2011

Hydro Tasmania Annual Report

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

Hydro Tasmania

The power of natural thinking

Hydro Tasmania

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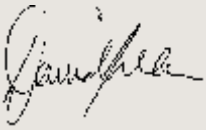
Accreditations of paper stocks utilised in this document

- FSC Mix Certified
- Produced with ECF pulp
- ISO 14001 Environmental Certification

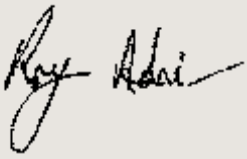
directors' statement

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

In accordance with Section 55 of the *Government Business Enterprises Act 1995*, we hereby submit for your information and presentation to Parliament the report of the Hydro-Electric Corporation for the year ended 30 June 2011. The report has been prepared in accordance with the provisions of the *Government Business Enterprises Act 1995*.



David Crean
Chairman Hydro-Electric Corporation
October 2011



Roy Adair
CEO Hydro-Electric Corporation
October 2011

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

Our vision:

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

Our values:

- We put people's health and safety first
- We 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 page

sustainability code

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.


Hydro Tasmania
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Governance
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Economic Performance
Employees
External Stakeholders
Ecosystems And Heritage
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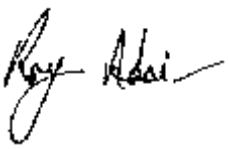
our values
Hydro Tasmania
The power of natural thinking

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 Hydro Tasmania Annual Report 2011 integrates our performance in terms of financial and non-financial results. It is our fifth integrated report and our seventh to include sustainability performance. Hydro Tasmania has been reporting its environmental performance since 1995.

This report covers the financial year from 1 July 2010 to 30 June 2011. It complies with legislative requirements for annual reporting under the *Government Business Enterprises Act 1995* (GBE Act) and our commitment to report our sustainability performance under our Sustainability Code. The report is structured on our Sustainability Code principles.

The information has been guided by the Global Reporting Initiative (GRI) G3.1 sustainability reporting guidelines and electric utility sector supplement, the Energy Supply Association of Australia sustainable practice framework, the International Hydropower Association Sustainability Protocol 2006 and the material interests of our stakeholders.

Different groups of stakeholders will find different sections of this report of interest. Our stakeholder groups are listed on page 67. Our primary audience is the people of Tasmania where our operations have the most significant economic, social and environmental impact.

Reporting material issues

We confirmed stakeholder interests through Media Monitor reports and an on-line survey developed by employees who are in contact with key stakeholders. The survey was sent to 85 organisations on our stakeholder list (see page 67) and we received 20 replies.

To determine business issues we used data from our risk management system, interviews with senior executives, CEO reports to the Board, the supplier survey and the 2010 employee survey. The Sustainability Working Group reviewed the issues and used a frequency criterion to decide the issues to report upon. We grouped like issues together and sorted them under Sustainability Code principles as in Table 1.

Switchyard at Poatina

Table 1: Material issues

Sustainability principle	Material issues identified by external stakeholders	Material issues identified by internal stakeholders	Page
Governance		Expert Panel Review into Tasmanian electricity industry	50
		Governance – Entura	38
Economic performance	Renewable energy development	Renewable energy development	32
	Contribution to state finances	Contribution to state finances	31
	Economic development for Tasmania from activities	Economic development for Tasmania from activities	32
	Electricity price	Momentum	36
		Entura	38
		Brand	33
		Client/customer relationships	33
Assets & resource use	Energy supply in Tasmania	Energy supply in Tasmania	44
	Emergency management of dams		46
	Water management in catchments	Water management in catchments	46
	Water supply from catchments	Water supply from catchments	47
Employees		Organisational refinement	60
		Developing our people	61
		Attract and retain talent	62
		Work processes	62
		Working overseas	62
	Safety on Hydro Tasmania sites	Safety on Hydro Tasmania sites	63
External stakeholders	Community (sponsorship)	Community (Community Initiative)	68
	Communicating with stakeholders	Communicating with stakeholders	67
	Recreation on land or water		69
Ecosystems & heritage	Water quality in catchments	Water quality in catchments	76
	River health protection in catchments		76
	Threatened species protection on land and water	Environmental incidents	77
	Land management		77
	Aboriginal heritage protection		78
	European heritage protection		78
	Addressing climate change	Addressing climate change	81

Data collection and basis

We have determined boundaries with reference to GRI G3.1 'guidance and decision tree for boundary setting' and have included a narrative report of Roaring 40s as an entity over which we had influence. The narratives from Momentum and Entura are for information for their clients, customers and interested readers.

