Sustainability Code
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.

Generation assets and safety

Management approach

Our priorities are to manage asset risks across the portfolio that compromise safety, duty of care and compliance, to manage delivery chain risks across the portfolio that compromise availability and reliability and to establish the top 27 of 50 production lines as strong and reliable (these 27 underpin 70 per cent of electricity generation and revenue).

Hydro Tasmania's Asset Management Policy applies a consistent principle of sustainable, safe and whole-of-life cycle management to the generation portfolio. We are redrafting the policy to cover all physical assets.

Our asset management goals are to maximise production opportunities, minimise whole-of-life cycle costs and manage risks prudently. The principal tool in presenting the generation portfolio risks is the water-to-wire map, which includes asset condition and performance and safety and revenue risks. These risk assessments are regularly reviewed and updated.

The protection of employees, the public and assets from failure of equipment related to water transfer around dams and power stations is a high priority. In 2009-2010 we continued compliance testing and upgrading primary protection assets, continued the electrical protection system improvements and upgraded some strategic hydraulic gates and valves.

The management of Australia's largest portfolio of dams requires a specific risk management focus to ensure public safety. The Australian National Committee on Large Dams (ANCOLD) provides sound guidelines which are applied in portfolio management. The framework to do this combines regular inspections, the collection and analysis of monitoring data, engineering assessments and maintenance and upgrade works. The completion of the $40 million refurbishment project at Catagunya Dam represents a significant investment in the ongoing safety of our dams.

Performance

One key performance indicator for asset management is the level of risk to which production lines are exposed. Last year we reported that we had five production lines not exposed to significant risk. This was later reassessed as six production lines. We revised the wording of this indicator for clarity and meaning to 'the number of strong and reliable production lines' in our generating portfolio. We met the target of nine for 2009-2010.

A 'strong and reliable' production line is currently defined as one where there are no significant unmanaged risks (defined as a probability weighted consequence, including lost revenue, which would exceed $500k per year), or one that has an accepted risk mitigation plan in place. A production line represents individual generating units and associated infrastructure within our overall generating asset portfolio.

Realising the strategic goals of the business may have an impact on the level of future investment to progress these lines of production as planned. However we are continuing to undertake appropriate, risk-based maintenance to ensure that the generating portfolio can perform at an acceptable level of availability and reliability while not compromising safety, duty of care and compliance obligations.

Table 8: Number of strong and reliable production lines

FYE	2009	2010	2011
Target	5	9	11
Actual	6	9	

Note: The targets in future years are subject to ongoing review of business objectives, priorities and risks, and are confirmed each year in business plan updates.

Capital expenditure on generation assets for 2009-2010 was $78.4 million. We completed the restoration of Catagunya Dam ahead of schedule (and received a safety award), completed and commissioned the refurbishment of the 8.4 MW Lake Margaret Power Station and its woodstave pipeline, redeveloped Lower Lake Margaret into a 3.2 MW mini-hydro power station and completed the modernisation of three machines at Poatina Power Station.

Hydro Tasmania relies on a partnership-style relationship with several suppliers to achieve its asset improvement goals. In 2009-2010 the relationship with Alstom was further enhanced through workshops to address needs and capabilities into the future that would add greater value to each business by a deeper understanding of each other's goals. A combined apprentice program is just one result of these discussions.

Emergency response

Our Dam Safety Emergency Plan (DSEP) is designed to provide a robust framework in which to manage any event that could threaten the safety of one or more of our dams. The DSEP was substantially revised and tested this year with a realistic simulated exercise to ensure that all the key players understood and carried out their role as required. Training in dam surveillance and incident management is updated every few years to meet the needs of our workforce.

Over the past two years, equipment, procedures and training for power station emergencies and evacuations have been reviewed and improved. Continual improvement and training has been embedded in standard maintenance procedures.

Energy reliability

Hydro Tasmania's integrated hydropower system, which consists of a total of 50 production lines on grid, means there is flexibility within the system to meet demand. The weighted average availability was 89.3 per cent for the year. Water storages were consistently within the preferred operating levels all year – that is, between 30 and 50 per cent full of energy.

The higher storage levels also meant less demand on Basslink for 2009-2010 with a net import of 1056 GWh compared to the previous year's figure of 2560 GWh.

There were four forced outages that were relatively significant to individual power stations, but none that caused a loss of power supply. There was some damage to a woodstave pipeline after a serious bushfire at Wayatinah which also resulted in Transend removing some transmission lines from service. A transformer issue at Bastyan Power Station was identified during routine investigations, removed from service and replaced with a spare transformer while investigations continued. Separate incidents on machines at Poatina Power Station involved water seepage (from a distributor) and a penstock pressure pulsation, both of which were investigated and resolved.

Network services

As part of the energy supply chain, network service providers are crucial to our success. We have developed a good working relationship with Transend Networks Pty Ltd which supplies transmission services in Tasmania. Our relationship with Basslink Pty Ltd is less solid as a result of disagreement about risk participation fees for the calendar year 2009. This came about after Basslink capacity was reduced due to extremely high ambient temperatures in Tasmania and Victoria during late January 2009. Both parties are working towards resolving the matter through commercial negotiation in preference to using the contractual dispute procedure in the service agreement.

Basslink availability for the period was 96 per cent which is slightly lower than normal due to the biennial planned outage which occurred in October 2009 and a forced outage that occurred in April 2010.

Major industrial customer contracting for the first time included load participation in the frequency control system protection scheme that further increased the import capacity of Basslink.

Opening: *The Tasmanian Minister for Energy and Resources, Bryan Green, with Hydro Tasmania Chairman Dr David Crean at the official opening of the Lower Lake Margaret mini hydro*

1000 GWh project

The 1000 gigawatt hour project aimed to identify and develop an additional 1000 GWh of capability for the Hydro Tasmania power system in response to the 2007 down-rating of inflows to the system as a result of drought.

In 2009-2010 the project delivered an additional 80 GWh to schemes on the west coast of Tasmania with two projects at Lake Margaret. As well, we diverted water at Red Hills so that it could also be utilised by the Tribute Power Station on the Anthony-Pieman scheme.

The modernisation at the Poatina Power Station added a further 30 GWh to annual production.

A further 700 GWh has been identified, however the project is on hold pending the outcome of a strategic review.

Water resource

Storage levels for 2009-2010 were within our preferred operating range for the year. Starting just below the range at 27.7 per cent, the wettest July to September on record lifted storages to above our forecast. The final storage position was 36.3 per cent.

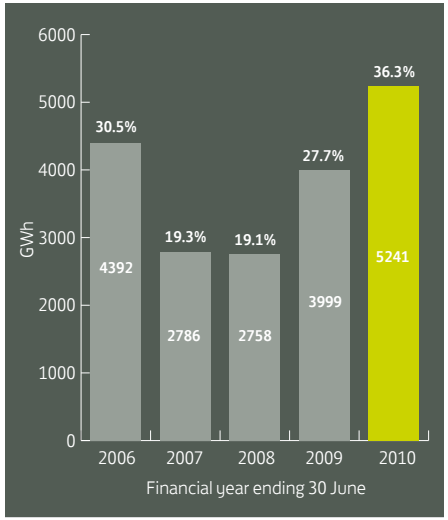


Figure 5: Storage levels

Tasmania's regional communities have identified Hydro Tasmania's resources as fundamental to the future success of their economic development. Through our Special Water Licence, Hydro Tasmania manages water in six major river basins. We endeavour to work collaboratively and constructively with the various stakeholders for mutually beneficial use of these waters and in mitigating environmental impacts. Read more on our environmental management in the environment section starting on page 67.

This year we discussed our storage management guidelines with the Water Shortage Advisory Committee (WSAC), which advises the Tasmanian Government in its response to energy supply emergencies. The committee indicated that it is confident our management is prudent and appropriate but, in the interest of good governance, WSAC commissioned some additional independent modelling. Early results from this modelling confirm the storage guidelines are appropriate. Further modelling has been commissioned to test a range of extreme supply contingencies.

Hydro Tasmania has obligations to supply water for specific irrigation schemes in the Great Lake-South Esk and Derwent catchments. Hydro Tasmania and the Tasmanian Government are working with irrigators to establish water allocation caps on the Ouse, Lawrenny and Lake rivers. The aim is to promote better water management, improve environmental outcomes and help Tasmania meet the National Water Initiative objective agreed at the Council of Australian Governments in 2004-2005.

Working with stakeholders in the multiple use of water

We willingly respond to any requests for information and have participated in working groups and public meetings covering a range of waterway and reservoir-related matters. We anticipate that the stakeholder engagement framework introduced this year will result in a more robust and consistent approach and greater responsiveness to all water resource stakeholders and lead to better relationships.

We attempt to give as much notice as we can to stakeholders about controlled changes in water levels due to work on infrastructure. As a result of previous stakeholder feedback, this year we have sought input from interested stakeholders into changes to our storage operating rules that clarify how, when and which stakeholders we engage with about the impact upon them in relation to water level changes.

Central highland lakes

Hydro Tasmania manages Great Lake, Arthurs Lake and Woods Lake to meet a range of potentially conflicting stakeholder requirements. All three lakes contain several threatened species, are under increasing demand for irrigation use, are important to anglers and tourists, and are part of the network of reservoirs used as the mainstay of Tasmania's electricity supply. In the face of apparently declining yields there is clearly potential for these competing interests to come into conflict.

In 2007 and 2008 Hydro Tasmania responded to lakes being drawn down by implementing a low lake level management regime based on social and environmental risks at a range of low levels, increasing the water quality monitoring, and initiating further research into threatened fish species.

After investigations and seeking input from a range of stakeholders, we revised the operating rules for Arthurs Lake and Woods Lake in 2009-2010. The new rule will provide increased surety of water for irrigation demands, reduce the risk to threatened fish species, provide certainty of access for fishers, and minimise loss of revenue for hydropower generation.

Ouse-Shannon Project

The Ouse-Shannon project aims to implement a number of water reforms and improve water management in the catchments. The project will also deliver an increase in renewable energy generation and address a number of environmental issues such as the water quality of the Lagoon of Islands.

An integrated and holistic solution to the problems was identified and agreed in 2008-2009 between the Tasmanian Government, the Irrigation Development Board, the Department of Primary Industries, Water and Environment and Hydro Tasmania. Tasmania's Water Infrastructure Fund provided $1.1 million equity which allowed Hydro Tasmania to initiate the feasibility and design of this solution in March 2010. The components to be undertaken by Hydro Tasmania are estimated to cost $36.7 million. Hydro Tasmania is seeking a total contribution of $14.75 million from the Commonwealth and Tasmanian governments towards the cost.

Undefined allocations on the Ouse River are constraining the ability of water managers to deliver whole-of-catchment solutions to improve energy capture and environmental conditions. While this issue remains unresolved it may also limit solutions and water availability in adjacent catchments, such as the Clyde River basin.

Lake Meadowbank

The Lake Meadowbank level was drawn down in May 2010 for major maintenance at the power station. The project had been postponed in 2009 in response to stakeholder complaints that we failed to consider the impact on the community. This year we applied a similar engagement methodology being used in the lead-up to the 2011 Poatina penstock painting project. Feedback on the project commended our revised approach.

Recreation

Hydro Tasmania changed its operations to meet water levels for some special events in 2009-2010, including releasing water for the Wildwater World Cup courses and raising the level of Lake Barrington for the state and national rowing championships.

Hydro Tasmania facilitates opportunities for recreational activities on water and land in collaboration with Tasmanian Government agencies, in particular with the Parks and Wildlife Service, Marine and Safety Tasmania (MAST) and the Inland Fisheries Service. Together we are working towards statewide frameworks to manage infrastructures to sustain multiple use and ensure public safety.

This involves consulting with recreational stakeholder groups on projects such as the development of the Recreational Boating Infrastructure Plan. The plan identifies high-use locations and where amenities can be improved. It also provides a guide in the assessment of applications under the Recreational Boating Fund which is administered by MAST. Through the fund, Hydro Tasmania provides contributions for successful applications that are to be built on Hydro Tasmania land.

Lagoon of Islands

Cloud seeding

Cloud seeding plays a small role in boosting rainfall over hydro storages in selected catchment areas. Hydro Tasmania has been involved in both operational and experimental cloud seeding over Tasmania and mainland Australia since 1964 and has developed a great deal of knowledge and expertise. The seeding program runs from April to October each year.

Cloud seeding has been an ongoing concern for parts of the west coast community. As part of Hydro Tasmania's engagement with the community a number of measures have been introduced to provide more information on the program and respond to local concerns. One initiative introduced this year in response to concerns raised by Queenstown residents was to stop seeding over the King catchment. The impact of this will be reviewed with the community at the end of the season.

We publish cloud seeding data and information on our website.

Water pricing

Hydro Tasmania can allocate water to other users on request. To implement a new pricing system for water we took advice on options from an expert (Frontier Economics), developed a methodology and presented it to interested stakeholders such as irrigators, the Tasmanian Irrigation Development Board and government agencies. Discussion around the details of the methodology was robust and one stakeholder disagreed with one component while others accepted the methodology which has been adopted. We have endeavoured to develop a price that is transparent, simple and that fully captures the opportunity cost of the water. Details are published on our website.

Waste management

Hydro Tasmania manages hazardous substances defined by the National Workplace Standards through the environment and sustainability management system. Hydro Tasmania's hazardous waste includes concrete slurry, asbestos, chemicals, contaminated soil, biological material, PCB, contaminated oil and fluorescent tubes.

Non-hazardous waste and reduction actions are not a key risk to the business. We have reconsidered the need for a business-wide waste management strategy and decided that our existing business operations and the types and volumes of waste produced are well covered by our current approach.

Asset and resource use sustainability self-assessment scores

	2006	2007	2008	2009	2010	Target 2011
Score	3.5	3.5	3.8	3.8	3.8	-
Target	4.0	4.0	3.5	4.0	4.0	4.0

See table 5 for a summary of key issues that influenced this year's score.

Assets and resource use commitments

Commitment 2009-2010		Progress
Commence the Rowallan Dam upgrade for the dam safety program.	–	Preparation for remedial work began around scope and risk. The implementation phase for the remedial work is now expected to start in the 2013-14 financial year.
Reach or exceed the asset management strategy targets for production lines not exposed to significant risk.	✓	Target of 9 achieved. This indicator is now described as 'strong and reliable production lines'. See page 40.
Develop consistent approach to stakeholder engagement and issues raised for operational impact on water management.	–	Business-wide stakeholder engagement framework introduced – expected to result in a consistent approach. Storage operating rules were changed to improve interaction with stakeholders on water level changes and associated impacts.
Manage water storage and energy production to meet storage level target of 29.2% of full energy.	✓	Lifted from 27.7% on 1 July 2009 to 36.3% 2010. It was the wettest July to September on record and levels were maintained within preferred levels for the year.
From 2007-2008		
Undertake a comprehensive waste audit at Hobart office and implement strategies to minimise both consumption and waste levels in the building.	–	No further action. Non-hazardous waste and reduction actions are not a key risk to the business. We have reconsidered the need for a business-wide waste management strategy and decided that our existing business operations and the types and volumes of waste produced remains well covered by our current approach to maximise recycling.

Commitments for 2010-2011

- 11 strong and reliable production lines in our generating portfolio.

Governance

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' experience in performance of our mission.

Hydro Tasmania believes that good governance is critical for creating a sustainable organisation and one that is easy to do business with.

Sustainability Code 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.

Improving the governance framework

Our governance framework, including structure, roles and responsibilities, is explained in detail on our website.

The Hydro Tasmania Board's governance oversight role is administered and supported through the Assurance Policy which incorporates governance, risk management, compliance and internal audit. The associated standards and procedures include risk assessment and management, compliance reporting and auditing of social issues such as bribery and corruption, advocacy in areas of public policy and anti-competitive behaviour. Regular reports are provided to the Board's committees for Governance, Audit and Business Risk.

Hydro Tasmania is continually improving the solid foundation of its governance framework.

In 2009-2010 we made improvements in the following areas:

- Risk and compliance – ongoing training and continued expansion of the number of compliance and risk champions throughout the business. The Internal Audit team focuses its activities on our most significant strategic and operating risks.

Board visit: Hydro Tasmania directors visiting Meadowbank Power Station

- Compliance Plans – a risk-based approach to develop and improve compliance focus on our key obligations. The breach reporting and investigation process identifies the root causes of compliance breaches so that we can continue to improve business processes and systems.
- Project and program governance – implementation of a standard which requires all projects to use a standardised format and larger projects to set up steering committees to provide business oversight.
- Board committee business – an improved monitoring process provides a focus on matters that are more aligned with our strategy, while maintaining the control and oversight of business operations.
- Emerging and strategic risks – a framework established to identify and monitor these risks within our Integrated Business Risk Management system. We also audit their controls and report their status.
- Incident management – work to standardise the process continued across Hydro Tasmania and our plan is to progressively integrate reporting processes, including safety, compliance, environment and risk.
- Business Continuity Plan – development of the overall plan continued by incorporating the remaining individual critical continuity plans dealing with middle and back office functions and property and building services. During the H1N1 pandemic threat in the winter of 2009 we successfully implemented a Pandemic Influenza Management Plan.

Compliance

Hydro Tasmania regularly reviews its Compliance Plans which document all obligations of legislation, regulation and policy. The plans are also subject to internal audit.

There were no compliance breaches for the year that involved fines or regulatory discipline. All reported breaches are subject to a systematic root cause analysis and are suitably rectified. As part of a periodic regulatory review, the management of our electricity industry compliance obligations was reviewed by an independent appraiser approved by the Office of the Tasmanian Economic Regulator at the end of June 2010, with a report due in 2010-2011.

On 29 June 2009 we received a notice from the Australian Competition and Consumer Commission (ACCC) requiring Hydro Tasmania to provide documents and information to the ACCC concerning our energy market participation over the period April to June 2009, with particular regard to raise contingency ancillary services. We provided the information to the ACCC between 3 August and 16 December 2009, met with representatives of the ACCC in December 2009 and provided further, broader information following that meeting, on 16 March 2010. On 18 August 2010, we were advised by the ACCC that the investigation into the matter had been closed.

Stakeholder meeting: *Hydro Tasmania chairman Dr David Crean, centre, with Central Highlands mayor Deirdre Flint, second left, and Hydro Tasmania directors Chloe Munro, left, Janine Healey and Stan Kalinko*

Raise contingency ancillary services are also the subject of a regulatory process being undertaken by the Tasmanian Economic Regulator, which is discussed in this report on page 33.

Governance sustainability self-assessment scores

	2006	2007	2008	2009	2010	Target 2011
Score	3.5	3.4	3.5	3.8	3.6	-
Target	3.5	4.0	3.5	3.7	3.7	3.7

See table 5 on page 25 for a summary of key issues that influenced this year's score.

Governance commitments

Commitment 2009-2010	Progress
Implement Hydro Tasmania's governance processes and policies in Momentum, recognising cultural differences.	– We have combined financial and risk systems and will continue to reduce duplication.

The Board

Membership

Hydro Tasmania's Board at 30 June 2010 consisted of seven directors: the chair and five non-executive directors, all of whom are deemed independent, and one executive director who is the Chief Executive Officer.

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

Dr Crean was Treasurer of the State of Tasmania from August 1998 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. Prior to this he was in private medical practice for 10 years. He holds Bachelor of Medicine and Bachelor of Surgery degrees from Monash University.

Roy Adair was appointed as CEO and to the Board of Hydro Tasmania on 21 June 2010.

Prior to his appointment he had been Chief Executive of Senoko Power, Singapore's largest electricity generator and retailer for six years and led the transformation of the business. A graduate economist and qualified accountant, he has extensive international experience of running electricity businesses in merchant risk environments.

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

At Yallourn he figured prominently in the early development of the NEM in Australia and was founding chairman of the National Generators Forum. Prior to joining Senoko, Roy was Chief Operating Officer of Pacific Hydro.

A former director of the Electricity Supply Association of Australia, he is currently a director of Roaring 40s Renewable Energy Pty Ltd, chairman of Momentum Energy Pty Ltd and a director of the Centre for Energy and Greenhouse Technologies Pty Ltd.

Saul Eslake was appointed to the Hydro Tasmania Board on 17 March 2008.

Saul is Program Director (part-time) at the Grattan Institute as well as a consultant/ freelance economist. He was previously Chief Economist of Australia & New Zealand Banking Group (ANZ) for 14 years to July 2009. He is also chair of the Tasmanian Arts Advisory Board, a non-executive director of the Australian Business Arts Foundation and a member of the Australian Government's National Housing Supply Council. 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. Saul is a Senior Fellow of the Financial Services Institute of Australia and a member of the Australian Institute of Company Directors.

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

Sally has 20 years experience in advising governments and corporations on industry restructuring and privatisation, economic regulation, and strategic business and risk allocation issues. Starting as a consulting engineer, she 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. Sally 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 was appointed to the Board on 9 September 2002.

Currently a chartered accountant with Ruddicks (Launceston, Tasmania), Janine has wide-ranging commercial experience, particularly in the areas of commercial taxation advice, business structures, and planning and cash flow management. She is a member of the University of Tasmania Council Audit and Finance Committee (and held a term as chair) and treasurer of the Launceston Chamber of Commerce. Janine is a director of the Inveresk Railyard Development Authority, the Female Factory Historic Site Ltd and the Tasmanian Electronic Commerce Centre Pty Ltd and director and chair of the Audit Committee of the Port of Launceston Pty Ltd. She is a Fellow of the Taxation Institute of Australia and Fellow of the Institute of Chartered Accountants.