Financial statements comply with International Financial Reporting and Australian Accounting Standards and are in accordance with the *Government Business Enterprises Act 1995*. Financial data includes all of the Hydro Tasmania group, including India, entities over which it has 100 per cent control and the 50 per cent joint ventures. In addition, we include the assets and liabilities of Lofty Ranges Power, the unincorporated joint venture. All monetary amounts are in Australian dollars.

Generation data is reported net of our market connection points in Tasmania. We measure water storage in gigawatt hours of energy or in percentage full of energy. See an explanation on page 160.

Greenhouse gas data is collected from all Hydro Tasmania's controlled Australian facilities for NGERS scopes 1, 2 and 3, where deemed material. Scope 1 and 2 emissions sources from Momentum and Entura's India office have not been included as they have been assessed as immaterial. Our emissions data in this report includes the Bass Strait islands, although these figures are not included in the report to NGERS because the operation of these facilities is outsourced.

Other Hydro Tasmania consolidated data includes Entura, except for India operations unless otherwise stated. Momentum is not yet fully integrated into Hydro Tasmania systems.

Employee data includes only Hydro Tasmania and Entura employees and the numbers are calculated on head count unless otherwise stated. Momentum and India are excluded due to limits in our data collection and incomplete aggregation of systems. Definitions are the same as the GRI G3.1 guidelines definitions where possible and otherwise we explain the difference, such as occupational health and safety (OHS).

OHS data is based on the Australian Standard 1885, except that overtime hours are not included and the number of employees is calculated on full-time equivalents (FTE) not head count. Contractor hours are included in the calculations for the first time.

The calculation for frequency rate is:

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

Assurance

Hydro Tasmania engaged Banarra for the sixth year to assure this report against AA1000 Assurance Standard. The assurance is challenging and a good source of feedback for improvement in the performance, processes and systems that come under scrutiny. Assurance provides greater confidence for our readers that what we report is accurate, transparent and balanced.

GRI application

Hydro Tasmania has assessed that this report conforms to a GRI A+ level. Banarra affirms this opinion in its Assurance Statement on page 21.

See the full GRI index on our website.

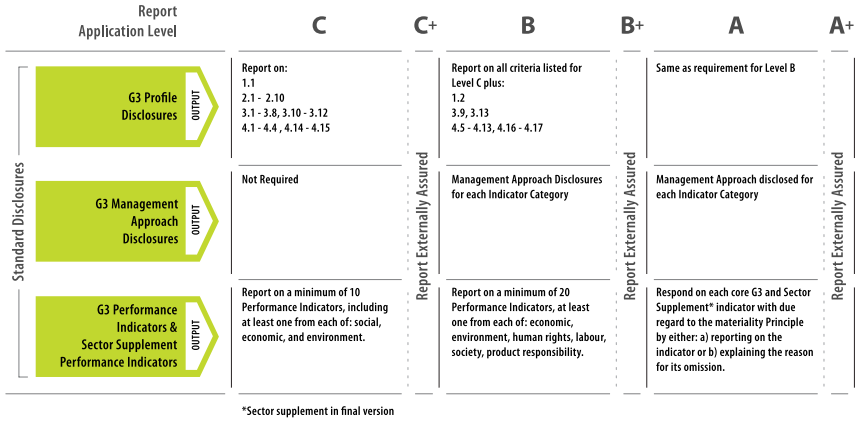


Figure 1: GRI application level criteria

Contact

We welcome feedback and comments about this report so that we can continue to improve its value to our readers. There is a feedback form on page 163 or send an email to: contactus@hydro.com.au.

If you have any queries regarding this report or its contents, please email contactus@hydro.com.au, or contact our CEO Roy Adair:

Email: ceo@hydro.com.au; or
Post: GPO Box 355
Hobart, Tasmania 7001
Australia

about hydro tasmania

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

The vision statement developed this year reflects our aspiration to be a material player in the National Electricity Market (NEM) as a vertically integrated electricity business realising our true value as the lowest emissions electricity generator in Australia.

We aim to provide our owner, the State of Tasmania, with sustainable returns. Our goals are to achieve BBB financial strength by financial year 2015 through prudent financial management and cost effectiveness, and increase sales to 15 TWh by financial year 2014 by growing our retail presence in mainland NEM regions through Momentum. We will retain our technical capability and grow our consulting business through Entura.

We launched our new brands in September 2010: three distinct entities under the Hydro Tasmania banner, building on nearly 100 years of experience in the electricity industry:

- **Hydro Tasmania –** trading wholesale electricity and environmental energy products; generating more renewable energy in Australia than any other generator; Australia's largest manager of water; based in Tasmania.
- **Momentum –** retailing electricity to small and medium businesses in mainland regions of the NEM; 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.