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

Stan 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 (now Norton Rose). Stan is a fellow of the Australian Institute of Company Directors and also serves on the boards of FSA Group Limited, Indigenous Community Volunteers Ltd, Seisia Enterprises Pty Ltd 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.

Chloe Munro was appointed to the Board on 1 March 2010.

Chloe is the non-executive chair of AquaSure, the consortium building Victoria's desalination plant and is also a member of the National Water Commission. Until July 2009 she was an executive director at Telstra, holding leadership positions in human resources, business operations, information technology, public policy and communications and customer service. Previously Chloe served in the Victorian public sector between 1996 and 2004, and held the positions of Secretary of the Department of Natural Resources and Environment and of the Department of Primary Industries. Chloe holds masters degrees in mathematics and philosophy from Cambridge University and in business administration from Westminster University. She was awarded a Centenary Medal for outstanding contribution to public administration in 2001.

Table 9: Board committee membership at 30 June 2010

Audit committee	Business Risk committee	Corporate Governance committee	Environment and Sustainability committee	Human Resources and Remuneration committee
Janine Healey*	Dr David Crean*	Dr David Crean*	Stan Kalinko*	Stan Kalinko*
Dr David Crean	Sally Farrier	Stan Kalinko	Sally Farrier	Dr David Crean
Sally Farrier	Saul Eslake	Roy Adair	Chloe Munro	Janine Healey
Saul Eslake	Chloe Munro		Roy Adair	Roy Adair
	Roy Adair			

*committee chair.

Table 10: Directors' attendance at Board and committee meetings during 2009-2010

	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	14	13#	6	6	4	4	2	2			4	4
Michael Cavell*	6	6							1	1		
Saul Eslake	14	12#	6	6	4	3#						
Sally Farrier	14	13#	6	6	4	4			4	3#		
Vince Hawksworth**	11	11			3	3	1	1	3	3	3	3
Janine Healey	14	14	6	6							4	4
Stan Kalinko	14	14					2	2	4	4	4	4
Chloe Munro	4	4			1	1			1	1		
Roy Adair	1	1					1	1			1	1

Notes:

* Michael Cavell retired as a director on 5 November 2009.

** Vince Hawksworth departed Hydro Tasmania on 16 April 2010.

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

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

Hydro Tasmania's executive team, from back row left, Andrew Catchpole, Stephen Davy, Scott Baddiley, Alan Evans, Lance Balcombe and Camillo D'Alessandro. Front row, from left, Simon Krohn, Evangelista Albertini, Roy Adair and Pat Lennon

Executive Leadership Team

The Executive Leaderships 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 Hydro Tasmania's strategy and direction for endorsement by the Board. Members of the Executive Leadership Team represent Hydro Tasmania on the Boards and management committees (as the case may be) of Hydro Tasmania's subsidiaries, controlled entities and incorporated and unincorporated joint ventures. The specific expertise of our 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 – Entura

General Manager, Scott Baddiley:

Entura is the new name for Hydro Tasmania Consulting. Our vision is 'to be the leading sustainable water and energy consultant in our chosen markets'. Entura provides clients in Tasmania, nationally and internationally with water and energy solutions in 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, which comprises 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 system, 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.

Retail – Momentum

General Manager, Camillo D'Alessandro:

Momentum is the customer-facing retail arm of the Hydro Tasmania group. It is responsible for the successful gaining, retaining, billing and collection from the customer base. Key accountabilities include product development, branding and marketing of Momentum in target markets to achieve the desired profitable growth that supports the overall group portfolio position.

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 the Australian Energy Market Operator to ensure Hydro Tasmania is not disadvantaged in the market.

People

Our employees

Mission: being the premier employer of the most capable people in our industry.

Sustainability Code 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.

Hydro Tasmania's market environment is changing rapidly, especially since acquiring a retail arm. We see the change required of our employees to achieve our strategic objectives in this environment as the biggest cultural shift in the organisation's history. We also remain committed to our safety vision of 'no harm to anyone at any time'.

Our employees' capability to adjust to change is being fostered through several programs, which are coordinated under the umbrella of our Organisational Capability strategy. Under this umbrella we are able to keep our focus on developing our people and to leverage our existing strengths, acquire new skills, establish a customer and market mindset and develop better systems and processes with more focused alignment and connection to our business objectives.

Table 11: Workforce by employee category

	2006	2007	2008	2009	2010
Board	6	7	6	6	7
Executive	54	62	63	64	68
Snr Officer Band	89	77	111	126	124
Award Level	737	671	639	664	646
Total	886	817	819	860	844

Note: Data in 'Our employees' section include Hydro Tasmania and Entura only.

Project officer Scott Newett

2010 Sir Allan Knight Scholarship

The winners of Hydro Tasmania's 2010 Sir Allan Knight Scholarship are, from left, Nicola Jones, Mark McLean and Suzan Haward. They will work with a selected number of national and global companies to determine how organisational development initiatives can be further leveraged through personal coaching and the creation of a coaching culture. The annual scholarship provides an extended opportunity for staff to acquire information and contacts, skills and professional experience.

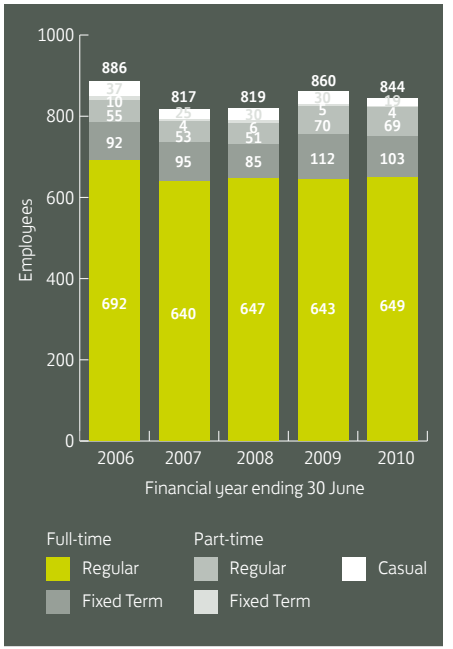


Figure 6: Employees by employment type and contract

Table 12: Employees by region

	2006	2007	2008	2009	2010
Tasmania	859	789	778	799	779
Others	27	28	41	61	65
	886	817	819	860	844

Building capability

Hydro Tasmania supports employees' professional and skills development throughout their careers and assists in managing career endings.

Since 2008 we have been helping employees develop and adapt to the new environment. We aim to shift to a customer-driven, holistic and systematic thinking culture and we are well on the way to achieving this through our learning programs – the Leadership Initiative, Change Agent and Improving Service programs. Through changing their ability to approach and respond appropriately to a variety of situations, participants are helping others to adapt to the environment by demonstrating new behaviours while facilitating and leading, not just working in operational activities. In 2009-2010, 62 participants commenced training in these programs, bringing the total number of employees participating to 143 over the three-year life of transformation.

We support external training and education through funding support and with a comprehensive study leave policy that includes provision of paid leave.

Our apprentices and technicians continue to develop their skills and capabilities under our in-house, nationally accredited GenTech training and development program.
Our Graduate Program was revamped for 2009-2010 to improve the experience of the 41 participants, especially in the area of personal development.

For employees who are retiring, Hydro Tasmania provides phased-in retirement options and employee assistance support. For those who leave as a result of redundancy we have in place provisions such as outplacement services, redeployment opportunities, retraining and severance pay.

Graduates

In 2009, Hydro Tasmania launched a new approach to attracting the best graduates to the business. The graduate program encourages a shared responsibility between Hydro Tasmania and graduates for their career in a challenging yet supportive environment.

"The program delivered opportunities, skills and learning that significantly surpassed even my wildest expectations," according to Adrian Ladaniwskyj, who became a Market Analyst after just 11 months in the program.

For Liam O'Neill, an Energy Efficiency Engineer, the program enabled him to adapt easily to change, first in natural resource engineering, before moving into energy and emission management, strategic policy and pursuing challenges in the business and sustainability field.

"Hydro gave me the opportunity to further develop my capabilities in other areas and diversify my skill set."

As a result of her work in the program, Sarah Kube has been invited by staff at the University of Tasmania to submit a paper and attend the Australasian Fluid Mechanics Conference in New Zealand in December 2010. Her project involves computer modelling of penstock pressure pulsations in hydropower stations.

New approach: Graduates, from left, Sarah Kube, Liam O'Neill and Adrian Ladaniwskyi with the program's convenor Kate Hickey, centre

Employee engagement

Overall employee engagement measured in the 2010 annual employee feedback survey was 63 per cent, one per cent down on the previous year as shown in figure 7. This result compares very well to the Australian high performing average of 53 per cent and average of 36 per cent. The survey included employees in India.

Teams across the business have worked on addressing opportunities to improve on issues arising from the June 2009 employee survey, which included keeping knowledge in the business before an employee leaves, learning from the past, cooperation across teams, sharing information and improving key business processes. We addressed these issues by documenting the knowledge and processes of people about to retire who held key roles, and introducing activities such as cross-skilling, providing recordings on the intranet of presentations on key projects and by inviting guest speakers from other parts of the business to team meetings. We reviewed and made changes to major business processes during 2009-2010: the accounts payable system and the budget process.

In the 2010 survey, employees ranked their safe and healthy environment, promotion of health and wellbeing, teamwork, taking ownership of their development and finding new and better ways of doing things as high-performing items. Employees continued to say that we could improve the efficiency of our processes and learning from the past. Employees gave a low performance ranking to managers seeking upward feedback, attracting and retaining talent and performance measures. Hydro Tasmania will address the recommendations in the key findings report as well as training, development and career paths during 2010-11.

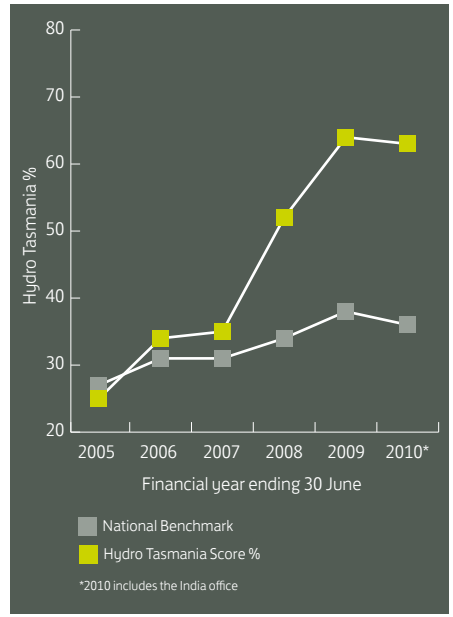


Figure 7: Hydro Tasmania staff engagement

Enterprise Partnership Agreements (EPA)

Award employees covered under enterprise agreements, or EPAs, make up 76 per cent of the workforce, or 646 employees. EPA negotiations with management are very important to our employees as a means to influence conditions and provide input into issues such as performance reviews and measures.

The Hydro Tasmania Enterprise Partnership Agreement 2009-2012 was agreed in October 2009 between Hydro Tasmania and the single bargaining unit of employee and union representatives. Negotiations complied with the *Fair Work Act 2009* and met or, in most items, exceeded the National Employment Standards.

Employees had expressed concern about how fairly the performance development review (PDR) could be consistently and fairly applied to assess the new performance-based salaries. During the reporting period Hydro Tasmania conducted a review of the PDR process to ensure it supported the implementation of the new pay model. The modified PDR process, which includes a strengthened focus on development, and the new pay model were successfully implemented with the support of training for managers in conducting effective PDR conversations. A commitment has been made to review the effectiveness of the modified PDR process by December 2010.

The Consultative Partnership Group, consisting of union officials, employee representatives and management, meets regularly to discuss EPA-related matters.

Renegotiation of the Entura EPA began in late June 2010. The single-bargaining unit of employee and union representatives and the management team were focusing on refining the current broad-band salary model.

Project manager Tim Cubit

Workforce planning

In the Hydro Tasmania EPA 2009-2012, the business committed to making workforce planning a priority in response to employee concerns about future workforce requirements, creating development opportunities and succession planning. The workforce planning process was being developed during the year and will be in place by October 2010, in line with the EPA commitment. It will enable the organisation to identify future workforce requirements, taking into account work/life balance and will help provide career opportunities for employees in the context of business objectives as well as internal and external labour trends.

In addition, the Hydro Tasmania EPA 2009-2012 included a commitment to develop career guidelines by October 2010 to assist employees in their career development, and this work was also under way at 30 June.

The talent identification process was introduced as a first step towards addressing succession planning. A pilot talent identification program was conducted with 24 employees taking part. At the end of the reporting period we had not determined if it would be continued in that form. However, talent management will be a business key performance indicator for the 2010-2011 financial year.

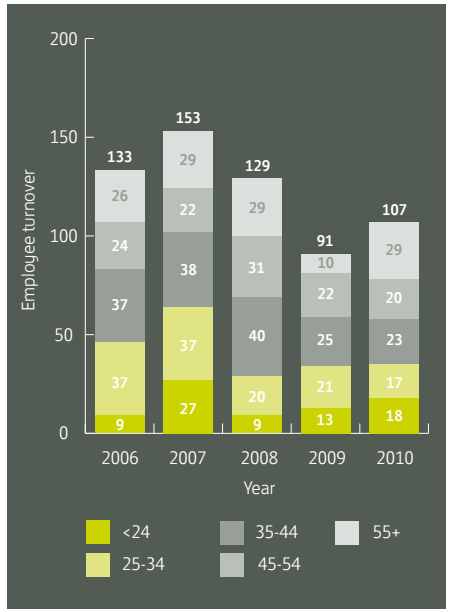


Figure 8: Employee turnover by age group

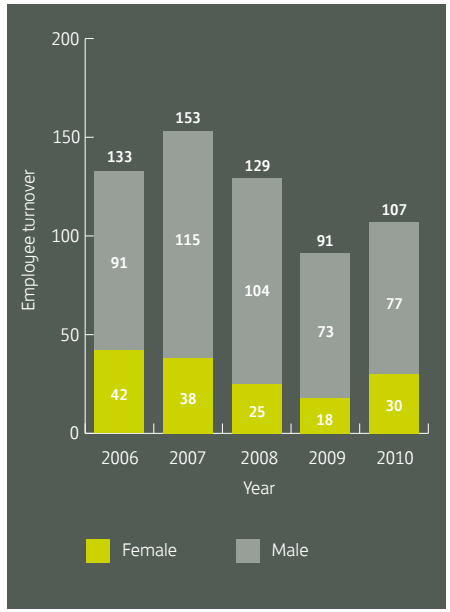


Figure 9: Employee turnover by gender

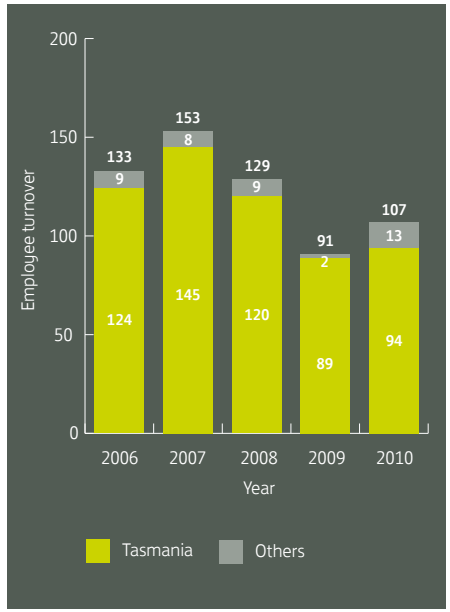


Figure 10: Employee turnover by region

Entura's Rob Furmston competing in the 2009 Freycinet Challenge

Management approach to labour practice and decent work

Hydro Tasmania complies with the *Fair Work Act 2009* (Commonwealth) which takes into account Australia's international labour obligations. It provides for enterprise agreements between employees and employers to negotiate conditions of employment including protection from discrimination and the right to freedom of association. It also covers fair work practice such as work hours, wages and equal remuneration. Hydro Tasmania's processes and guidelines support legal requirements as well as workforce planning, succession, attracting and retaining skilled staff and developing the capability of our people. The human resources management system, Aurion, tracks employee information and includes leave, wages and training. All our employees have mandatory biennial training on equal employment opportunity and diversity through an online program.

Hydro Tasmania's OHS Commitment shows our policy in relation to health and safety, and this can be found on our website. We comply with the *Workplace Health and Safety Act 1995* (Tasmania) which provides for the health and safety of 'persons employed in, engaged in or affected by industry' – that is employees, contractors and the public. We track occupational health and safety incidents, mitigations and procedures that also include those applying to the electricity industry and our work sites in our safety management system, HydroSafe. All employees and contractors have mandatory safety training requirements.

Our challenges are to develop a culture that meets our aspiration to be a customer-driven business, developing and retaining the skills we need and instilling a safety culture that will result in realising our vision of 'no harm to anyone at any time'.

The Entura India Employee Manual ensures conditions support labour practice and decent work in keeping with Hydro Tasmania's existing policies and values and in compliance with Indian law.

Management approach to human rights

Hydro Tasmania complies with legal requirements on human rights. Hydro Tasmania's Sustainability Code recognises and supports human rights, and the Code of Ethics states our support of internationally proclaimed human rights with reference to the Universal Declaration of Human Rights, the OECD Guidelines for Multinational Enterprises and the ILO Tripartite Declaration of Principles concerning Multi-national Enterprises and Social Policy. Our codes guide all our policies, procedures and systems and are published on our website. We have formal procedures for employment, occupational health and safety, equal opportunity, non-discrimination, freedom of association, collective bargaining and complaints and grievances.

All employees are required to train every two years in harassment, bullying, discrimination and grievance procedures. We have policies regarding bribery and corruption and for procurement which are published on our website. Our procurement policy states our objective to engage with suppliers who demonstrate sustainable practices to minimise social and environmental impacts.

The Entura India Employee Manual ensures conditions support human rights in keeping with Hydro Tasmania's existing policies and values and in compliance with Indian law.

Andrew Pattle at the Murum dam site in Sarawak, Malaysia

Working in Sarawak

After 28 years as an engineer, including 13 with Hydro Tasmania, Andrew Pattle is still up for a challenge, which is why he leapt at the chance earlier this year to work on a project in the jungles of Sarawak in Malaysia.

Andrew is currently Project Director on the Murum Hydroelectric project which involves construction of a 141-metre high gravity dam, with an installed capacity of 944 MW located more than 200 km inland from the nearest city Bintulu. He is on secondment from Hydro Tasmania to Sarawak Energy Berhad as part of an agreement to help build the skills and expertise of the state-owned business.
The project is located in a sensitive environment with significant social and safety challenges.

"Safety and environmental compliance are not given as much importance here," said Andrew. "But before we become too judgmental, we need to think back to how Australia did these things a few decades ago and that is the state of practices in Malaysia today.

"The good thing is that there is increased recognition of the importance of such things and good progress is being made to close the gap. Hydro Tasmania has 100 years of experience and we are pleased to be helping Sarawak Energy by passing on some of that knowledge to help build their capability."

As for the job itself, Andrew has signed on for two and a half years and hopes to see the project through to completion expected in early 2013.

"The main reason I took the job was that I have always had an adventurous streak.

"I've had a very varied career with Hydro Tasmania which has given me a good foundation for the current role. I also feel that I am giving something back to society by assisting with a project that will substantially reduce Malaysia's use of fossil fuels."

Safety, health and wellbeing

Hydro Tasmania places paramount importance on the safety, health and wellbeing of its employees. Our safety vision is 'no harm to anyone at any time'. Looking after a balance between work and lifestyle is an integral part of our mission to be a premier employer.

Safety

We manage safety through the OHS Commitment and by applying Hydrosafe procedures for specific risks. We annually evaluate health and safety risks by revising the Safety Improvement Plan and using data from the Incident and Quality Management System. The joint management-worker health and safety committees which help monitor and advise on safety from across all sections of the business consist of 10.7 per cent of the workforce, 90 people in total.

The Safety Improvement Plan identifies and keeps attention on the high priority OHS risks. We hold workshops across the business using a risk profiling process to identify the priorities. We develop strategies and action plans to address each risk and embed mitigations into procedures. In 2009-2010 we addressed the following issues.

Stress and fatigue: we began training our managers in identifying and managing fatigue and field site employees trialled a non-obtrusive measuring device. The data from the device gave a better understanding of stress and fatigue during generation machine outages which required rotations

of long shifts to compress work into shorter duration than would otherwise be the case. This led to the revision and enforcement of the reasonable hours procedure for outages and resulted in a measurable reduction in fatigue levels. We also reviewed the Workplace Support Officer roles and training and continued alcohol and other drugs training. Next year, Hydro Tasmania will continue fatigue research in other areas of the business and provide more training for managers to increase their skills to identify and deal with workplace stress.

Emergency response: we conducted a number of power station drills, reviewed the actions and improved emergency response capability. During the H1N1 influenza pandemic threat in the winter of 2009 we successfully implemented a Pandemic Influenza Management Plan which contained sickness absenteeism to below three per cent for the year. Next year we intend to continue developing our emergency response capability.

Overseas assignments: we reviewed our overseas travel procedure and engaged a new provider for overseas travel advice and monitoring service. Next year we will conduct an emergency response exercise for overseas personnel.

Critical procedures: we reviewed several procedures, including diving, hot work, job safety analysis and permit to work. The most significant achievement was an improvement to high-risk diving and retraining employees involved in this work. We expect to have reviewed all procedures during the coming year.

Incident management: safety is included in the cross-business project to integrate our incident management systems which has completed the revision of incident procedures. This project will continue in 2010-2011 and also links to our work on emergency response.

Performance indicators

The safety key performance indicator is lost time injury frequency rate (LTIFR). At 30 June 2010, the rate was 2.1, down from 2.8 in 2008-2009.

Table 13: OHS data at 30 June[3]

	2006	2007	2008	2009	2010
Fatalities	0	0	0	0	0
Lost time injury frequency rate[4]	1.4	4.1	3.6	2.8	2.1
Medical treatment injury frequency rate[5]	4.5	8.4	8.9	6.6	6.0
Severity frequency rate[6]	29.5	17.6	38.1	60.0	21.3
All injury frequency rate[7]	34.7	49.1	49.8	42.0	39.4
Occupational diseases – number	Not reported			0	1[8]
Contractor lost time injuries	1	1	1	1	2

The drop in severity frequency rate was notable, and the overall drop in other indicators is attributed to the work done as a result of the year's Safety Improvement Plan. A business-wide training program on manual handling, 'love your back', focused in particular on posture for sitting and lifting. It was well received by staff as fun and informative and helped them become aware of changes they can make in all their work and home activities to remain fit. We believe this and the introduction of a preferred doctors scheme had an influence on lower severity and injury rates.

Contractors

We believe the rise in contractor lost time injuries for 2009-2010 is a result of better reporting. This year we spent more time with contractors holding seminars and discussions on safety procedures and the importance of reporting incidents.

All contractors are trained in our health and safety procedures. They must complete an online workplace induction which includes reporting obligations and safety procedures for all of our work sites. Field site contractors must carry an electricity industry passport which records their training qualifications for specific tasks and which are checked by the site manager before they can start work. These conditions also apply to employees.

[3]OH&S data does not comply with GRI. It 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. Contractor hours are not included in the calculations as we do not record contractor work hours.

The calculation for frequency rate is:

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

[4]Lost time injury (LTI) is an absence due to workplace injury from a complete shift (scheduled work day)

[5]Medical treatment injury (MTI) is receiving medical attention due to workplace injury and returning to work.

[6]Severity frequency rate is the average number of work days lost per lost time injury per million man hours

[7]All injury frequency rate is LTIs, MTIs and first aid treatments.

[8]This relates to stress.

Members of Hydro Tasmania's team in the inaugural Run the Bridge event held in aid of the Variety Club of Tasmania

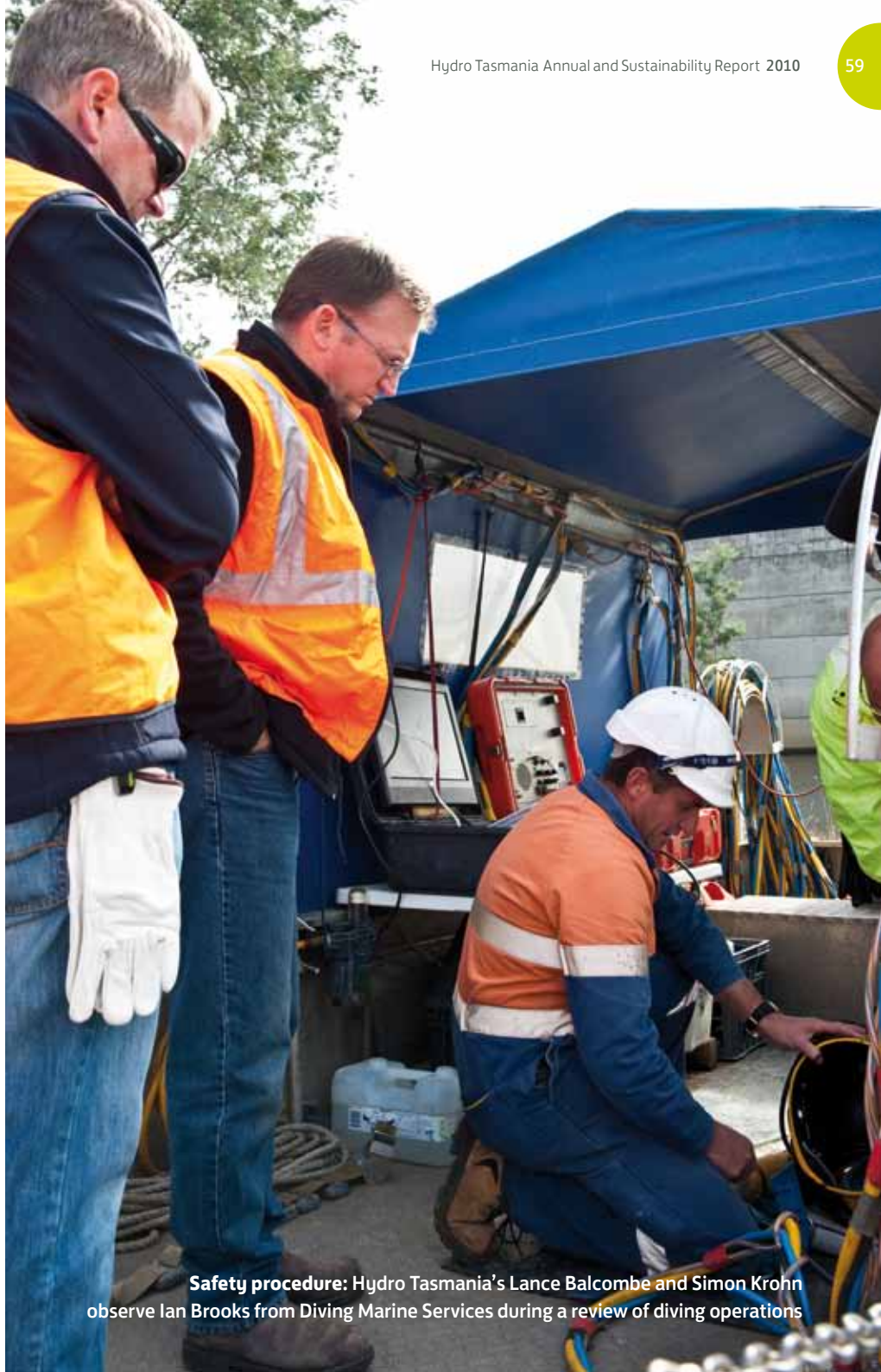
Health and wellbeing

This year we put considerable effort into managing stress and fatigue. We believe that this is a contributing cause of absenteeism although we have no data to explain the increase in the rate over the past four years – see table 14.

Participation in the Healthy Hydro program rose during the year from 54.1 per cent to 76.2 per cent on 30 June. The program is integrated with other health and safety programs and provides support for staff to manage their own health and wellbeing and encourages a fit-for-work philosophy. It includes professional health assessments on an individual basis as well as presentations on topical health issues such as stress and fatigue.

Table 14: Absenteeism

	2006	2007	2008	2009	2010
Days per employee	4.92	4.91	5.06	5.39	6.8
Absence rate %	1.93	1.92	1.97	2.1	2.67



Safety procedure: Hydro Tasmania's Lance Balcombe and Simon Krohn observe Ian Brooks from Diving Marine Services during a review of diving operations

Employee sustainability self-assessment scores

	2006	2007	2008	2009	2010	Target 2011
Score	3.2	3.3	3.3	3.6	3.6	-
Target	3.0	3.5	3.5	3.8	4.0	3.8

See table 5 on page 25 for a summary of key issues that influenced this year's score.

Employee commitments

Commitment 2009-2010		Progress
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.	–	Some progress made and will continue into the future.
Implement the revised Safety Improvement Plan with a focus on improving and communicating critical safety procedures.	✓	The revised Safety Improvement Plan implemented. Improvements made to critical safety procedures and this, with other priorities, will continue.
From 2008-2009		
Develop a business-wide talent management strategy (key skills).	✓	Concluded – a talent management pilot program involving 24 employees was conducted 2009-2010.
Implement recommendations from 2006-2007 EPA remuneration model review.	✓	Concluded – recommendations from the 2006-2007 remuneration review in the EPA remuneration model were incorporated into the 2009-2012 EPA.
Implement recommendations from gender diversity review.	–	No further action. As our gender balance is typical of the electricity industry and we comply with equal employment opportunity legislation, our future plans do not include specific action on gender diversity.

Commitments for 2010-2011

- Continue building skills for change and responsiveness to customers through the development programs (Change Agent, Leadership Initiative and Improving Service) by providing training to more people.
- Develop a strategy that integrates key HR processes, including talent management, training and development, recruitment, remuneration, and industrial relations, to support Hydro Tasmania in being the premier employer of the most capable people.
- Address actions identified in the Safety Improvement Plan for 2010-2011.

External Stakeholders

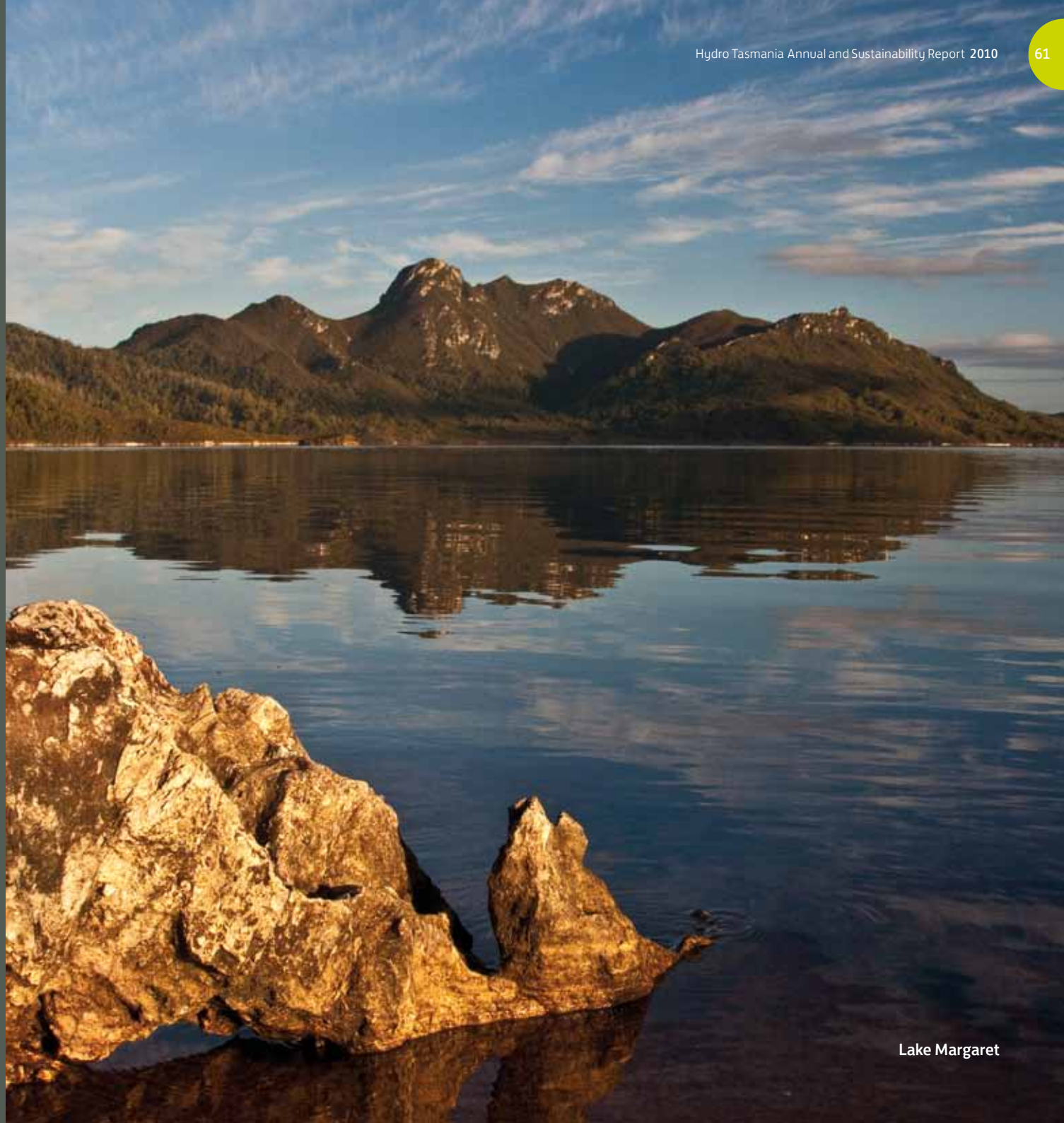
Mission: being easy to do business with.

Hydro Tasmania believes that stakeholders provide our social licence to operate and develop and that it is good business to engage in an open and inclusive way, to reach an understanding of mutual points of interest and to be accountable to stakeholders and consider their views in our decision-making.

We identify stakeholders as those who may be impacted by or have an impact upon our business and its operations. Hydro Tasmania has identified categories of stakeholders to act as a guide when identifying who we should consult on projects and issues. See table 15.

Sustainability Code
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.



Lake Margaret

Table 15: Hydro Tasmania's stakeholders and their attributes

Stakeholder	Interests	How we engage
Staff	Our staff have a broad range of interests in the business, including the value of the work they do, working conditions and employment benefits, health and safety and learning and development opportunities	Conversations, both formal and informal Performance development reviews Team meetings Internal publications and the intranet Annual Employee Feedback Survey Enterprise agreement negotiations
Customers	Our customers are interested in secure, reliable and cost-effective delivery of products and services	Energy trading processes, principally telephone Entura and Momentum's account managers Entura's biennial client satisfaction survey; Momentum's call centre, sales representatives and telesales team Websites; advertising
Business partners	Our business partners are interested in aligning with a forward-thinking business	Board meetings; project meetings Stakeholder survey
Suppliers	Our suppliers are interested in having the opportunity to supply, being paid on time and ongoing business	Procurement and tender processes Supplier survey Regular reviews of goods/services provided (if allowed for in the contract) Sustainability conversations
Shareholder Ministers, Government of Tasmania	Successful operation of the business, delivering a commercial return to the people of Tasmania, responsible custodian of environment	Corporate Plan Monthly ministerial meetings about business issues Quarterly reporting
Government agencies	Meeting statutory requirements, impact on the Tasmanian and Australian community and economy	Regular meetings and written communication on issues of shared interest Stakeholder survey Proactive advice, communication and assisting with policy development Collaborative projects and sustainable developments
Regulators	Meeting statutory requirements	Meetings, submissions, reporting and provision of information as required
Community and special interest groups and bodies	Water management, environmental issues Regular, quality communication on community and social issues	Formal liaison groups; collaboration on projects Memoranda of understanding Stakeholder survey
Industry associations	Industry debate, discussion and policy development on issues of mutual interest at international, national and local level	Formal structures of associations Participation in conferences, forums and events
Academic and scientific communities	Educational support and employment opportunities for graduates Research	Collaborative research Memoranda of understanding Scholarships; graduate program
State and federal parliamentarians	Impact on the Tasmanian community and economy, energy policy, renewable energy projects	Briefing sessions and written information GBE Scrutiny Committees Stakeholder survey
Local Government	Land and water management, impact on the Tasmanian community	Community forums; correspondence
Local and national media	Provide information to the public and question our operations and motives	Press releases, interviews, briefings
Tasmanian community	As our ultimate owners, the Tasmanian community has a direct interest in the successful and sustainable operation of our business, the impact of our generation operations, and use of the land and water resources that we manage	Website Media releases Stakeholder survey

Membership of associations

Hydro Tasmania is a financial member of the following industry bodies and associations that represent our strategic interests. 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 issues.

Australian National Committee on Large Dams (ANCOLD)

Australian Financial Markets Association (AFMA)*

Clean Energy Council*^

esaa (Energy Supply Association of Australia)*

International Hydropower Association (IHA)*^

National Generators Forum (NGF)*^

*denotes committee membership

^denotes a position held in governance bodies

A more complete list of our industry memberships is on our website.

Engaging with stakeholders

This year, we developed and started implementing a business-wide stakeholder engagement framework which will provide a framework for engaging in a consistent way.

Most of our interaction with stakeholders on projects for the year received a positive response. We anticipate that the framework will help embed continual learning and improvements and help us with consistency.

Our work with the Australian Centre for Corporate Social Responsibility (ACCSR) to help us identify the issues that matter most to our stakeholders concluded early in the financial year. We invited all those who responded to the ACCSR survey of the previous year to meet and discuss our understanding of the issues they raised and how we could best engage with them. Following this, a workshop for stakeholder relationship managers considered how we would develop an engagement plan in 2010-2011 based on this information.

In our survey of 95 stakeholders to assess material issues for this report we included questions on our sustainability performance. In response to 'Hydro Tasmania actively engages with the community and stakeholders', 89 per cent of the 31 respondents agreed, five per cent mildly disagreed and five per cent were unsure.

TSO Sponsorship

The Tasmanian Symphony Orchestra sponsorship is a partnership between Hydro Tasmania and Reclink, a charitable organisation whose mission is to provide sporting, social and arts activities to enhance the lives of people experiencing disadvantage.

Since the launch in August 2009, 129 participants from community organisations as diverse as the Adult Mental Health Centre, Bethlehem House and the Choir of High Hopes have attended concerts through the AccessTix program.

Reclink's Community Development Coordinator for Tasmania Andrea Heath:

"The AccessTix program has made a real difference to the lives of many people who, for a variety of reasons, could not afford to attend this type of event. The opportunity to access tickets to concerts is always very much appreciated as it creates an opportunity for participants to be involved with social and cultural activities."

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

Recycling Computers

Five years ago, Michael Halbwirth and Tony Kerstan were discussing what else we could do with Hydro Tasmania's obsolete computer equipment, which at the time was offered to staff. Schools in need emerged as the ideal recipients and after some investigation the first donation was made.

Five years later the program is still going strong. Hydro Tasmania has donated around 430 laptops and desktop computers along with mice, keyboards, monitors and the like. Most have gone to schools, but organisations such as Engineers without Borders, the Migrant Resource Centre and the Veterans and Family Support Centre, even an orphanage in Cambodia, have also received computer equipment.

"It's important the equipment provided is in good working order," said Tony. "We don't send junk to the schools. We also work with the schools to understand how the equipment is to be used in the schools. The main thing is a common desire to improve learning outcomes for our children."

Computer donations: back row, from left, are Hydro Tasmania's Michael Halbwirth and Ted Bilstein with Stuart Clark from the Department of Education, Greg Phair from Rokeby Primary School and Hydro Tasmania's Tony Kerstan, front centre

Education

In May 2010 we ended school visits to the Hands On Energy Discovery Centre. These visits had been very successful but the time was right to refocus our limited resources on improving the way we communicate with our customers and stakeholders as well as our own people. Hydro Tasmania will continue to have a connection with the education sector. In June, we announced that we will be a foundation corporate sponsor of Greening Australia's planned Science and Ecology Learning Centre aimed at kindergarten to grade 12 students to be built on land near the Mt Nelson campus in Hobart.

Charities and sponsorship

Hydro Tasmania and our employees are generous supporters of several charities. This year Hydro Tasmania supported, among others, the Cancer Council and Camp Quality, while employees' fundraising activities included support for the Leukaemia Foundation, the Salvation Army Christmas Appeal, Movember, the Cancer Council Relay for LIfe and the School of St Jude in Tanzania.

Hydro Tasmania sponsors events and organisations that enhance the quality of life for the Tasmanian community or promote Tasmanian skills and expertise to a wider audience. Principal sponsorships in 2009-2010 were the Tasmanian Symphony Orchestra, Greening Australia's River Recovery program and the Three Peaks Race. Hydro Tasmania's total sponsorship amounted to $362 145. More information on sponsorships is available on our website.

Award winners: *Business Sustainability Manager Andrew Scanlon and Sustainability Programs Manager Lara van den Berg with the Large Business Sustainability award won at the Tasmanian Environment Protection Authority's 2010 awards for environmental excellence*

Suppliers and Partners

Hydro Tasmania is endeavouring to develop a consistent way of dealing with suppliers. This means relationship-building as well as improving systems and processes that support procurement. We see effective relationships with suppliers as crucial for a sustainable business.

To improve procurement, this year we identified eight categories of highest value procurement. We began reviewing tender proposals to establish greater efficiencies in four of these categories. When these new contracts are established, we will review the process and proceed with the remaining four categories.

An issue raised during 2009-2010 by some suppliers was that we were not always meeting account payment terms. This prompted an investigation which found the payment system was difficult to use and processes were not well defined and were applied inconsistently. We rectified both the system and processes and trained staff. We expect a much improved payment record early in 2010-2011. The results of this work have already made significant improvement to the volume of outstanding invoice payments.

Encouraging sustainability in the supply chain

Last year, Hydro Tasmania implemented two annual surveys of suppliers to assess their satisfaction with dealing with us and to encourage a two-way dialogue on sustainability in the supply chain to raise awareness among suppliers and to learn more about being sustainable ourselves.

This year, we sent the first survey to 1532 businesses and received 248 responses. The returns represented a good cross-section of our supplier categories. The survey had two components – our sustainability performance and our performance as a customer. Suppliers rated us with an overall score of 80 per cent. A significant topic in follow-up conversations where requested was 'what constitutes good supply chain relationships'.