Change to business

An agreement to disaggregate Roaring 40s Renewable Energy Pty Ltd, the wind farm joint venture with Asian company CLP Group, was put in place on 30 June 2011. Details are on page 41.

Table 2: Hydro Tasmania's scale at 30 June 2011

		2007	2008	2009	2010	2011
Total employees (Australia and India)	Head count	825	838	880*	923	914
Net revenue	$ million	493	474	626	727	813
Total equity	$ million	958	1395	1665	1882	2013
Net debt	$ million	1141	872	904	863	964**
Total installed capacity	MW	2615	2510	2510	2281	2421
Total electricity generated	GWh	9064	8269	7881	8167	9273
Total assets	$ billion	4.25	4.8	5.2	5.1	5.5

* Hydro Tasmania acquired Momentum Energy Pty Ltd.

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

Structures

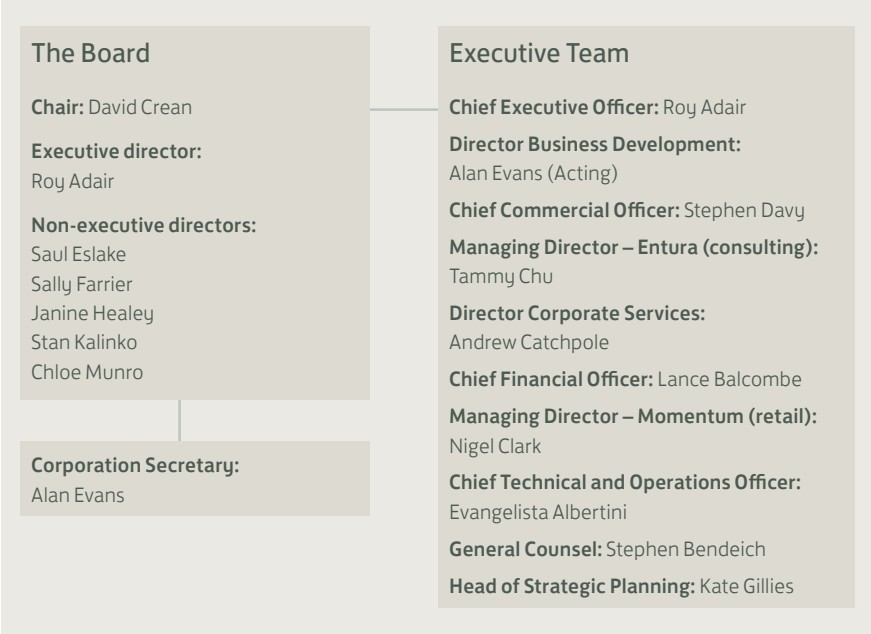


Figure 2: Hydro Tasmania's business structure at 30 June 2011

Figure 3: Hydro Tasmania's ownership structure at 30 June 2011

For more information see page 87 in the 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.

We operate under and are subject to two Tasmanian acts: the *Government Business Enterprises Act 1995* and the *Hydro-Electric Corporation Act 1995*. Our water licence is issued under the *Water Management Act 1999*.

The Honourable Bryan Green, MHA, Minister for Energy and Resources, has portfolio responsibility for Hydro Tasmania.

achievements and challenges 2010-2011

Tungatinah Power Station

Achievements

- Launched new brand to underpin strategy for growth through sales
- Strong financial performance on back of improved inflows and increased revenue from mainland operations:
  - profit of $100 million before fair value movements as a result of higher inflows and increased sales
  - total returns to Government of $51.7 million, including $25.5 million in dividends
  - mainland retail business Momentum records first profit; exceeds sales growth targets in all market sectors
  - professional services business Entura achieves profit in challenging year
  - $13 million of annual operational savings identified
- Capital expenditure of $64.3 million – work started on $60 million Tungatinah power station modernisation and $20 milion Poatina project
- Developed detailed 10-year Asset Management Plan that supports strategic objectives
- Adopted new corporate vision to reflect our aspirations for the future
- Transferred wind assets from a disaggregated Roaring 40s
- Rio Tinto hedge contract signed
- Staff engagement remained in top quartile of Australian businesses
- One million hours worked without lost-time injury (LTI); lowest LTI frequency rate on record
- 80 per cent of surveyed stakeholders rated our performance as good or excellent
- Established Community Initiative; corporate sponsorship expenditure in Tasmania of $457 838
- Established a systematic, rotational lake environmental monitoring and assessment program
- Agreed to increase environmental flow through Cataract Gorge
- Started the Mersey-Forth water management review