In June we invited a different set of 20 suppliers and two partners to assess their own sustainability performance to last year. We asked senior executives to complete the survey and to substantiate their rating with references to policies, procedures and systems. The overall score from the respondents (12 suppliers and one partner) was between 75 and 80 per cent on all six principles. The drop of eight per cent in the score from last year is likely to be due to including smaller businesses which are still building their sustainability awareness and practices. We take this view because in follow-up discussions there was interest in sustainability from those who had previously not considered this as part of their business plans.

Hydro Tasmania intends to repeat these two surveys next year. We believe the results support our endeavour to encourage sustainability practices and to build and maintain good relationships with our suppliers and partners.

Table 16: Supplier satisfaction with Hydro Tasmania

	2010		2009	
	Result %	Target %	Result %	Target %
Key supplier and partner satisfaction ratings of Hydro Tasmania.	80	75	80	75
Supplier and partner sustainability performance self-assessment rating.	77	75	85	75

Procurement value

In 2009/10, Hydro Tasmania spent $156.4 million on procuring goods and services, and 53 per cent of this amount was from local 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 such as electricity, transmission and fixed telephony.

Table 17: Procurement value at 30 June

	2006	2007	2008	2009	2010
Number of suppliers	230.0	298.0	1648.0	1703.0	1363.0
TOTAL value ($M)	198.0	130.4	190.8	207.7	156.4
Number of suppliers Tasmania	110.0	151.0	935.0	918.0	740.0
Value ($M)	65.0	82.1	79.1	93.2	83.1
% of spend*			41.5	44.9	53.0
Number of suppliers rest of Australia/overseas	120.0	147.0	713.0	785.0	623.0
Value ($M)	133.0	48.3	111.7	114.5	73.3
% of spend			58.5	55.1	47.0

Note: In 2006 and 2007 calculations were limited to expenditure greater than $50 000. From 2008 the calculations were made on the total expenditure. Towards the end of 2009 gas purchases ceased for the Bell Bay Power Station as it was decommissioned, resulting in a significant drop in total expenditure for 2010.

*This calculation complies with the GRI protocol for local expenditure.

External stakeholder sustainability self-assessment scores

	2006	2007	2008	2009	2010	Target 2011
Score	3.5	3.0	3.4	3.3	3.6	-
Target	3.0	3.5	3.6	3.5	3.5	3.7

See table 5 on page 25 for a summary of key issues that influenced this year's score.

External Stakeholders commitments

Commitment 2009-2010		Progress
Develop and implement stakeholder engagement model across the business.	–	Stakeholder framework developed and stakeholder plan scheduled for development.
Develop collaborative relationships with stakeholders who share an interest in water management in Tasmania.	✓	Developed and embedded in business process. Collaborative relationships include the Tasmanian Irrigation Development Board, water customers, Entura clients, the proponents of the Macquarie Settlement pipeline and angling associations.
Develop a plan for recreational access to Hydro Tasmania land and water which reflects the strategic interests of stakeholders.	✓	Complete. Resulted in the Boating Infrastructure Plan which is now a model for identifying future multiple-use management and development of infrastructure required for recreational activities.
Extend our encouragement to our wider group of suppliers and partners to be sustainable in their practices.	✓	Second annual survey complete. This is now embedded into normal business practice.
From 2007-2008		
Establish an appropriate sourcing strategy for key categories of supply and then develop suitable measures to drive improvements over time.	✓	Complete - we identified eight categories of the highest value procurement and began reviewing tender proposals to establish greater efficiencies in four of these categories.

Commitments for 2010-2011

- Prepare a 'good neighbour' plan to target 10 000 hours per annum of community support provided by our people.
- Achieve buy-in and commitment from employees to the stakeholder engagement framework.
- Develop a model to understand and strategically manage our supplier relationships and communicate this internally and with our suppliers.

Environment

Ecosystems and heritage

Mission: becoming the first carbon neutral generator in Australia.

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

Sustainability Code
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.

Environment management approach

Hydro Tasmania's Environment Policy states our overall approach to environmental responsibilities. We endeavour to carefully manage natural resources, comply with regulatory requirements and work cooperatively with stakeholders. See the policy on our website.

The Business Sustainability Manager is responsible for overall management of environmental risks for the business. However responsibility to assess risks and introduce mitigation measures is spread across the business.

The environment and sustainability management system (ESMS) helps us to identify and manage the environmental risks of our operations, including potential impacts on biodiversity, heritage values and water quality. It also allows us to monitor and reduce waste and ensure compliance with legal and regulatory obligations. Hydro Tasmania is systematically replacing PCB-contaminated transformers and will complete this in the next two years. Training in use of ESMS is ongoing, as is continuous improvement of the system itself. The ESMS was reaccredited to ISO14001 in May 2010.

We have programs that cover the management of water, land, cultural heritage and greenhouse gas emissions risks and mitigations.

Entura's Brad Smith and Professor Andrew Osborn at Lake Pedder

Impact on biodiversity

Our operations have the potential to impact upon the biodiversity of aquatic environments due to changes to water flow and lake levels.

Storage operating rules that govern water management include measures based on monitoring and research to minimise negative environmental impacts. Inflows during winter and early spring of 2009 were amongst the highest on record, allowing many lakes to recover with associated improvements in water quality.

The monitoring program for lakes is aimed at addressing risks in the aquatic environment and mitigating these risks where possible. We monitored four major storages to comply with our water licence and a further six 'priority' lakes which either have the highest biodiversity value or where the impact of our operations is potentially greater for the environment, or for other stakeholders.

In all, Hydro Tasmania is responsible for managing 53 lakes. Our challenge is to find a cost-effective way to better understand the impact on water quality and ecosystems of more of these lakes.

Operations also affect the patterns of migratory fish. An example of this is eels. Between late November and mid February, elvers (juvenile eels) come from breeding grounds in the Coral Sea to mature in Tasmania's inland waters. At Meadowbank Dam, elvers are captured and transported up-river and into other catchments. At Trevallyn Dam, we had installed a ladder for migratory seasons that allows elvers to climb into the cavity of the dam wall and up gallery drains to a trap near the top of the wall. From here they are now automatically released into Lake Trevallyn upstream of the dam. We made improvements to the infrastructure before last season and had no reported elver deaths since the improvements. See the full story on our website.

Threatened species

Over several years we have collected extensive data in Great Lake on the impact of fluctuating lake levels on charophyte beds (a type of aquatic plant) which provide critical habitat for threatened fish species (galaxiids). In this financial year we have continued the research on the biology of threatened fish species in Great and Arthurs lakes to improve our understanding of their lifecycle requirements. The results of this research will be applicable to several other priority lakes where the species are found. Using this data, we will improve water level management strategies to protect and enhance these threatened galaxiid populations. The research will be completed by the end of the 2010-11 financial year.

Lake Pedder threatened species

This year, Hydro Tasmania has assisted scientists' search for threatened species associated with Lake Pedder. They found a pygmy mountain shrimp in Lake Pedder *(Allanaspides helonomus)* where historically it had been found only in specific locations in moorlands surrounding the lake, and a flatworm *(Romankenkius pedderensis)* that was thought to be extinct. The Inland Fisheries Service also found evidence that the threatened fish species *Galaxias pedderensis* is spawning successfully in the Strathgordon water supply dam after we established suitable habitat. See more about the research on our website.

A pygmy mountain shrimp

Environmental flows

Hydro Tasmania maintains environmental flows in some rivers to support aquatic biodiversity and to comply with our water licence.

This year we continued the review of the environmental flow downstream of the Trevallyn Dam through Cataract Gorge in Launceston. We surveyed stakeholders to find views on values and issues associated with the Gorge. We held a workshop to discuss these values and issues with stakeholders as well as potential flow options. Following the workshop, additional scientific studies were conducted to determine which flow releases protect the identified values. One of the studies examined how an increase in flow would affect threatened flora and fauna species. Surveys found a total of 13 threatened flora species occur within the Gorge, with six species located between the current 1.5 cumecs flow level and the 3 cumecs flow level. An increase in flow could mean that habitat areas increase for some species and decrease for others. Please refer to details on our website.

World Heritage Area protection

Hydro Tasmania has significant assets in the Tasmanian Wilderness World Heritage Area (WHA). We continued to work with the Parks and Wildlife Service (PWS), Aurora Energy and Transend Networks during the year to develop an agreement on how we carry out our operations to ensure that our management practices continue to help minimise impacts on the environment. This agreement recognises the well-established assessment and management processes of Hydro Tasmania's ESMS.

Before Basslink was commissioned a specific and extensive monitoring program was put in place on the Gordon River as it was expected that the Gordon Power Station would be operated differently from the past. Negative impacts were expected on erosion, riparian vegetation and aquatic biodiversity. Mitigations were introduced in anticipation – an environmental flow to address river fauna and a ramp-down rule to address sudden changes in level that would cause erosion through seepage. Results show an increase in the numbers of macroinvertebrates in the river indicating that the environmental flow has been beneficial. Additional work is required on the ramp-down rule to reduce the seepage effect. Information on the Gordon River Basslink monitoring program, including detailed environmental annual reports on the Gordon River and a three-year report on trends, is available on our website.

Environmental Incidents

Hydro Tasmania had no major environmental incidents during 2009-2010, meaning that no incidents resulted in fines or regulatory discipline.

However, there were 31 environmental incidents involving breaches of Hydro Tasmania procedures. One met our rating of severity 3 meaning there was a moderate impact. The incident occurred in October 2009 when vegetation clearance around a Hydro Tasmania helicopter landing pad, used to gain access to a remote Basslink monitoring site, exceeded that specified in the project plan for the work. The cleared vegetation caused a visual impact in a sensitive area at Mt Fincham on the Franklin River and the PWS was notified by a rafter. We responded rapidly to ameliorate the site and collaborated closely with PWS to meet its expectations. This resulted in significant process improvements for planning vegetation clearance. We have also incorporated greater consideration of stakeholder requirements and more structured assessments of WHA and National Parks values into our environmental assessment processes.

Vegetation

Hydro Tasmania's vegetation management primarily consists of maintenance around operational assets such as power stations, switch yards, canals and access roads.

We also share the management of invasive vegetation and disease hygiene across our operational footprint in Tasmania with other land management stakeholders such as government agencies, local councils and not-for-profit environmental organisations. Hydro Tasmania is working with these bodies to establish statewide protocols for hygiene practices to manage land and water weeds and diseases. These will provide a consistent management approach for Hydro Tasmania contractors. In June 2010, Hydro Tasmania initiated the development of an awareness program for vegetation contractors about weed and disease protocols. A training program will be implemented in August 2010 and Hydro Tasmania is among several stakeholders who have committed to its rollout.

Our partnership with Greening Australia has improved environmental values in the Derwent catchment and will continue to do so over the next 12 months. Together we will also develop nature conservation plans for areas in the central highlands adjacent to Arthurs and Great lakes.

Environmental expenditure

In 2009-2010, Hydro Tasmania spent $5.6 million on the environment of which $302 000 was on waste removal and rehabilitation and the balance on environmental management and prevention.

Heritage

Hydro Tasmania is custodian of significant cultural heritage sites for the hydropower industry. The two heritage power stations at Lake Margaret on the west coast near Queenstown are prime examples.
In redeveloping the site we considered its heritage value as a high priority.

It was important to the west coast community that we replace the woodstave pipeline to the upper power station.
We were able to do that cost effectively.
It was completed last financial year and now delivers water to the refurbished upper power station which was recommissioned in October 2009. Sections of the original woodstave pipeline have been preserved on site. A walking track from the hilltop to the dam was also restored and visitors can admire the beautiful and rugged west coast terrain along with the new woodstave pipeline from a number of viewing platforms.

During 2009-2010, the lower power station building was also extended to accommodate a new turbine. The extension was designed to match the detailing of the existing building and a new visitor gallery provides a view of the original generating equipment which has been left in its original place.

Hydro Tasmania has also been working with the West Coast Council and community groups to explore options for tourism developments for the upper power station and the village. A feasibility study for private tourism options will be conducted by the Department of Economic Development in 2010-2011.

Carbon status

Emissions intensity provides a measure to compare emissions of electricity generators. Hydro Tasmania's emissions intensity includes all scope 1, 2 and 3 emissions and total generation, shown in table 18. The reduction this year is predominantly due to the closure of our only gas-fired power station in the previous reporting period.

Table 18: Emissions intensity at 30 June

Year	Emissions intensity tCO_2-e/GWh
2006	38.0
2007	68.6
2008	85.3
2009	43.0
2010	3.5

Emissions

In 2009-2010, Hydro Tasmania was responsible for 29 419 tonnes of carbon dioxide equivalent (tCO_2-e) emissions. Slightly less than half of these emissions were indirect scope 2 emissions from grid-purchased electricity. Scope 1 emissions from generation on the Bass Strait islands, vehicle fleet use and sulphur hexafluoride (SF6) release made up 43 per cent. The rest were indirect Scope 3 emissions from other sources such as commercial flights and staff commuting. The breakdown of total emissions into scope 1, 2 and 3 is shown in figure 11 and emissions by source for 2009-2010 are shown in figure 12.

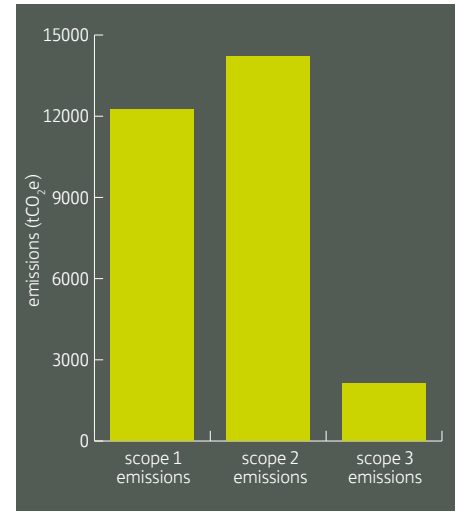


Figure 11: Total emissions by tCO_2-e of scope 1, 2 and 3

The reduction of annual emissions reflects the decreasing use of gas generation – see figure 13.

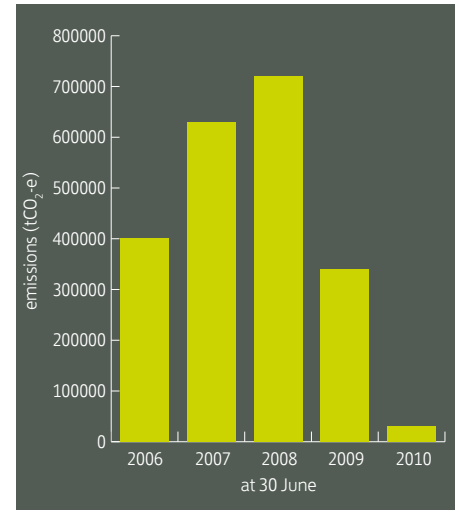


Figure 13: Annual emission by tCO_2-e

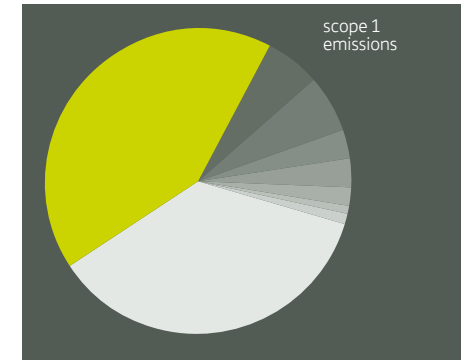


Figure 12: Total emissions by source at 30 June 2010 for scopes 1, 2 and 3

Climate change

Climate change has significant implications for Hydro Tasmania. In the long term, changes expected to water inflows may adversely affect electricity generation.
In the short and medium terms our renewable energy generation may provide opportunities to assist efforts to reduce national carbon emissions.

Climate Futures

Hydro Tasmania is a partner in the three-year *Climate Futures for Tasmania* project being undertaken by ACE-CRC, due to be completed in December 2010. The project models data to 2100 at a local scale for Tasmania.

Using this data, Hydro Tasmania's hydrological models are estimating inflow into our catchments up to 2100. This information will be used to manage risks to long-term storage yields and associated environmental impacts.

Climate change response strategy

In 2007, we established a climate change response strategy with the aim to be Australia's first carbon neutral generator by 2012. The strategy has four elements:

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

This year we reviewed our carbon neutral aim because of various factors that have changed since 2007. The delay in the introduction of an emissions trading scheme has had a negative impact on developing renewable energy and products for climate change mitigation. Energy and emissions reporting requirements, the regulatory environment and public perception of carbon neutrality have changed which may influence whether the aim is appropriate.

As part of our review we sought help to verify our data, assess our reporting processes and assess the scope and boundary of our carbon neutral aim. Hydro Tasmania recognises that the aspiration to achieve carbon neutrality may need to be re-evaluated in the near future.

For now, Hydro Tasmania remains committed to the strategy and to ensuring a credible and genuine climate change response by reducing our carbon footprint, acting on energy efficiency opportunities and meeting offset commitments. We will continue to report our progress and periodically review our commitments. We will also continue to advocate for a favourable climate change legislative framework.

Advocacy

During 2009-2010, Hydro Tasmania played an active role in key public policy developments and advocacy, in particular relating to climate change and renewable energy. This included the design and implementation of enhancements to the Australian Government's 20 per cent Renewable Energy Target (RET) by 2020 and the debate surrounding the need for a design of an emissions trading scheme. We undertook comprehensive analysis of these policies and associated government programs and advocated our views accordingly. This included advocacy through key energy sector industry associations, seeking support for policies which best supported the increased development, deployment and use of renewable energy in Australia. We also participated in the ongoing refinement of the national energy and greenhouse gas reporting requirements, the development of energy efficiency policy and reviews of electricity market, network and investment regulation throughout the year.

Reducing our footprint

In the three areas where we can make a difference to our emissions – the Bass Strait islands, vehicles, buildings and facilities – Hydro Tasmania continues to pursue energy efficiencies and emission reductions.

Bass Strait islands

The Bass Strait islands were the biggest source of emissions for Hydro Tasmania this year, accounting for 36 per cent of emissions. This is in the context that the diesel generators produce 0.2 per cent of Hydro Tasmania's total energy production. This year we continued the five-year program to deploy renewable energy, storage and enabling technologies and biodiesel fuel to replace the high reliance on mineral diesel. King Island is to benefit from an Australian Government grant under the Renewable Energy Demonstration Program that is expected to deliver a significant reduction in the island's greenhouse gas emissions.

Buildings and facilities

Several projects were scoped and implemented in the Hobart office this year, such as installing Ajenti meters to accurately monitor water consumption and installing carbon dioxide sensors in the air-conditioning. We continued to change to more energy-efficient lighting.

Vehicle fleet

This year we engaged staff in discussions on reducing fuel use and encouraging greater ownership and accountability towards vehicle maintenance, safety and fuel consumption. There has been a downward trend in fleet fuel consumption over the past four years, principally from changes to the fleet composition. Hydro Tasmania received the Australasian Fleet Managers Association's Fleet Environment Award 2009 which recognised our achievements in reducing emissions from vehicular fuel use.

Purchasing offsets

Hydro Tasmania confirmed the emissions resulting from staff commercial travel and Entura's operations and undertook an assessment of carbon offsets that meet our stringent offset policy. We aim to purchase offsets that are real, additional, verifiable and permanent and which are not counted towards any greenhouse gas emission reduction caps specified in mandatory renewable energy targets.

Due diligence was completed and 2526 tonnes of offsets were purchased by 30 June 2010 that meet offset commitments for 2007-2009 financial years, outlined in table 19.

Table 19: Offsets purchased 2009-2010

Year ending 30 June	Offset Commitment	Offset Quantity
2008	Commercial business flights	452 tCO_2-e
2009	Commercial business flights	774 tCO_2-e
	Entura operations*	1182 tCO_2-e
2010	Commercial business flights	925 tCO_2-e
	Entura operations**	1713 tCO_2-e

*2009 Entura emissions include: electricity, vehicle fleet, hire cars, shuttle bus, Cambridge staff commuting and aircraft hire.

**2010 Entura emissions include all of the 2009 items as well as waste and paper.

Ecosystems and heritage sustainability self-assessment scores

	2006	2007	2008	2009	2010	Target 2011
Score	3.5	3.4	3.4	3.5	3.8	-
Target	3.5	35	3.8	4.0	3.8	4.0

See table 5 on page 25 for a summary of key issues that influenced this year's score.

Ecosystems and heritage commitments

Performance against 2009-2010 commitments

Commitment 2009-2010	Progress
Improve ESMS and integrate more with safety system.	– Ongoing. Systems integration improved through the alignment of assessment and planning processes such as Job Hazard Analysis, training and strategic environmental assessment and planning and review through the Executive Leadership Team.
Undertake the Basslink monitoring three-year review process for Gordon River.	✓ Completed. Published on our website.
Finalise protocol for asset maintenance in WHA, adding additional requirements for 2009-10.	– Draft of protocol complete. Awaiting legislative change to World Heritage Area Management Plan to enable agreement to be signed.
Revise the aquatic environment monitoring program to include an assessment of environmental health and to improve reporting.	– A reporting process has been initiated to assess trends in environmental health, focusing on water quality.
Initiate the Lagoon of Islands Rehabilitation Plan.	– Rehabilitation of Lagoon of Islands is part of the Ouse/Shannon-Clyde River Project that is waiting for approval and funding.
Review the carbon neutral commitment, boundaries, baseline, scope and targets.	✓ Complete – a continual review process is to be embedded as normal business operation.
Pursue energy efficiency opportunities.	✓ Opportunities were scoped and implemented (refer to Reducing our footprint).
Improve internal processes for NGERS compliance.	✓ Complete – an external review assured our preparedness for NGERS.

From 2008-2009	
Start purchasing offsets for Hydro Tasmania Consulting (Entura) operations.	✓ Due diligence was completed and offsets were purchased by 30 June 2010 that meet offset commitments for 2008-2009 financial year, 1182 tCO_2-e were purchased.
Reduce energy use by 22% from 2005-2006 base.	– 10% reduction in energy use was achieved. The target was not met due to planned energy reduction projects not going ahead on the Bass Strait islands and in buildings and facilities.

Commitments for 2010-2011

- Evaluate the development of a new and more efficient ramp-down rule for the Gordon River.
- Initiate the Mersey-Forth water management review.
- Establish a systematic, rotational environmental monitoring and assessment program for Hydro Tasmania's priority lakes.
- Define and develop measures to track improvements in energy efficiency.

Financial report

Financial report

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2010

	NOTE	CONSOLIDATED 2010 $'000	CONSOLIDATED 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
Revenue	2(a)	726,933	625,737	619,877	535,451
Operating expenses	2(b)	567,666	498,348	451,212	397,357
Finance costs	2(c)	80,337	86,684	80,337	86,674
Share of loss of joint venture entities	28	6,044	2,092	-	-
Total expenses		654,047	587,124	531,549	484,031
Profit (loss) before fair value movements and share of profit of joint venture from asset sale		72,886	38,613	88,328	51,420
Movements in fair value	2(d)	259,194	372,563	259,772	380,867
Share of profit of joint venture from asset sale		-	6,715	-	-
Profit before income tax equivalent expense		332,080	417,891	348,100	432,287
Income tax equivalent expense	4(a)	95,646	126,685	101,578	131,422
Profit after tax for the year attributable to owners of the parent		236,434	291,206	246,522	300,865
Other comprehensive income					
Foreign currency translation gain/(loss)		95	(87)	-	-
Fair value gain on cash flow hedges taken to equity		1,660	(22,327)	1,659	(22,327)
Actuarial (losses) on RBF provision		(24,302)	(4,446)	(24,302)	(4,446)
Income tax relating to components of other comprehensive income		6,793	8,033	6,793	8,033
Other comprehensive income		(15,754)	(18,827)	(15,850)	(18,740)
Total comprehensive income attributable to the owners of the parent		220,680	272,379	230,672	282,125

The Statement of Comprehensive Income is to be read in conjunction with the notes to and forming part of the Financial Report included on pages 78 to 125.

BALANCE SHEET AS AT 30 JUNE 2010

	NOTE	CONSOLIDATED 2010 $'000	CONSOLIDATED 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
Current assets					
Cash and cash equivalents		2,791	4,315	1,533	595
Receivables	6	82,657	154,356	68,583	143,634
Investments	7(a)	247	26,247	-	25,690
Inventories	8	57,168	51,869	55,684	51,864
Tax refund receivable	4(c)	-	16,948	-	16,948
Other financial assets	10(a)	119,159	165,951	120,754	182,825
Total current assets		262,022	419,686	246,554	421,556
Non-current assets					
Investments	7(b)	121,790	122,826	190,278	187,928
Property, plant and equipment	9	4,161,631	4,146,346	4,158,532	4,143,481
Other financial assets	10(b)	537,368	476,245	536,940	475,881
Goodwill	11	47,796	47,796	-	-
Total non-current assets		4,868,585	4,793,213	4,885,750	4,807,290
TOTAL ASSETS		5,130,607	5,212,899	5,132,304	5,228,846
Current liabilities					
Payables	12	69,935	170,785	61,311	162,467
Interest-bearing liabilities	13(a)	206,835	146,241	206,835	146,241
Provisions	14(a)	36,017	71,175	27,470	70,094
Provision for income tax	4(c)	11,392	-	11,392	-
Other financial liabilities	15(a)	150,142	152,916	150,012	154,657
Total current liabilities		474,321	541,117	457,020	533,459
Non-current liabilities					
Interest-bearing liabilities	13(a)	666,029	794,994	666,029	794,994
Deferred tax liabilities	4(d)	737,707	677,681	741,317	691,296
Provisions	14(b)	327,444	295,195	315,727	289,837
Other financial liabilities	15(b)	1,043,176	1,238,430	1,043,176	1,236,665
Total non-current liabilities		2,774,356	3,006,300	2,766,249	3,012,792
TOTAL LIABILITIES		3,248,677	3,547,417	3,223,269	3,546,251
NET ASSETS		1,881,930	1,665,482	1,909,035	1,682,595
EQUITY					
Contributed equity		271,100	270,000	271,100	270,000
Reserves		(7,965)	(9,720)	(7,981)	(9,640)
Retained earnings		1,618,795	1,405,202	1,645,916	1,422,235
TOTAL EQUITY		1,881,930	1,665,482	1,909,035	1,682,595

The Balance Sheet is to be read in conjunction with the notes to and forming part of the Financial Report included on pages 78 to 125.

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2010

	NOTE	CONSOLIDATED 2010 $'000	CONSOLIDATED 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Inflows:					
Receipts from customers		788,460	491,430	684,777	392,966
Operating grants and subsidies received		7,450	8,530	7,450	8,530
Interest received		652	4,252	563	4,224
Outflows:					
Payments to suppliers and employees		(555,463)	(394,779)	(449,490)	(292,518)
Interest paid		(58,103)	(61,113)	(57,885)	(61,780)
Government guarantee fee		(4,954)	(4,477)	(4,954)	(4,477)
NET CASH PROVIDED BY OPERATING ACTIVITIES	5(b)	178,042	43,843	180,461	46,945
CASH FLOWS FROM INVESTING ACTIVITIES					
Inflows:					
Proceeds from sale of property, plant and equipment		859	15,659	859	15,659
Proceeds from loan to associate		800	1,026	800	1,026
Proceeds from financial derivatives		476	10,838	476	10,838
Loan to subsidiaries		-	-	5,155	-
Outflows:					
Investment in joint venture		(5,000)	(10,000)	(5,000)	(10,000)
Loans to subsidiaries		-	-	(500)	(5,000)
Business acquisition		(34,500)	(17,763)	(39,500)	(17,763)
Payments for property, plant and equipment		(94,748)	(78,032)	(94,050)	(78,454)
NET CASH USED IN INVESTING ACTIVITIES		(132,113)	(78,272)	(131,760)	(83,694)
CASH FLOWS FROM FINANCING ACTIVITIES					
Inflows:					
Proceeds from Tascorp loans		101,300	-	101,300	-
Equity contribution received		1,100	-	1,100	-
Cash balances aquired in business acquisition		-	7,037	-	-
Outflows:					
Repayments of Tascorp loans		(170,000)	(30,000)	(170,000)	(30,000)
Repayment of shareholder loans of acquired business		-	(5,165)	-	-
Repayment of finance lease		(521)	(183)	(521)	(183)
Dividend paid		(5,332)	-	(5,332)	-
NET CASH USED IN FINANCING ACTIVITIES		(73,453)	(28,311)	(73,453)	(30,183)
NET DECREASE IN CASH		(27,524)	(62,740)	(24,752)	(66,932)
CASH AT BEGINNING OF THE YEAR		30,562	93,302	26,285	93,217
CASH AT END OF THE YEAR	5(a)	3,038	30,562	1,533	26,285

The Cash Flow Statement is to be read in conjunction with the notes to and forming part of the Financial Report included on pages 78 to 125.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2010

	NOTE	CONSOLIDATED 2010 $'000	CONSOLIDATED 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
CONTRIBUTED EQUITY					
Balance at the beginning of the year		270,000	270,000	270,000	270,000
Equity contributions from the State of Tasmania^		1,100	-	1,100	-
Balance at the end of the year		271,100	270,000	271,100	270,000
RESERVES					
Derivative revaluation reserve	1.2(j), 1.2(r)				
Balance at the beginning of the year		(9,640)	12,687	(9,640)	12,687
Forward exchange contracts		(26)	(89)	(27)	(89)
Interest rate swaps		1,686	(22,238)	1,686	(22,238)
Balance at the end of the year		(7,980)	(9,640)	(7,981)	(9,640)
Foreign currency translation reserve					
Balance at the beginning of the year		(80)	7	-	-
Foreign currency translation		95	(87)	-	-
Balance at the end of the year		15	(80)	-	-
RETAINED EARNINGS					
Balance at the beginning of the year		1,405,202	1,113,746	1,422,235	1,117,789
Net profit for the year		236,434	291,206	246,522	300,865
Dividend paid		(5,332)	-	(5,332)	-
Deferred income tax benefit recognised directly in equity	4(b)	6,793	8,033	6,793	8,033
Actuarial loss on RBF defined benefit plan	16	(24,302)	(4,446)	(24,302)	(4,446)
Pre-acquisition retained losses of business acquired		-	(3,337)	-	-
Other		-	-	-	(6)
Balance at the end of the year		1,618,795	1,405,202	1,645,916	1,422,235
TOTAL EQUITY		1,881,930	1,665,482	1,909,035	1,682,595

^The $1.1 million equity contribution was received in relation to water infrastructure funding.

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 78 to 125.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

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 and 28 operating hydro power stations, supplies electricity to Bass Strait islands via diesel and wind power generation and operates a consulting business. The Corporation owns a retail electricity company, Momentum Energy Pty Ltd, trading in the Victorian, NSW, ACT and South Australian regions.

At 30 June 2010 the Corporation had 914 full-time equivalent employees (FTEs) including 7 directors (2009: 873 FTEs).

The Corporation holds Australian Financial Services Licence number 279796 and Momentum Energy Pty Ltd 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 2010 was adopted by the directors on 12 August 2010.

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

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

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

The financial report is prepared in accordance with:

- *Hydro-Electric Corporation Act 1995*;
- *Government Business Enterprises Act 1995* (GBE Act) and related Treasurer's Instructions;
- Australian Accounting Standards and interpretations;
- 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).

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 2010:

AASB Amendment	Affected Standard	Nature of Change to Accounting Policy	Reporting periods commencing on or after	Application date for the Corporation
AASB 9	Financial Instruments	New standard partially replacing AASB 139 Financial Instruments Recognition and Measurement – accounting policy under review	1 January 2013	30 June 2014
AASB 124	Related Party Disclosures	Simplification of the definition of a related party – accounting policy under review	1 January 2011	30 June 2012
AASB 2009-5	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project	Changes for presentation, recognition or measurement purposes – minimal effect of accounting policies expected	1 January 2010	30 June 2011
AASB 2009-14	Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement	Amendments to remove unintended consequence arising from treatment of prepayments where there is a minimum funding requirement – no change to accounting policy	1 January 2011	30 June 2012
AASB 1053	Application of Tiers of Australian Accounting Standards	New standard introducing Tier 1 and Tier 2 disclosures – minimal effect of accounting policies expected	1 July 2009	1 July 2013

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

(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.

Fair value of generation assets

Note 1.2(m) describes the judgement process adopted to estimate the recoverable amount of property, plant and equipment when an indication of impairment exists or when a previous indicator of impairment has reversed. Note 9 describes the judgement process adopted in assessing fair value of generation assets.

Financial liabilities and financial assets

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

(e) Significant accounting estimates and assumptions

The Retirement Benefits Fund provision detailed in note 16 has been assessed by the State Actuary and various actuarial assumptions have been applied to arrive at the carrying value reported.

(f) Receivables

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

All trade receivables are non-interest bearing except for 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

Inventory of environmental energy products (EEPs) is carried at fair value. Fair value represents prices under forward sales contracts and, to the extent that inventory is not covered by forward contracts, spot prices at balance date. Inventory of generated renewable energy certificates is recognised once the year is past and the certification process has been completed. This is a change in accounting treatment from 1 July 2009. Inventory at 30 June 2009 is stated at the lower of cost and net realisable value and includes only registered renewable energy certificates.

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

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

(h) Cash and cash equivalents

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

(i) Property, plant and equipment

The Corporation carries its generation assets at fair value. The basis for the fair value calculation is described in note 9.

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:

	2010	2009
Generation	3 – 150 years	3 – 150 years
Auxiliary	3 – 50 years	3 – 50 years
Motor Vehicles	4 – 33 years	4 – 33 years
Minor Assets	1 – 10 years	1 – 10 years
Buildings	5 – 50 years	5 – 50 years

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

(j) Other financial assets

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

- **Held-to-maturity investments**

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

- **Loans and receivables**

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

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

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

(k) Goodwill

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

(l) Research and Development

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

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

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

(m) Asset impairment

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

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

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

(n) Payables

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

(o) Provisions

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

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

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

(p) Employee benefits

- **Wages, salaries and annual leave**

Liabilities for wages, salaries and annual leave are recognised as the present obligations resulting from employees' services provided to the reporting date. These liabilities include related on-costs and are expected to be settled within 12 months. Accordingly they are undiscounted and based on wage and salary rates that the Corporation expects to apply at the time of settlement.
For 2010, the on-costs attributable to the annual leave provision were $0.8 million (2009: $0.9 million). Sick leave is non-accumulating and is recognised as an expense when the leave is taken.

- **Long service leave**

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

The provision is calculated using expected future increases in wage and salary rates including related on-costs and the expected rate of utilisation based on historical patterns and is discounted using Commonwealth Bond rates at reporting date. The provision is segregated into current and non-current portions based on expected utilisation of entitlements in the next 12 months.
For 2010, the on-costs attributable to the long service leave provision were $1.2 million (2009: $1.0 million).

- **Defined benefit plan**

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

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

- **Defined contribution plans**

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

(q) Taxation

- **Income tax equivalent**

Under the *Government Business Enterprises Act 1995* the Corporation is required to pay an income tax equivalent to the State of Tasmania as if it were a company under Commonwealth income tax laws. As a result the Corporation applies tax effect accounting principles prescribed in AASB 112 *Income Taxes*.

Current tax assets and liabilities 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

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

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

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

- **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 2010 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.

(r) Other financial liabilities

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

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

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

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

Such hedges are assessed on an ongoing basis to determine that they have been highly effective throughout the financial reporting periods for which they were designated.

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

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

(s) Leases

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

- **Corporation as a lessee**

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

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

- **Corporation as a lessor**

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

(t) Borrowing expenses

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

(u) Interest-bearing liabilities

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

(v) Foreign currency

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

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

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

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

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

(w) Joint ventures

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

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

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

(x) 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.

(y) Contributed Equity

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

(z) Government grants

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

(aa) Revenue recognition

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

- **Electricity sales**

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

- **Environmental energy products**

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

- **Consulting services**

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

- **Interest income**

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.

(ab) Rounding

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

(ac) Comparative figures

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

2. REVENUE AND EXPENSES

	NOTE	CONSOLIDATED 2010 $'000	CONSOLIDATED 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
(a) Revenue					
Sale of goods and services		717,246	609,241	610,286	518,985
Other		9,687	16,496	9,591	16,466
		726,933	625,737	619,877	535,451
(b) Operating expenses					
Direct operating expenses		319,018	262,518	221,019	182,745
Labour		100,763	88,822	95,453	84,388
Depreciation	9	77,681	73,766	77,382	73,468
Other operating expenses		70,204	73,242	57,358	56,756
		567,666	498,348	451,212	397,357
(c) Finance costs					
Loan interest		54,242	60,503	54,242	60,493
Government guarantee fee		4,954	4,477	4,954	4,477
RBF interest	16	20,718	21,280	20,718	21,280
Other finance costs		423	424	423	424
		80,337	86,684	80,337	86,674
(d) Movements in fair value gains/(losses)	3				
Energy price derivatives		232,207	173,790	227,530	181,567
Treasury derivatives		21	(2)	21	(2)
Basslink financial asset and liabilities		15,599	12,377	15,599	12,377
Impairment reversal on generation assets	9	-	186,925	-	186,925
Provision for demolition	14	(12,905)	(527)	-	-
Gain on inventory revaluation		16,622	-	16,622	-
Gain on provision for business acquisition		7,650	-	-	-
		259,194	372,563	259,772	380,867

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

3. MOVEMENTS IN FAIR VALUE GAINS/LOSSES

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

Energy price derivatives

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

Victorian electricity contracts are valued using published forward energy prices. The Corporation has developed a model to calculate the fair value of the Tasmanian electricity contracts. Details of the methodology adopted are provided in note 17.

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 2010 has resulted in a gain being recorded in the Statement of Comprehensive Income (note 2(d)). Note 17(b) details the methodology used to calculate the fair value of the Basslink financial asset and liabilities.

Impairment reversal on generation assets

Conditions causing previous impairment losses improved in 2009 resulting in reversal of the remaining available impairment provision. Note 9 details the impairment reversal gain recognised in the Statement of Comprehensive Income.

Provision for demolition

The Corporation has an obligation to demolish the Bell Bay plant and, within prescribed limits, remediate the site. Accounting standards require an estimate of this cost to be recognised when the obligation arises and the cost can be reliably determined. A provision had been recognised in the 2009 financial report. Since that time the prospects for sale of the plant have diminished, some remediation work is planned to be conducted at an earlier date and the overall expected cost of the work has increased. The provision has been increased resulting in an expense in the current year.

Gain on revaluation of inventory

As a result of the increased level of trading in environmental energy products (EEPs) inventory of EEPs is now carried at fair value. The impact of this change in carrying value has been disclosed as a gain through the Statement of Comprehensive Income.

Gain on provision for acquisition

A provision was raised in the 2009 financial report for the estimated cost to purchase the remaining 49% of the shares of Momentum Energy Pty Ltd. The purchase was intended at that time to occur by August 2011. The purchase of the remaining shares took place in September 2009 for a consideration less than provided. This has been disclosed as a gain through the Statement of Comprehensive Income.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

4. INCOME TAX EQUIVALENT

	CONSOLIDATED		PARENT	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
(a) Income tax expense reported in Statement of Comprehensive Income				
Current income tax liability	28,827	13,195	34,878	16,533
Adjustments in respect of income tax of prior years	-	-	-	(456)
Income tax expense in relation to foreign operations	-	5	-	5
Deferred income tax expense arising from origination and reversal of temporary differences	66,819	113,485	66,700	115,340
Income tax expense recognised in the Statement of Comprehensive Income	95,646	126,685	101,578	131,422
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	332,080	417,891	348,100	432,287
Income tax expense calculated at 30%	99,624	125,367	104,430	129,686
Adjustment in respect of income tax of previous years	(1,628)	-	(488)	(456)
Income tax expense in relation to foreign operations	-	5	-	5
Expenditure not allowable for income tax purposes	40	221	26	196
Deferred tax balances associated with investment in subsidiaries and joint ventures	-	1,378	-	2,277
Research and development concession	(225)	(150)	(225)	(150)
General business tax break	(2,165)	(136)	(2,165)	(136)
Income tax expense recognised in the Statement of Comprehensive Income	95,646	126,685	101,578	131,422
(b) Income tax benefit/(expense) recognised directly in equity				
Revaluation of effective hedges	(498)	6,699	(498)	6,699
Actuarial assessment of RBF provision	7,291	1,334	7,291	1,334
Income tax benefit/(expense) recognised in equity	6,793	8,033	6,793	8,033
(c) Current tax assets and liabilities				
Current tax assets:				
Income tax receivable	-	16,948	-	16,948
	-	16,948	-	16,948
Current tax liabilities:				
Income tax payable	11,392	-	11,392	-
	11,392	-	11,392	-
(d) Deferred tax balances				
Deferred tax assets comprise:				
Deductible temporary differences	414,126	480,638	407,766	470,511
Deferred tax liabilities comprise:				
Assessable temporary differences	1,151,833	1,158,319	1,149,083	1,161,807
Net deferred tax liabilities	737,707	677,681	741,317	691,296

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

4. INCOME TAX EQUIVALENT (continued)

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

	2010 CONSOLIDATED				
	Opening balance $'000	Charged to Income $'000	Charged to Equity $'000	Adjustments $'000	Closing balance $'000
Deferred tax liabilities:					
Property, plant and equipment	1,011,414	(3,234)	-	-	1,008,180
Financial assets	133,827	(8,793)	498	-	125,532
Other	13,078	5,043	-	-	18,121
	1,158,319	(6,984)	498	-	1,151,833
Deferred tax assets:					
Provisions for employee entitlements	95,611	355	7,291	-	103,257
Basslink and other financial liabilities	319,588	(2,716)	-	-	316,872
Electricity derivatives	52,860	(69,536)	-	-	(16,676)
Provision for demolition	1,607	4,416	-	-	6,023
Tax losses	9,485	(6,322)	-	-	3,163
Other	1,487	-	-	-	1,487
	480,638	(73,803)	7,291	-	414,126
Net deferred tax liabilities	677,681	66,819	(6,793)	-	737,707

	2010 PARENT				
	Opening balance $'000	Charged to Income $'000	Charged to Equity $'000	Adjustments $'000	Closing balance $'000
Deferred tax liabilities:					
Property, plant and equipment	1,016,591	(5,753)	-	(2,697)	1,008,141
Financial assets	133,827	(8,793)	498	-	125,532
Other	11,389	4,465	-	(444)	15,410
	1,161,807	(10,081)	498	(3,141)	1,149,083
Deferred tax assets:					
Provisions for employee entitlements	95,537	(3,499)	7,291	(1)	99,328
Basslink and other financial liabilities	319,587	(2,716)	-	-	316,871
Electricity derivatives	51,457	(68,133)	-	-	(16,676)
Provision for demolition	-	4,416	-	-	4,416
Tax losses	2,739	(6,322)	-	6,746	3,163
Other	1,191	(527)	-	-	664
	470,511	(76,781)	7,291	6,745	407,766
Net deferred tax liabilities	691,296	66,700	(6,793)	(9,886)	741,317

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

4. INCOME TAX EQUIVALENT (continued)

	2009 CONSOLIDATED				
	Opening balance $'000	Charged to Income $'000	Charged to Equity $'000	Adjustments $'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 liabilities	559,033	125,303	(8,033)	1,378	677,681

	2009 PARENT				
	Opening balance $'000	Charged to Income $'000	Charged to Equity $'000	Adjustments $'000	Closing balance $'000
Deferred tax liabilities:					
Property, plant and equipment	1,000,272	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 liabilities	569,614	129,715	(8,033)	-	691,296

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 2010, there is no recognised or unrecognised deferred income tax liability (2009: 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

5. NOTE TO THE CASH FLOW STATEMENT

	CONSOLIDATED		PARENT	
	2010 $'000	2009 $'000	2010 $'000	2009 $'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	2,791	4,315	1,533	595
Money market investments	247	26,247	-	25,690
	3,038	30,562	1,533	26,285
(b) Reconciliation of net cash provided by operating activities to net profit for the year				
Profit after income tax equivalent expense	236,434	291,206	246,522	300,865
Adjusted for non-cash items of income and expense:				
Depreciation of property, plant and equipment	77,681	73,766	77,382	73,468
Impairment reversal on generation assets	-	(186,925)	-	(186,925)
Loss on derecognition of property, plant and equipment	1,708	1,283	1,668	1,283
Gain on business acquisition	(7,650)	-	-	-
Change in fair value of inventories	(16,622)	-	(16,622)	-
Change in fair value of energy derivatives	(232,207)	(173,790)	(227,530)	(181,567)
Change in fair value of treasury derivatives	(21)	2	(21)	2
Change in fair value of Basslink financial instruments	(15,599)	(12,377)	(15,599)	(12,377)
Provision for demolition	12,905	527	-	-
Equity accounted share of joint venture (profit)/ loss	6,044	(3,273)	-	-
Income tax expense	95,646	126,685	101,578	131,422
Cash from operating profit before changes in working capital	158,319	117,104	167,378	126,171
(Increase)/decrease in receivables	71,699	(94,359)	75,051	(90,771)
(Increase)/decrease in inventories	11,323	(33,451)	12,801	(33,448)
(Decrease)/increase in other financial assets and liabilities	34,236	(51,280)	26,662	(55,514)
(Decrease)/increase in payables	(101,153)	106,752	(99,876)	105,215
(Decrease)/increase in provisions	3,618	(4,439)	(1,555)	(4,708)
Working capital acquired through business acquisition	-	3,516	-	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	178,042	43,843	180,461	46,945

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

6. RECEIVABLES

	CONSOLIDATED		PARENT	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Trade receivables	83,537	155,284	68,583	143,634
Provision for impairment	880	928	-	-
	82,657	154,356	68,583	143,634
Ageing of past due trade receivables:				
60-90 days	489	762	193	718
Over 90 days	1,883	967	517	457
	2,372	1,729	710	1,175

The amount past due trade receivables is predominantly attributable to consulting services clients and retail customers. A provision for impairment has been recorded following assessment of the credit quality of the clients or customers with overdue accounts. This provision represents those accounts considered to be wholly or partially non-recoverable. The Corporation expensed $1.0m of bad debts during the year (2009: $0.9m). The Corporation does not hold any security over the balances past due.

7. INVESTMENTS

	NOTE	CONSOLIDATED		PARENT	
		2010 $'000	2009 $'000	2010 $'000	2009 $'000
(a) Current investments					
Money market investments		247	26,247	-	25,690
(b) Non-current investments					
Investment in joint ventures	28	121,774	122,810	132,998	127,998
Investment in associates		16	16	16	16
Investment in subsidiaries	25	-	-	57,264	59,914
		121,790	122,826	190,278	187,928

8. INVENTORIES

	CONSOLIDATED		PARENT	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Maintenance stores	2,689	1,095	1,205	1,085
Environmental energy products	54,479	50,774	54,479	50,779
	57,168	51,869	55,684	51,864

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

9. PROPERTY, PLANT AND EQUIPMENT

Asset valuation

The generation class of assets is carried at fair value. The fair value calculation is based on an internally generated Tasmanian energy price curve derived from the published three-year Victorian energy price curve. These prices are determined by market assessment of the many variables that may influence future prices including impending regulation and legislation. Projected revenue over the next three years also reflects the agreement signed subsequent to year end for pricing of non-contestable load with Aurora Energy Pty Ltd. 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). The long term price assumptions include a conservative uplift in the energy price through introduction of a carbon pollution reduction scheme. The valuation also includes projected revenue under the existing large-scale mandatory renewable energy target until 2030.

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 purchasing energy from the market. Opportunities for export of generation over Basslink will also be taken into account. The volume of energy generated from hydro assets is principally determined by actual and forecast water storage positions. These are in turn affected by the expected annual inflows to water storages from rainfall over catchments. Based on experience over the previous ten years, the Corporation reduced the forecast annual inflows from 9000 GWh to 8700 GWh during 2009 which remains unchanged in 2010.

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.

As disclosed in note 17, the financial assets and liabilities representing the Basslink and energy price derivatives are also carried at fair value. In both cases forecast energy prices are a key input to determination of fair value. The sensitivity of the fair value of these financial assets and liabilities to changes in forecast energy prices is disclosed in note 17. Movements in fair value of generation assets will offset movement in the fair value of financial assets and liabilities for the same forecast price change. Fair value of generation assets is estimated to increase by $470 million for a 10% increase in forecast prices and decrease by a similar amount for a 10% reduction in forecast prices. In both scenarios prices have been uniformly changed across all years of the fair value calculation.

AASB 116 *Property, Plant and Equipment* requires that, when an asset class is carried at fair value, disclosure must be made of the carrying amount that would be recognised had it been carried under the cost method. If the generation assets had remained under the cost method their carrying amount would be unchanged (2009: unchanged).

Impairment of assets

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

An asset impairment expense was previously recorded based on lower forecast electricity pool prices. The assessment of the fair value of generation assets in 2009 based on higher forecast prices resulted in the reversal of $186.9 million of the previously recognised impairment. The previous impairment was fully reversed.

An assessment of impairment triggers in 2010 has not indicated any impairment of the generation class of assets.

Fair value has been assessed in 2010 and remains unchanged.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

9. PROPERTY, PLANT AND EQUIPMENT (continued)

	2010 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	4,019,568	24,877	9,628	26,779	72,530	82,158	4,235,540
Additions	8	85	2,784	16	2,313	90,327	95,533
Disposals	(270)	-	(2,036)	(553)	(1,004)	(1,478)	(5,341)
Transfers	96,029	-	-	305	3,736	(100,070)	-
Balance at the end of the year	4,115,335	24,962	10,376	26,547	77,575	70,937	4,325,732
Accumulated Depreciation							
Balance at the beginning of the year	7,560	17,009	4,237	6,110	54,278	-	89,194
Disposals	(60)	-	(1,383)	(507)	(824)	-	(2,774)
Depreciation expense	67,161	431	1,678	1,470	6,941	-	77,681
Balance at the end of the year	74,661	17,440	4,532	7,073	60,395	-	164,101
Net book value at the end of the year	4,040,674	7,522	5,844	19,474	17,180	70,937	4,161,631

	2010 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	4,010,856	24,869	9,511	26,466	70,915	81,230	4,223,847
Additions	8	85	2,725	12	1,682	90,324	94,836
Disposals	(270)	-	(2,002)	(553)	(661)	(1,478)	(4,964)
Transfers	96,029	-	-	305	3,736	(100,070)	-
Balance at the end of the year	4,106,623	24,954	10,234	26,230	75,672	70,006	4,313,719
Accumulated Depreciation							
Balance at the beginning of the year	-	17,002	4,149	5,815	53,400	-	80,366
Disposals	(60)	-	(1,371)	(507)	(623)	-	(2,561)
Depreciation expense	67,139	431	1,668	1,461	6,683	-	77,382
Balance at the end of the year	67,079	17,433	4,446	6,769	59,460	-	155,187
Net book value at the end of the year	4,039,544	7,521	5,788	19,461	16,212	70,006	4,158,532

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

9. 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)
Transfers	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)	-
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)
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

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

10. OTHER FINANCIAL ASSETS

	NOTE	CONSOLIDATED 2010 $'000	CONSOLIDATED 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
(a) Current other financial assets					
Prepayments		1,893	3,579	1,885	3,546
Loans to subsidiaries (iv)		-	-	5,690	5,000
Tax equivalent loans (from)/to subsidiaries (i)		-	-	(4,030)	11,906
Loans to joint ventures (ii)		170	973	170	973
Other		8	8	9	9
Energy price derivatives	15	74,275	104,522	74,217	104,522
Basslink financial asset (iii)	15	42,813	56,869	42,813	56,869
		119,159	165,951	120,754	182,825
Movement in provision for impaired financial assets (ii)					
Balance at the beginning of the year		36	1,536	36	1,536
Amount forgiven during the year		-	(1,500)	-	(1,500)
Balance at the end of the year		36	36	36	36
(b) Non-current other financial assets					
Basslink financial asset (iii)	15	383,305	398,581	383,305	398,581
Basslink security deposit (v)		50,000	50,000	50,000	50,000
Energy price derivatives	15	103,635	27,300	103,635	27,300
Prepayments		428	364	-	-
		537,368	476,245	536,940	475,881
Facility limit		-	-	20,000	20,000
Less: used/committed		-	-	5,500	5,000
Balance		-	-	14,500	15,000

(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 partially forgiven in addition to a partial repayment during 2009 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 (note 17).

(iv) Momentum facility

(v) Basslink security deposit represents the contribution made to the cable owner upon commissioning. This wil be recovered via lower facility fee payments over the final 3 years of the agreement and is carried at the present value of the reduced cash flows at the effective interest rate inherent in the Basslink agreement.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

11. GOODWILL

	CONSOLIDATED		PARENT	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Balance at the beginning of the year	47,796	-	-	-
Recognised from business combinations occurring during the year	-	47,796	-	-
Balance at the end of the year	47,796	47,796	-	-

Goodwill has been assessed for impairment with no indicators present for this year.

12. PAYABLES

	CONSOLIDATED		PARENT	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Trade creditors	32,529	132,249	29,568	131,307
Accrued expenses	23,413	21,745	17,750	14,369
Accrued interest payable	13,993	16,791	13,993	16,791
	69,935	170,785	61,311	162,467

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

13. INTEREST-BEARING LIABILITIES

	CONSOLIDATED		PARENT	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
(a) Interest-bearing liabilities				
Current				
Loans from Tascorp	206,300	145,769	206,300	145,769
Finance lease liability	535	472	535	472
	206,835	146,241	206,835	146,241
Non-current				
Loans from Tascorp	660,000	789,231	660,000	789,231
Finance lease liability	6,029	5,763	6,029	5,763
	666,029	794,994	666,029	794,994
(b) Loan facilities				
Master loan facility				
Facility limit	1,185,000	1,185,000	1,185,000	1,185,000
Less: used/committed	866,300	935,000	866,300	935,000
Balance	318,700	250,000	318,700	250,000
Revolving credit facility				
Facility limit	-	50,000	-	50,000
Less: used/committed	-	-	-	-
Balance	-	50,000	-	50,000
Standby revolving credit facility				
Facility limit	30,000	50,000	30,000	50,000
Less: used/committed	-	-	-	-
Balance	30,000	50,000	30,000	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	7,515	7,500	7,500
Less: used/committed	5,038	5,230	5,038	5,230
Balance	2,477	2,285	2,462	2,270

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

13. INTEREST-BEARING LIABILITIES (continued)

	CONSOLIDATED & PARENT			
	2010 $'000 Less than one year	2010 $'000 Between one and five years	2010 $'000 Later than five years	2010 $'000 Total
(c) Finance lease liabilities				
Future minimum lease payments	535	2,643	6,993	10,171
Interest	-	456	3,151	3,607
Present value of future minimum lease payments	535	2,187	3,842	6,564

	CONSOLIDATED & PARENT			
	2009 $'000 Less than one year	2009 $'000 Between one and five years	2009 $'000 Later than five years	2009 $'000 Total
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

(d) Fair value disclosures

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

14. PROVISIONS

		CONSOLIDATED		PARENT	
	NOTE	2010 $'000	2009 $'000	2010 $'000	2009 $'000
(a) Current provisions					
Employee entitlements		10,148	10,572	9,740	10,282
Business acquisition provision		-	42,150	-	42,150
RBF provision	16	17,730	17,662	17,730	17,662
Regulatory environmental schemes liability		1,773	791	-	-
Demolition provision		6,366	-	-	-
		36,017	71,175	27,470	70,094
(b) Non-current provisions					
Employee entitlements		10,137	9,851	10,137	9,851
RBF provision	16	305,590	279,986	305,590	279,986
Demolition provision		11,717	5,358	-	-
		327,444	295,195	315,727	289,837

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

15. OTHER FINANCIAL LIABILITIES

	CONSOLIDATED		PARENT	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
(a) Current other financial liabilities				
Income received in advance	3,702	8,610	3,630	8,601
Basslink Services Agreement	111,626	87,614	111,626	87,614
Basslink Facility Fee Swap	(8,880)	11,119	(8,880)	11,119
Interest rate swaps	7,743	9,424	7,743	9,424
Energy price derivatives	35,951	36,149	35,893	33,237
Loans from subsidiaries (i)	-	-	-	4,662
	150,142	152,916	150,012	154,657
(b) Non-current other financial liabilities				
Basslink Services Agreement	729,283	782,649	729,283	782,649
Basslink Facility Fee Swap	224,206	183,908	224,206	183,908
Energy price derivatives	89,687	271,873	89,687	270,108
	1,043,176	1,238,430	1,043,176	1,236,665

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

15. OTHER FINANCIAL LIABILITIES (continued)

	NOTE	CONSOLIDATED 2010 $'000	CONSOLIDATED 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
Energy price derivatives movement reconciliation:					
Balance at the beginning of the year		176,200	444,037	171,523	444,037
Amount included in electricity revenue due to settlement during the year		(172,643)	(171,255)	(172,643)	(152,218)
Initial recognition of Tasmanian energy contracts		-	(101,784)	-	(101,784)
Initial recognition of Momentum energy contracts		-	(3,101)	-	-
Net cash receipts/(payments) on futures margin account		476	10,838	476	10,838
Fair value loss/(gain) on continuing and new contracts as at 30 June		(56,305)	(2,535)	(51,628)	(29,350)
Balance at the end of the year		(52,272)	176,200	(52,272)	171,523
Represented by;					
Current energy price derivative liability		35,951	36,149	35,893	33,237
Non-current energy price derivative liability		89,687	271,873	89,687	270,108
		125,638	308,022	125,580	303,345
Current energy price derivative asset	10	74,275	104,522	74,217	104,522
Non-current energy price derivative asset	10	103,635	27,300	103,635	27,300
		177,910	131,822	177,852	131,822
Net energy price derivatives liabilities/(assets)		(52,272)	176,200	(52,272)	171,523
Net Basslink financial liability reconciliation:					
Balance at the beginning of the year		609,840	654,692	609,840	654,692
Current year revenue and operating expenses realised during the year and included in the opening valuation		(41,864)	(59,167)	(41,864)	(59,167)
Increase in present value of projected rights and obligations of later years as at 30 June		26,424	63,100	26,424	63,100
Loss/(gain) arising on re-measurement of fair value of contract rights and obligations over the remaining contract term as at 30 June		35,717	(48,785)	35,717	(48,785)
Balance at the end of the year		630,117	609,840	630,117	609,840
Represented by;					
Current Basslink financial liability		102,746	98,733	102,746	98,733
Non-current Basslink finanical liability		953,489	966,557	953,489	966,557
		1,056,235	1,065,290	1,056,235	1,065,290
Current Basslink financial asset	10	42,813	56,869	42,813	56,869
Non-current Basslink financial asset	10	383,305	398,581	383,305	398,581
		426,118	455,450	426,118	455,450
Net Basslink financial liability		630,117	609,840	630,117	609,840

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

16. 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

	2010 %	2009 %
Discount rate	5.35	5.70
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 2010 extrapolated to allow for the fact that the term of the liablity exceeds the term of the longest Government bond. The decrement rates for mortality and retirement have been updated since the last valuation.

Operating costs for the Fund as a whole have been assumed to be incurred at the rate of 1.5% 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:

	30 June 2010 %	30 June 2009 %
Australian equity	26	20
International equity	22	13
Fixed income	12	11
Property	20	31
Alternatives/other	14	19
Cash	6	6
	100	100

Reconciliation of the present value of the defined benefit obligation:

	2010 $'000	2009 $'000
Present value of defined benefit obligations at the beginning of the year ^	375,483	385,627
Current service cost ^	5,040	3,951
Interest cost	20,718	21,280
Estimated contributions by plan participants	1,681	1,849
Actuarial (gains)/losses ^	24,236	(5,825)
Estimated benefits paid	(26,017)	(30,559)
Estimated taxes, premiums and expenses paid	(741)	(840)
Present value of defined benefit obligations at the end of the year	400,400	375,483

^includes contributions tax provision/change in contributions tax provision.

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

16. RBF PROVISION (continued)

Reconciliation of the fair value of scheme assets:

	2010 $'000	2009 $'000
Fair value of plan assets at beginning of the year	77,835	86,399
Expected return on plan assets	5,259	5,901
Actuarial gains/(losses)	(66)	(10,272)
Estimated employer contributions	19,128	25,357
Estimated contributions by plan participants	1,681	1,849
Estimated benefits paid	(26,017)	(30,559)
Estimated taxes, premiums and expenses paid	(740)	(840)
Fair value of plan assets at end of the year	77,080	77,835

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:

	2010 $'000	2009 $'000
Actual return on plan assets	5,193	(4,370)

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

Reconciliation of the net liability recognised in the Balance Sheet

	2010 $'000	2009 $'000
Defined benefit obligation	400,400	375,483
Fair value of plan assets	(77,080)	(77,835)
Deficit	323,320	297,648
Comprising:		
Current net liability	17,730	17,662
Non-current net liability	305,590	279,986
Net superannuation liability	323,320	297,648

Expense recognised in the Statement of Comprehensive Income

	2010 $'000	2009 $'000
Service cost	5,040	3,951
Interest cost	20,718	21,280
Expected return on assets	(5,259)	(5,901)
Total expense recognised	20,499	19,330
Loss recognised in retained earnings		
Actuarial losses	24,302	4,446

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

16. RBF PROVISION (continued)

Historical Information

	2010 $'000	2009 $'000	2008 $'000	2007 $'000	2006 $'000
Present value of defined benefit obligation	400,400	375,483	385,627	407,259	367,346
Fair value of plan assets	77,080	77,835	86,399	96,990	87,798
Deficit in plan	323,320	297,648	299,228	310,269	279,548
Experience adjustments (gain)/loss - plan liabilities	2,311	4,734	(7,767)	2,595	1,605
Experience adjustments (gain)/loss - plan assets	66	10,285	10,754	(8,987)	4,904

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 2011 $'000
Expected employer contributions	17,730

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

17. FINANCIAL INSTRUMENTS DISCLOSURES

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

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

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

(a) Financial instrument categories

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

	CONSOLIDATED				PARENT			
	Carrying Amount 2010 $'000	Net Fair Value 2010 $'000	Carrying Amount 2009 $'000	Net Fair Value 2009 $'000	Carrying Amount 2010 $'000	Net Fair Value 2010 $'000	Carrying Amount 2009 $'000	Net Fair Value 2009 $'000
Financial Assets								
Cash	2,791	2,791	4,315	4,315	1,533	1,533	595	595
Loans and receivables								
Receivables	82,657	82,657	154,356	154,356	68,583	68,583	143,634	143,634
Held to maturity								
Investments	247	2	26,247	26,247	-	2	25,690	25,690
Designated hedge accounting derivatives								
Forward foreign exchange contracts	3	3	7	7	3	3	7	7
Fair value through profit or loss								
Credit swaps	3,494	68,605	5,594	45,667	3,494	68,605	5,594	45,667
Basslink financial asset	426,118	426,118	455,450	455,450	426,118	426,118	455,450	455,450
Energy price derivatives	177,910	177,910	131,822	131,822	177,852	177,852	131,822	131,822
Other assets	52,499	52,499	54,924	54,924	52,499	52,499	59,527	59,527
	745,719	810,585	832,715	872,788	730,082	795,195	822,319	862,392
Financial Liabilities								
Loans and receivables								
Accounts payable	69,935	69,935	170,785	170,785	61,311	61,311	162,467	162,467
Tascorp loans	880,293	897,533	951,791	966,794	880,293	897,533	951,791	966,794
Designated hedge accounting derivatives								
Interest rate swaps	1,141	8,821	2,426	11,691	1,141	8,821	2,426	11,691
Forward foreign exchange contracts	46	46	96	96	46	46	96	96
Fair value through profit or loss								
Credit swaps	3,494	68,605	5,594	45,677	3,494	68,605	5,594	45,677
Basslink Services Agreement	840,909	840,909	870,263	870,263	840,909	840,909	870,263	870,263
Basslink Facility Fee Swap	215,326	215,326	195,027	195,027	215,326	215,326	195,027	195,027
Energy price deriviatives	125,638	125,638	308,022	308,022	125,580	125,580	303,346	303,346
Other liabilities	7,016	7,016	8,599	8,599	7,016	7,016	8,599	8,599
	2,143,798	2,233,829	2,512,603	2,576,954	2,135,116	2,225,147	2,499,609	2,563,960

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

17. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

(b) Financial risk management objectives and policies

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

The Basslink contracts including the Basslink Services Agreement (BSA), Floating Facility Fee Instrument (FFFI) and Basslink Facility Fee Swap (BFFS) have been designated as derivatives.

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

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

(i) Capital risk management

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

The capital structure of the Corporation includes loans disclosed in note 13, contributed equity and cash and cash equivalents disclosed in note 5.

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

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

The Corporation has been compliant with all financial covenants.

(ii) Market risk management

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

(A) Energy prices

The Corporation 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 and other NEM regions. Exposure to these fluctuations in market price is managed through the use of derivative contracts executed principally 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

17. FINANCIAL INSTRUMENTS DISCLOSURES (continued)

The Corporation assesses its electricity price risk exposure through sensitivity analysis. The following table shows the effect on the Statement of Comprehensive Income of a feasible movement (10%) in forecast electricity prices.

	2010				2009			
	CONSOLIDATED		PARENT		CONSOLIDATED		PARENT	
	Income $'000	Equity $'000	Income $'000	Equity $'000	Income $'000	Equity $'000	Income $'000	Equity $'000
Increase/ (decrease)								
Electricity forward price +10%								
Basslink net liability	25,064	-	25,064	-	31,242	-	31,242	-
Energy derivative net asset	(50,525)	-	(50,801)	-	(22,915)	-	(29,102)	-
Electricity forward price -10%								
Basslink net liability	(12,724)	-	(12,724)	-	(32,072)	-	(32,072)	-
Energy derivative net asset	48,825	-	49,100	-	20,110	-	26,297	-

The sensitivity of the fair value of the Basslink Services Agreement to energy price movements has been based on adjustments to forecast price differences between the Tasmanian and Victorian regions. The sensitivity of the fair value of energy price derivatives to energy price movements has been determined by adjusting the forecast prices for the Tasmanian and 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 trading derivatives arising from variation in forecast prices are offset by movements in the fair value of the generation assets to the extent that they hedge generation revenue.

(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(r).

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

At 30 June 2010 fixed rate loans varied from 5.5% to 7.4% (2009: 5.5% to 7.4%). Floating rates were based on bank bill rates and these varied from 4.2% to 6.3% (2009: 2.7% to 3.5%).

The Government Guarantee Fee rate varied from 0.5% to 2.9% for this financial year (2009: 0.5% to 2.01%).

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.

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

17. FINANCIAL INSTRUMENTS DISCLOSURES (continued)

	2010				2009			
	CONSOLIDATED		PARENT		CONSOLIDATED		PARENT	
	Income $'000	Equity $'000	Income $'000	Equity $'000	Income $'000	Equity $'000	Income $'000	Equity $'000
Forward interest rates +0.1 bps								
Financial assets	737	-	737	-	718	-	718	-
Financial liabilities	(904)	(82)	(904)	(82)	(892)	(61)	(892)	(61)
Forward interest rates -0.1 bps								
Financial assets	(737)	-	(737)	-	(718)	-	(718)	-
Financial liabilities	904	82	904	82	892	61	892	61

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 for 2010 for both the parent and consolidated entities is 6.98% (2009: 6.62%). This incorporates both loans and interest rate swaps as at the reporting date and also includes the average government guarantee fee of 0.70% (2009: 0.51%).

(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	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Receivables				
Not later than one year	744	-	744	-
Later than one year but not later than two years	441	-	441	-
Later than two years	-	-	-	-
Total	1,185	-	1,185	-
Payables				
Not later than one year	914	3,472	914	3,472
Later than one year but not later than two years	439	93	439	93
Later than two years	-	439	-	439
Total	1,353	4,004	1,353	4,004

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

(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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

17. FINANCIAL INSTRUMENTS DISCLOSURES (continued)

	CONSOLIDATED		PARENT	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Credit risk exposure by instrument type				
Financial Assets				
Investments and bank balances	3,038	30,562	1,533	26,286
Receivables	82,657	154,356	68,583	143,634
Basslink financial asset	1,623	37,496	1,623	37,496
Derivative Financial Instruments				
Interest rate swaps	80,980	76,631	80,980	76,631
Forward foreign exchange contracts	316	213	316	213
Basslink Facility Fee Swap	29,990	29,990	29,990	29,990
Energy price derivatives	177,910	131,822	177,852	131,822
Total credit risk exposure	376,514	461,070	360,877	446,072
Credit risk exposure by institution ratings				
Australian based institutions				
AA+ to AA- ratings	78,532	173,025	78,532	168,749
A+ to A ratings	65,490	92,014	65,490	92,014
BBB+ to BBB- ratings	10,819	8,824	10,819	8,824
Unrated	190,033	162,054	174,396	151,332
	344,874	435,917	329,237	420,919
Overseas based institutions				
AA+ to AA- ratings	5,270	2,413	5,270	2,413
A+ to A ratings	26,226	20,608	26,226	20,608
Unrated	144	2,132	144	2,132
	31,640	25,153	31,640	25,153
Total credit risk exposure	376,514	461,070	360,877	446,072

(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 13.

The Corporation's exposure at 30 June 2010 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 construction 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

17. FINANCIAL INSTRUMENTS DISCLOSURES (continued)

	2010							
	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	2,791	-	-	-	1,533	-	-	-
Receivables	82,657	-	-	-	68,583	-	-	-
Held to maturity								
Investments	247	-	-	-	-	-	-	-
Designated hedge accounting derivatives								
Forward foreign exchange contracts	2	(3)	-	-	2	(3)	-	-
Fair value through profit or loss								
Credit swaps	6,317	5,613	31,583	60,500	6,317	5,613	31,583	60,500
Forward foreign exchange contracts	37	-	-	-	37	-	-	-
Energy price derviatives	43,409	34,710	116,506	14,931	43,349	34,710	116,506	14,931
Basslink financial asset	21,407	21,407	196,290	944,673	21,407	21,407	196,290	944,673
Other assets	2,071	-	-	50,428	2,071	-	-	50,428
	158,938	61,727	344,379	1,070,532	143,299	61,727	344,379	1,070,532
Financial Liabilities								
Loans and Receivables								
Accounts payable	69,935	-	-	-	61,311	-	-	-
Tascorp loans	135,826	114,858	597,769	165,947	135,826	114,858	597,769	165,947
Designated hedge accounting derivatives								
Interest rate swaps	2,199	3,583	11,228	(35)	2,199	3,583	11,228	(35)
Forward foreign exchange contracts	13	19	58	-	13	19	58	-
Fair value through profit or loss								
Credit swaps	6,317	5,613	31,583	60,500	6,317	5,613	31,583	60,500
Forward foreign exchange contracts	4	(1)	(14)	-	4	(1)	(14)	-
Basslink Services Agreement	38,032	38,032	323,594	1,723,978	38,032	38,032	323,594	1,723,978
Basslink Facility Fee Swap	(333)	(333)	76	203	(333)	(333)	76	203
Gas Pipeline Capacity Agreement	-	-	-	-	-	-	-	-
Energy price derivatives	16,250	26,277	94,586	18,192	15,661	26,277	94,586	18,192
Other liabilities	7,016	-	-	-	7,016	-	-	-
	275,259	188,048	1,058,880	1,968,785	266,046	188,048	1,058,880	1,968,785

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

17. 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								
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
Forward foreign exchange contracts								
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	170,785	-	-	-	162,467	-	-	-
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
Forward foreign exchange contracts	-	-	-	-	-	-	-	-
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	-	-	-
	273,037	116,786	1,458,825	2,554,455	260,058	118,334	1,456,963	2,554,455

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

17. FINANCIAL INSTRUMENTS DISCLOSURES (continued)

(c) Fair values

AASB 139 *Financial Instruments: Recognition and Measurement* 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 the event of a lack of quoted market prices, the fair value of financial instruments has been calculated using valuation models that make maximum use of available market inputs to produce a reasonable estimate of the price that would be determined by the market. In many cases this entails projecting future cash flows that are then discounted to present value using the Corporation's weighted average cost of capital or cost of debt as appropriate.

The fair values of financial assets and liabilities carried at fair value through profit or loss are determined using the following valuation inputs:

	CONSOLIDATED							
	2010				2009			
	Quoted market prices $'000	Valuation technique - market observable inputs $'000	Valuation technique - non market observable inputs $'000	Total $'000	Quoted market prices $'000	Valuation technique - market observable inputs $'000	Valuation technique - non market observable inputs $'000	Total $'000
Financial Assets								
Designated hedge accounting derivatives								
Forward foreign exchange contracts	3	-	-	3	7	-	-	7
Fair value through profit or loss								
Credit swaps	3,494	-	-	3,494	5,594	-	-	5,594
Forward foreign exchange contracts	31	-	-	31				-
Basslink financial asset	-	-	426,118	426,118			455,450	455,450
Energy price derivatives	60,518	117,392	-	177,910	11,422	120,400		131,822
	64,046	117,392	426,118	607,556	17,023	120,400	455,450	592,873
Financial Liabilities								
Designated hedge accounting derivatives								
Interest rate swaps	1,141	-	-	1,141	2,426	-	-	2,426
Forward foreign exchange contracts	46	-	-	46	96	-	-	96
Fair value through profit or loss								
Credit swaps	3,494	-	-	3,494	5,594	-	-	5,594
Forward Foreign Exchange Contracts	16	-	-	16	-	-	-	-
Basslink Services Agreement	-	-	840,909	840,909	-	-	870,263	870,263
Basslink Facility Fee Swap	-	-	215,326	215,326	-	-	195,027	195,027
Energy price derivatives	36,416	89,222	-	125,638	43,039	264,983	-	308,022
	41,113	89,222	1,056,235	1,186,570	51,155	264,983	1,065,290	1,381,428

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

17. FINANCIAL INSTRUMENTS DISCLOSURES (continued)

	PARENT							
	2010				2009			
	Quoted market prices $'000	Valuation technique - market observable inputs $'000	Valuation technique - non market observable inputs $'000	Total $'000	Quoted market prices $'000	Valuation technique - market observable inputs $'000	Valuation technique - non market observable inputs $'000	Total $'000
Financial Assets								
Designated hedge accounting derivatives								
Forward foreign exchange contracts	3	-	-	3	7	-	-	7
Fair value through profit or loss								
Credit swaps	3,494	-	-	3,494	5,594	-	-	5,594
Forward foreign exchange contracts	31	-	-	31	-	-	-	-
Basslink financial asset	-	-	426,118	426,118	-	-	455,450	455,450
Energy price derivatives	56,357	121,495	-	177,852	15,426	116,396	-	131,822
	59,885	121,495	426,118	607,498	21,027	116,396	455,450	592,873
Financial Liabilities								
Designated hedge accounting derivatives								
Interest rate swaps	1,141	-	-	1,141	2,426	-	-	2,426
Forward foreign exchange contracts	46	-	-	46	96	-	-	96
Fair value through profit or loss								
Credit swaps	3,494	-	-	3,494	5,594	-	-	5,594
Forward Foreign Exchange Contracts	16	-	-	16	-	-	-	-
Basslink Services Agreement	-	-	840,909	840,909	-	-	870,263	870,263
Basslink Facility Fee Swap	-	-	215,326	215,326	-	-	195,027	195,027
Energy price derivatives	36,358	89,222	-	125,580	38,363	264,983	-	303,346
	41,055	89,222	1,056,235	1,186,512	46,479	264,983	1,065,290	1,376,752

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 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 21 year forward market interest rate.

The BSA, FFFI and BFFS are not readily tradeable financial instruments.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

17. FINANCIAL INSTRUMENTS DISCLOSURES (continued)

Tasmanian energy price derivatives

The Corporation has entered into energy contracts in the Tasmanian market to manage its exposure to market price risks. 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 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. To the extent that each contract incorporates special term, load or other conditions the price at commencement of the contract will be at a discount from the spot price at that time. Fair value at balance date has been calculated as the present value of the difference between the projected market price and each contract price, taking into account any discount provided on inception. Projected market price is based on an internally generated long term Tasmanian energy price curve. The Corporation's nominal pre-tax weighted average cost of capital has been applied to derive the present value of the Tasmanian energy price derivatives.

Investments

The carrying amount of the investments recorded in the financial statements represents the Corporation's maximum exposure to market risk.

Movements in fair values in 2010 are not attributable to changes in credit risk.

Fair values are disclosed in table 17(a).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

18. COMMITMENTS FOR EXPENDITURE

	CONSOLIDATED		PARENT	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
(a) Capital expenditure commitments				
Not later than 1 year	27,704	26,822	7,552	26,822
Over 1 year and up to 2 years	450	4,233	450	4,233
Over 2 years and up to 5 years	231	2,349	231	2,349
	28,385	33,404	8,233	33,404
(b) Operating lease commitments				
Future minimum lease payments				
Not later than 1 year	8,532	3,472	3,934	3,110
Over 1 year and up to 2 years	4,639	3,441	3,623	3,078
Over 2 years and up to 5 years	9,724	8,129	7,355	8,129
Later than 5 years	32,188	23,070	21,010	23,070
	55,083	38,112	35,922	37,387
(c) Other commitments				
Not later than 1 year	37,515	26,741	31,384	21,768
Over 1 year and up to 2 years	17,043	32,771	12,580	19,467
Over 2 years and up to 5 years	44,652	34,694	33,905	34,694
Later than 5 years	25,729	16,293	-	1,714
	124,939	110,499	77,869	77,643

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.

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 26.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

19. CONTINGENT LIABILITIES AND ASSETS

Contingent liability

The Corporation reached an agreement for the sale of the assets of subsidiaries Bell Bay Power Pty Ltd and Bell Bay Three Pty Ltd during 2007. Included in the sale agreement is a regime for the indemnification of the purchaser in respect of contamination of the Bell Bay Power Station site, particularly in respect of personal injury and latent contamination on the site. The Corporation has capped certain indemnities and continues to seek to mitigate any potential contingent liability by committing to sound environmental and safety practices on the site.

Contingent Asset

The Corporation currently has a disagreement with the owner of Basslink, Basslink Pty Ltd relating to charges associated with the Basslink Services Agreement.

The Corporation is continuing to negotiate a resolution to this disagreement with Basslink Pty Ltd and may benefit from a reduction in the charges under dispute.

20. AUDITOR'S REMUNERATION

	CONSOLIDATED		PARENT	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Amounts received, or due and receivable, by the Auditor-General from the Corporation for auditing the financial statements of the Corporation.	308	251	246	214
Amounts received, or due and receivable, for compliance audits.	7	20	7	20

21. KEY MANAGEMENT PERSONNEL COMPENSATION

	Short-term employee benefits		Post-employment benefits		Other long-term benefits		Termination benefits		Total	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000	2010 $'000	2009 $'000	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Directors	416	409	73	74	-	-	-	-	489	483
Management	3,621	3,333	338	415	1	30	-	-	3,960	3,778
Total	4,037	3,742	411	489	1	30	-	-	4,449	4,261

For the year ended 30 June 2010 the Corporation identified eleven employees (2009: eleven employees) as key management personnel in accordance with AASB 124 Related Party Disclosure.

Note 22 lists the Directors of the Corporation as at 30 June 2010.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

22. RELATED PARTY INFORMATION

	Sales to related parties		Purchases from related parties		Amounts owed by related parties		Amounts owed to related parties	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000	2010 $'000	2009 $'000	2010 $'000	2009 $'000
CONSOLIDATED								
Roaring 40s Renewable Energy Pty Ltd	1,680	5,619	7	-	-	-	-	-
Cathedral Rocks Construction and Management Pty Ltd	-	16	-	-	-	-	-	-
PARENT								
Roaring 40s Renewable Energy Pty Ltd	1,690	5,619	7	-	-	-	-	-
Cathedral Rocks Construction and Management Pty Ltd	-	16	-	-	-	-	-	-
Bell Bay Power Pty Ltd	120	241	-	-	-	-	5,146	3,184
Bell Bay Three Pty Ltd	-	-	-	-	444	7,009	4,783	1,473
Lofty Ranges Power Pty Ltd	-	-	-	-	755	971	126	-
Hydro Tasmania Consulting (Holding) Pty Ltd	-	-	-	-	4,299	2,122	-	-
Hydro Tasmania Consulting India Pvt Ltd	308	143	-	-	38	-	-	-
RE Storage Project Holding Pty Ltd	-	-	-	-	930	928	-	-
Momentum Energy Pty Ltd	43,611	6,923	-	4,840	9,973	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 parent company loan to Momentum Energy Pty Ltd in 2009 which carried interest at market rates on the balance over $2 million. The first $2 million of the loan was interest free. Following full acquisition of the remaining shares of Momentum Energy Pty Ltd, this loan became 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 2010 were:

Dr D M Crean, Chairman
Mr R Adair, Chief Executive Officer
Mr S R Eslake
Ms S M Farrier
Ms J M Healey
Mr S S Kalinko
Ms C Munro

Mr V J Hawksworth resigned as a Director on 15 April 2010
Mr R Adair commenced as Executive Director on 21 June 2010
Mr M M Cavell completed his term as a Director on 5 November 2009
Ms C Munro was appointed as a Director on 1 March 2010

Transactions with director related entities are made at arm's length at normal market prices and on normal commercial terms.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

23. EVENTS SUBSEQUENT TO BALANCE DATE

Since the end of the financial year, Hydro Tasmania and Aurora Energy Pty Ltd have reached commercial agreement on the terms and conditions of a contract under which Hydro Tasmania will sell electricity to Aurora for supply of a portion of the non-contestable load. The term of the contract will coincide with the new regulated retail price period from 1 July 2010 to 30 June 2013.

After due enquiry, there have been no other matters or circumstances since the end of the financial year that have significantly affected or may have significantly affected the operations of the Corporation, the results of those operations or the state of affairs of the Corporation in subsequent financial years.

24. GOVERNMENT GRANTS

The Corporation has recognised $8 million of grant revenue during the year (2009: $9 million) as detailed below:

Community Service Obligations

On 1 June 1999, the State Government agreed to formally recognise the cost of concessions to eligible customers living on Bass Strait islands as Community Service Obligations (CSOs), as defined under the *Government Business Enterprises Act 1995*.

During the year ended 30 June 2010, the State paid the Corporation $6.9 million (2009: $7.9 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 3,000 telemetry units for on-farm water metering across the State. The water data is being stored on a central web-based database from which licensees access their own daily water use, total use and use compared to their allocation. In addition, training in the use of the equipment and data will be provided.

During the year ended June 2010, the Corporation received $0.08 million (2009: nil) and recognised $0.7 million (2009: $0.2 million) in the Statement of Comprehensive Income 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 2010 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 $0.4 million over one year for a Collaborative Automated Trial of the Quality Assurance and Quality Control (QAQC) algorithms and software application. Also under the same funding agreement, the Corporation will be replacing old type rain gauges with the Bureau standard gauges at 14 sites.

During the year ended 30 June 2010, the Corporation received $0.4 million of the grant funds and recognised $0.4 million of that receipt in the Statement of Comprehensive Income on the basis of completion of the project.

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 received $0.5 million over one year to develop quality control and quality assurance processes on water data transfer to the Bureau.

During the year ended 30 June 2010 the Corporation recognised $0.1 million (2009 $0.3 million) in the Statement of Comprehensive Income on the basis of the work completed. The grant was received in full in 2008/09.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

25. CONTROLLED ENTITIES

	Footnote	Country of Incorporation	Percentage of Shares Held by Hydro-Electric Corporation 2010	2009
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	0.01	0.01
Momentum Energy Pty Ltd	7	Australia	100	51

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 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 Tasmania acquired 51% of the issued capital of Momentum Energy Pty Ltd on 31 August 2008. The remaining 49% of the issued capital was acquired on 30 September 2009. Momentum was incorporated on 8 July 2002.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

26. INTERESTS IN JOINT VENTURES

			CONSOLIDATED				PARENT			
			Ordinary Share Ownership Interest		Joint Venture Agreement Voting Rights		Ordinary Share Ownership Interest		Joint Venture Agreement Voting Rights	
	Principal Activity	Joint Venture Balance Date	2010 %	2009 %	2010 %	2009 %	2010 %	2009 %	2010 %	2009 %
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 (note 28).

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 28).

A subsidiary of the Corporation, Lofty Ranges Power Pty Ltd, holds a 50% interest in an unincorporated joint venture operation named SA Water Corporation & Lofty Ranges Power Pty Ltd Joint Venture. The principal activity of the joint venture is the operation of mini hydro facilities (note 27).

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

27. JOINT VENTURE OPERATIONS

The share of assets and liabilities of the unincorporated jointly controlled operation, SA Water Corporation & Lofty Ranges Pty Ltd Joint Venture, which is included in the financial statements, is as follows as at 30 June.

	CONSOLIDATED	
	2009 $'000	2008 $'000
Current assets		
Cash	58	48
Receivables	3	3
Total current assets	61	51
Non-current assets		
Property, plant and equipment	1,298	1,320
Total non-current assets	1,298	1,320
TOTAL ASSETS	1,359	1,371
Current liabilities		
Payables	34	21
Total current liabilities	34	21
TOTAL LIABILITIES	34	21

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

28. 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 2010 $'000	Cathedral Rocks Construction and Management Pty Ltd 2010 $'000	Total 2010 $'000
Income Statement			
Revenue	37,108	18	37,126
Expenses	50,249	33	50,282
Loss before income tax	(13,141)	(15)	(13,156)
Income tax benefit	3,337	5	3,342
Net loss after tax	(9,804)	(10)	(9,814)
Balance Sheet			
Current assets	91,506	403	91,909
Non-current assets	517,997	-	517,997
Total assets	609,503	403	609,906
Current liabilities	28,972	302	29,274
Non-current liabilities	325,481	-	325,481
Total liabilities	354,453	302	354,755
Net assets	255,050	101	255,151
Share of accumulated losses			
Share of accumulated losses at the beginning of the year	5,438	37	5,475
Share of loss before income tax expense	6,036	8	6,044
Share of accumulated losses at the end of the year	11,474	45	11,519
Movements in carrying amount of investment in joint ventures			
Carrying amount at the beginning of the year	122,810	-	122,810
Contributions during the year	5,000	-	5,000
Share of profit before income tax for the year	(6,036)	-	(6,036)
Carrying amount at the end of the year	121,774	-	121,774

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

28. INCORPORATED JOINT VENTURES (continued)

	CONSOLIDATED		
	Roaring 40s Renewable Energy Pty Ltd 2009 $'000	Cathedral Rocks Construction and Management Pty Ltd 2009 $'000	Total 2009 $'000
Income Statement			
Revenue	58,963	3,668	62,631
Expenses	66,730	445	67,175
Profit/(loss) before share of profit on 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 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	108,448	-	108,448
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	122,810	-	122,810

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

28. INCORPORATED JOINT VENTURES (continued)

In 2009 the Corporation adopted 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	
	2010 $'000	2009 $'000
Carrying amount at the beginning of the year	128,567	118,567
Contributions during the year	5,000	10,000
Carrying amount at the end of the year	133,567	128,567

Contingent liabilities and capital expenditure commitments relating to the joint ventures are included in notes 18 and 19.

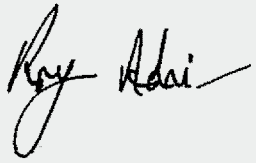
29. DIVIDEND

	CONSOLIDATED		PARENT	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Proposed for approval (not recognised as a liability as at 30 June)				
Statutory dividend	10,204	5,332	10,204	5,332

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

SUPERANNUATION DECLARATION

I hereby certify that the Hydro-Electric Corporation has met its obligations under the Commonwealth's *Superannuation Guarantee (Administration) Act 1992* in respect of any employee who is a member of a complying superannuation scheme to which the Hydro-Electric Corporation contributes.



R. Adair

Chief Executive Officer

12/08/2010

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 2010 and the financial position at 30 June 2010 of the Corporation and its subsidiaries;

   (ii) subject to the Treasurer's Instructions, complying with the Australian Accounting Standards and Interpretations; and

   (iii) complying with Australian equivalents to International Financial Reporting Standards.

b) there are reasonable grounds to believe that the Corporation will be able to pay its debts as and when they fall due.

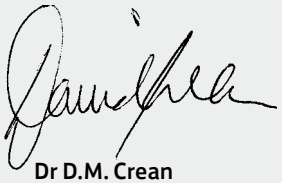
This declaration has been made after receiving the following declaration from the Chief Executive Officer and General Manager Strategy and Finance of the Corporation:

a) the financial records of the Corporation for the year ended 30 June 2010 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 2010 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 2010 give a true and fair view.

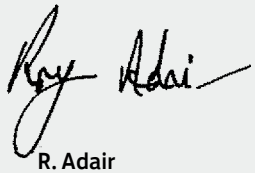
Signed in accordance with a resolution of the directors:



Dr D.M. Crean

Chairman

12/08/2010



R. Adair

Chief Executive Officer

12/08/2010

Independent Audit Report

Tasmanian Audit Office

STRIVE | LEAD | EXCEL | *TO MAKE A DIFFERENCE*

INDEPENDENT AUDIT REPORT

To Members of the Parliament of Tasmania

HYDRO-ELECTRIC CORPORATION

Financial Report for the Year Ended 30 June 2010

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 2010, the statement of comprehensive income, 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 and Auditor-General, and
- mandating the Auditor-General as auditor of State Entities but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Tasmanian Audit Office are not compromised in their role by the possibility of losing clients or income.

My independence declaration provided to the directors of the Corporation dated 9 August 2010 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:

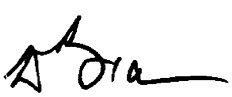
(a) the financial report of Hydro-Electric Corporation:

  (i) presents fairly, in all material respects, the financial position of Hydro-Electric Corporation and the consolidated entity as at 30 June 2010, 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
12 August 2010

Auditor's Independence Declaration

Tasmanian Audit Office

STRIVE | LEAD | EXCEL | *TO MAKE A DIFFERENCE*

Enquiries: Mr Mike Blake
Email: Mike.Blake@audit.tas.gov.au
Our Reference: TAO10/54

9 August 2010

The Board of Directors
Hydro-Electric Corporation
4 Elizabeth Street
HOBART TAS 7000

Attention: Mr A Evans, Corporation Secretary

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 2010, 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

Statistics, glossary and indices

Generation statistics

As at June 30		2010	2009	2008	2007	2006
Mainland Tasmania						
Power stations						
Hydro	No.	30[9]	28	28	28	29
Thermal	No.	0	1	1	2	1
TOTAL	No.	30	29	29	30	30
Installed capacity						
Hydro	MW	2 281	2 270	2 270	2 270	2 278
Thermal – gas	MW	0	240	240	345	240
Wind	MW	0	0	0	0	0
TOTAL	MW	2 281	2 510	2 510	2 615	2 518
Energy Generated[10]						
Hydro	GWh	8 184	7 203	7 100	8 128	9 688
Thermal –gas – Bell Bay 1-2	GWh	0	608[11]	1 169	899	585
Thermal –gas – Bell Bay 3	GWh	0	0	0[12]	37[13]	0
Wind	GWh	0	0	0	0	78
TOTAL	GWh	8 184	7 811	8 269	9 064	10 351
Generation peak load	MW	2131	2248	2290	2395	2086
Generation load factor[14]	%	44	40	41	43	57
Bass Strait Islands						
King Island						
Diesel	MWh	10 480	10 221	10 297	10 600	10 598
Wind	MWh	4 724	5 516	5 949	5 319	5 243
Flinders Island – diesel	MWh	4 340	4 404	4 201	4 220	4 278
TOTAL	MWh	19 544	20 141	20 447	20 139	20 119

[9] The number of hydro power stations differs from the number in the Statement of Corporate Intent on page 13 because this table includes power stations additional to main undertakings, being Parangana, Mieterana (Butlers Gorge mini-hydro) and lower Lake Margaret (operating June 2010). Lake Margaret (upper) is included because it was re-commissioned in October 2009.

[10] Mainland Tasmania energy generated is calculated as the net energy measured at the market and distribution connection points.

[11] Bell Bay 1 and 2 were shut down on 1 April 2009.

[12] Three gas tubines (Bell Bay 3) were sold by Hydro Tasmania.

[13] Three 35 MW gas turbines (Bell Bay 3) were bought and installed.

[14] Calculated as average MW divided by peak MW. Average MW calculated from total energy generated divided by number of hours in a year.

Financial statistics

Five Year Profile – Statement of Comprehensive Income	Year Ending 30 June				
	2010 $'000s	2009 $'000s	2008 $'000s	2007 $'000s	2006 $'000s
Income					
Sales of goods and services	717,246	609,241	456,818	482,676	460,101
Other income	9,687	16,496	13,190	8,905	9,555
TOTAL INCOME	726,933	625,737	470,008	491,581	469,656
Less Expenses					
Labour	100,763	88,822	88,574	84,868	83,260
Direct operating expenses	319,018	262,518	199,648	157,720	73,438
Depreciation and amortisation of non-current assets	77,681	73,766	68,043	69,014	87,945
Impairment of non-current assets	-	(186,925)	(157,879)	(153,799)	31,685
Finance costs	80,337	86,684	95,663	90,695	85,860
Fair value movements	(259,194)	(185,638)	(124,309)	59,800	(37,961)
Other operating expenses	76,248	68,619	76,083	69,790	105,610
TOTAL EXPENSES	394,853	207,846	245,823	378,088	429,837
NET PROFIT/(LOSS) BEFORE TAX	332,080	417,891	224,185	113,493	39,819

Five Year Profile – Balance Sheet	Year Ending 30 June				
	2010 $'000s	2009 $'000s	2008 $'000s	2007 $'000s	2006 $'000s
Assets					
Cash and cash equivalents	3,038	30,562	93,302	51,615	15,751
Investments	121,790	122,826	108,464	88,365	80,005
Receivables	82,657	154,356	59,997	153,153	98,832
Property, plant and equipment	4,161,631	4,146,346	4,056,372	3,520,541	3,440,848
Financial and other assets	761,491	758,809	527,472	435,816	215,330
TOTAL ASSETS	5,130,607	5,212,899	4,845,607	4,249,490	3,850,766
Liabilities					
Payables	69,935	171,576	67,333	121,591	102,866
Provisions	363,461	365,579	323,593	334,645	300,487
Interest bearing liabilities	872,864	941,235	971,374	1,192,200	1,077,000
Tax liabilities	749,099	677,681	559,033	482,380	478,830
Financial liabilities	1,193,318	1,391,346	1,527,834	1,160,484	973,801
TOTAL LIABILITIES	3,248,677	3,547,417	3,449,167	3,291,300	2,932,984
NET ASSETS	1,881,930	1,665,482	1,396,440	958,190	917,782
EQUITY	1,881,930	1,665,482	1,396,440	958,190	917,782

Five Year Profile – Capital Works	Year Ending 30 June				
	2010 $'000s	2009 $'000s	2008 $'000s	2007 $'000s	2006 $'000s
Expenditure					
Generation assets	78,423	69,662	34,974	39,761	90,868
Bass Strait islands	860	982	2,394	1,028	1,040
Communications	7	-	2,343	2,691	4,746
Land and buildings	973	1,977	1,152	2,563	3,351
Fleet	2,784	1,807	2,455	2,247	2,583
Information systems	10,299	4,591	2,260	4,930	7,093
Renewable developments	-	-	-	-	13,698
Other assets	2,187	2,228	9,284	952	4,504
TOTAL CAPITAL EXPENDITURE	95,533	81,247	54,862	54,172	127,883
EMPLOYEE NUMBERS	2010	2009	2008	2007	2006
Staff headcount (including directors)	923 (AUS)	907 (AUS)	819 (AUS)	825	886

Glossary

ACCC	Australian Competition and Consumer Commission
AEMO	Australian Energy Market Operator
AEU	Australian Emissions Unit
AER	Australian Energy Regulator
AFMA	Australian Financial Markets Association
AFSL	Australian Financial Services Licence
ANCOLD	Australian National Committee on Large Dams
ASIC	Australian Securities and Investments Commission
CER	Certified emission reduction
CO_2-e	Carbon dioxide equivalent
CPRS	Carbon Pollution Reduction Scheme
CSO	Community Service Obligation
DPIPWE	Department of Primary Industries, Parks, Water and Environment
DSM	Demand-side management
EBITDA	Earnings before interest, tax, depreciation, amortisation
ELT	Executive Leadership Team
esaa	Energy Supply Association of Australia
ESMS	Environment and sustainability management system
FCAS	Frequency Control Ancillary Service(s)
GBE	Government Business Enterprise
GFC	Global financial crisis
GW	Gigawatt
GWh	Gigawatt hour – a consumption of 1 GW for 1 hour
HVDC	High voltage direct current
IBRM	Integrated business risk management
IHA	International Hydropower Association
LTIFR	Lost time injury frequency rate
MI	Major industrial customer
MRET	Mandatory Renewable Energy Target
MW	Megawatts
MWh	Megawatt hour – a consumption of 1 MW for 1 hour
NEM	National Electricity Market
NEMMCO	National Electricity Market Management Company (now AEMO)
NGERS	National Greenhouse and Energy Reporting System
NRM	Natural Resources Management
NSP	Network service provider
ORER	Office of the Renewable Energy Regulator
OTTER	Office of the Tasmanian Economic Regulator (formerly Electricity Regulator)
PCB	Polychlorinated biphenyls
REC	Renewable energy certificate
RET	Renewable Energy Target
SPS	System protection scheme

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 report 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 available water storage data daily on our website. 'Energy data' provides energy in storage in terms of per cent full. 'Lake levels' are reported as metres below full. We also supply 'river levels' which are measured in metres.

GRI index 2009-2010

At the time of printing the website was under construction. All endeavour has been made to provide accurate web paths but paths provided here may not be exactly the same as the completed website.

Strategy and analysis		Page No.
1.1	Chairman's review	9
1.2	Achievements and Challenges	7
	Chairman's review	9
	CEO's report	11
	Statement of Corporate Intent	13
	Table 5: Sustainability performance summary	25
	Economic performance – Long-term business value	31
	Ecosystems and heritage – Carbon status	70
	Assets and resource use	39
Organisation profile		
2.1, 2.3-2.10	About Hydro Tasmania	5
2.2	About Hydro Tasmania	6
	Website: Momentum	website
	Website: Entura	website
EU1	About Hydro Tasmania	5
	Statistical profile – Generation statistics	129
EU2	Statistical profile – Generation statistics	129
EU3, EU4, EU5	Website: Hydro Tasmania – Publications – Annual report – GRI index – Long version	website
Report parameters		
3.1, 3.3, 3.4	About this report	3
3.2	Website: Hydro Tasmania – Publications – Annual report – GRI index – Long version	website
Report scope and boundary		
3.5-3.9	About this report	3, 4
3.10, 3.11	Website: Hydro Tasmania – Publications – Annual report – GRI index – Long version	website
GRI content index		
3.12	Website: Hydro Tasmania – Publications – Annual report – GRI index – Long version	website
Assurance		
3.13	Independent assurance statement	21

Governance		Page No.
4.1-4.3	Website: Hydro Tasmania – About us – Governance – Framework	website
4.4	Website: Hydro Tasmania – About us – Governance – Framework	website
	Our employees	54
	Website: Hydro Tasmania – About us – Governance – Framework – Roles and responsibilities of the shareholder, board and management	website
	Website: Hydro Tasmania – About us – Governance – Board committees	website
4.5- 4.7	Website: Hydro Tasmania – About us – Governance – Framework	website
4.8	Website: Hydro Tasmania – About us	website
	Website: Hydro Tasmania – About us – Governance – Codes and policies	website
	Website: Hydro Tasmania – Publications – Annual report – GRI index – Long version	website
4.9, 4.10	Website: Hydro Tasmania – About us – Governance – Framework (committees)	website
Commitments to external initiatives		
4.11	Website: Hydro Tasmania – Publications – Annual report – GRI index – Long version	website
4.12	About this report	3
	Our employees – Management approach – Human rights and labour practice	56
4.13	External Stakeholders – Memberships of associations	63
	Website: Hydro Tasmania – About us	website
Stakeholder engagement		
4.14-4.16	External stakeholders	62
4.17	About this report – Materiality	3
	Economic performance – Growth and customers	33
	Assets and resource use – Water resource	42
	External stakeholders	62
	Ecosystems and heritage	68, 69

Management approach		Page No.
EC– Economic	Economic performance	29
	Assets and resource use	39
EN – Environmental	Ecosystems and heritage	67
LA – Labour Practices	Our employees	56
HR – Human Rights	Our employees	56
SO – Society	Governance	45
	Assets and resource use	42
	External stakeholders	63
PR – Product Responsibility	Economic performance – Growth and customers	32
Electricity utility sector specific disclosures		
EU6	Assets and resource use	40-41
EU7	Website: Hydro Tasmania – Publications – Annual report – GRI index – Long version	website
EU8	Economic performance – Growth and customers – Research and development	33
EU9	Website: Hydro Tasmania – Publications – Annual report – GRI index – Long version	website
Economic performance		
EC1	Economic performance – Financial performance 2009-10	29
	Financial statements	73
	External stakeholders	63
EC2	Economic performance	31
	Ecosystems and heritage – Carbon status – Climate change	70
EC3	Financial statements	77, 79
EC4	Economic performance – Financial performance	30
	Assets and resource use	43
EC7, EU10 –EU12	Website: Hydro Tasmania – Publications – Annual report – GRI index – Long version	website
EC6	External stakeholders – Suppliers and partners	66
	Website: Hydro Tasmania – About us – Governance – Policies – Procurement	website
EC8	External stakeholders	64
	Assets and resource use – Recreation	43
	Website: Hydro Tasmania – Environment	website
Environmental performance		
EN1	Assets and resource use – Resource use – Waste management	44
	Website: Hydro Tasmania – Publications – Annual report – GRI index – Long version	website
EN2	Website: Hydro Tasmania – Publications – Annual report – GRI index – Long version	website
EN3	Ecosystems and Heritage – Carbon status	70
EN4	Ecosystems and Heritage – Carbon status	70
	Website: Hydro Tasmania – Publications – Annual report – GRI index – Long version	website
EN8	Website: Hydro Tasmania – Publications – Annual report – GRI index – Long version	website
EN11	Website: Hydro Tasmania – Publications – Annual report – GRI index – Long version	website
EN12	Ecosystems and heritage	68
	Website: Hydro Tasmania – Environment	website
EU13	Website: Hydro Tasmania – Publications – Annual report – GRI index – Long version	website
EN16 , EN17	Ecosystems and heritage – Carbon status	70
	Website: Hydro Tasmania – Publications – Annual report – GRI index – Long version	website
EN18	Ecosystems and heritage – Carbon status	70
EN19-EN22	Website: Hydro Tasmania – Publications – Annual report – GRI index – Long version	website
EN23	Website: Hydro Tasmania – Publications – Annual report – GRI index – Long version	website
EN26	Ecosystems and heritage	68
	Website: Hydro Tasmania – Environment	website

EN27	Website: Hydro Tasmania – Publications – Annual report – GRI index – Long version	website
EN28	Governance – Compliance	46
	Ecosystems and heritage	69
Human rights performance indicators		
HR1, HR2, HR4, HR6, HR7	Website: Hydro Tasmania – Publications – Annual report – GRI index – Long version	website
HR5	Our employees – Enterprise partnership agreements	54
Labour practices decent work performance indicators		
LA1, LA2	Our Employees	52, 55
LA3	Website: Hydro Tasmania – Publications – Annual report – GRI index – Long version	website
LA4, LA5	Our employees – Enterprise partnership agreements	54
	Website: Hydro Tasmania – Publications – Annual report – GRI index – Long version	website
LA7	Our employees – Safety, health and wellbeing	58, 59
LA8	Our employees – Safety, health and wellbeing	57, 59
LA10	Website: Hydro Tasmania – Publications – Annual report – GRI index – Long version	website
LA11	Our employees	52
LA13, LA14, EU14, EU15	Website: Hydro Tasmania – Publications – Annual report – GRI index – Long version	website
EU16	Our employees – Safety, health and wellbeing	58
	Website: Hydro Tasmania – About us – Governance – Codes and policies – OH&S policy	website
EU17	Website: Hydro Tasmania – Publications – Annual report – GRI index – Long version	website
EU18	Our employees – Safety, health and wellbeing – contractors	58
	Website: Hydro Tasmania – Publications – Annual report – GRI index – Long version	website

Society performance indicators		
SO1	External stakeholders – Engaging with stakeholders	63
	Assets and resource use – Water resource	42
	Ecosystems and heritage – Impacts on biodiversity	68
	Website: Hydro Tasmania – Environment	website
EU22, SO2 SO3, SO4	Website: Hydro Tasmania – Publications – Annual report – GRI index – Long version	website
SO5	Ecosystems and heritage – Carbon status	71
SO8	Governance – Compliance	46
	Website: Hydro Tasmania – Publications – Annual report – GRI index – Long version	website
EU19	Assets and resource use	42
	Website: Hydro Tasmania – Publications – Annual report – GRI index – Long version	website
EU20	Website: Hydro Tasmania – Publications – Annual report – GRI index – Long version	website
EU21	Assets and resource use – Emergency response	40
	Governance	46
	Our employees – Safety health and wellbeing	58
	Website: Hydro Tasmania – Publications – Annual report – GRI index – Long version	website
Product responsibility performance indicators		
PR1	Assets and resource use – Management approach	39
	Assets and resource use – Emergency response	40
	Website: Hydro Tasmania – Publications – Annual report – GRI index – Long version	website
PR3, PR9, EU23-EU27, EU30	Website: Hydro Tasmania – Publications – Annual report – GRI index – Long version	website
PR6	Economic performance – Growth and customers – Management approach to product responsibility	32
	Ecosystems and heritage – Carbon status	70-71
	Website: Hydro Tasmania – Publications – Annual report – GRI index – Long version	website
EU28, EU29	Assets and resource use – Energy reliability	40

Index (excluding the financial statements)

G

H

I

K

L

M

N

O

P

R

S

T

U

W

Feedback form

Your view on our:

	Annual and Sustainablility Report 2010			
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:

Manager
Communications
Hydro Tasmania
GPO Box 355
Hobart, Tasmania, 7001
Australia

Fax within Australia: 03 6230 5363

Fax from outside Australia: +61 3 6230 5363

If you would like a response, please provide contact information or send an email to contactus@hydro.com.au

Name: _____

Email: _____

Mailing address: _____

Hydro Tasmania
The power of natural thinking

The power of natural thinking