Challenges

- The level of community concern over rising power prices and public debate on the underlying causes
- National debate over carbon tax and specifically the benefits to Hydro Tasmania
- Providing resources to meet the requirements of the Expert Panel Review into the Tasmanian Electricity Supply Industry
- Tasmanian community understanding of mainland growth strategy, primarily through Momentum
- Progressing plans to develop renewable energy infrastructure – the Musselroe wind farm
- Completing the transition from pre-existing capital and major works plans to meet the new requirements and challenges of the 10-year Asset Management Plan
- Balancing the various demands for water from stakeholders – electricity production, agriculture, industry, community needs and environmental flow
- Driving zero LTI frequency rate
- Allowing for the differences between the cultures of wholesale and retail sales and consulting operating environments to better manage human resources across the Hydro Tasmania group
- Implementing a consistent stakeholder engagement approach across the business
- Balancing different recreational interests and activities on land and water under Hydro Tasmania's management
- Uncertainty about requirements for infrastructure management in the World Heritage Area until a revised management plan is approved by the State Government

progress against 2010 commitments

	Commitment made in 2010		Progress in 2011
Economic performance	Continue to implement a financial strategy aimed at improving financial returns, reducing the volatility of returns and improving our underlying strength.	✓	Our financial strategy was implemented last year and is now well embedded in the business. We are well on our way to improving the quantity and volatility of financial returns and improving our underlying strength. While the strategy itself is implemented we will continue to create initiatives under this strategy.
	Launch the new Hydro Tasmania brand family.	✓	Completed. Brand family was launched in Australia in September 2010 and in India in December 2010.
	Identify and implement economically competitive options to back our target sales growth.	–	Hydro Tasmania is identifying development sites for wind and gas to provide future options to back our sales in mainland NEM regions.
	Implement a differentiated market strategy.	✓	Completed. Implementation of the strategy has provided a framework to develop products for our three key product areas: wholesale and retail electricity and consulting services.
Assets and resource use	Eleven strong and reliable production lines in our generating portfolio.	–	The new 10-year Asset Management Plan changed the priorities for investment and the target was altered to 10 lines and was achieved.
Employees	Continue building skills for change and responsiveness to customers through the development programs (Change Agents, Leadership Initiative and Improving Service) by providing training to more people.	✓	Fifty-two employees completed training (Leadership Initiative, Change Agents and Improving Service Program).
	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.	✓	Achieved. Managers with specialist skills have been appointed in the areas of industrial relations, remuneration, recruitment and organisational change and have developed strategies that will be implemented in 2011-2012.
	Address actions identified in the Safety Improvement Plan for 2010-2011.	✓	Actions progressed according to plan. See details on page 63.
External stakeholders	Prepare a 'good neighbour' plan to target 10 000 hours per annum of community support provided by our people.	✓	Launched the Hydro Tasmania Community Initiative. We found that employees were already contributing more than 10 000 hours of voluntary community service.
	Achieve buy-in and commitment from employees to the stakeholder engagement framework.	–	Published stakeholder engagement principles, framework and guidelines for our employees. There is further work to ensure a consistent approach and improve employee stakeholder engagement, commitment and capability.
	Develop a model to understand and strategically manage our supplier relationships and communicate this internally and with our suppliers.	✓	Completed. Supplier relationship management principles developed and tested with suppliers.
Ecosystems and heritage	Evaluate the development of a new and more efficient ramp-down rule for the Gordon River.	✓	Trials were undertaken to provide data and a revised rule is being developed.
	Initiate the Mersey Forth water management review.	✓	Initiated – the first stage is under way: a review of social, environmental and operational activities and issues in the catchment. The water management review will take at least three years to complete.
	Establish a systematic, rotational environmental monitoring and assessment program for Hydro Tasmania's lakes.	✓	The program is established. Monitoring was undertaken in seven Mersey-Forth lakes.
	Define and develop measures to track improvements in energy efficiency.	–	We created a plan to define and develop measures in 2011-2012.

chairman's review

Hydro Tasmania has completed its most successful year since disaggregation of the HEC in 1998.

Strong revenue growth on the back of higher rainfall and our increased operations on mainland Australia saw the business record a profit before fair value of $100 million. This will see returns to the Tasmanian Government in 2011-2012 totalling almost $118 million, including a dividend of $49 million.

The business continued to implement a growth strategy focused on strengthening its financial position, reducing risk and making it more competitive in its chosen markets. A key milestone was the successful launch of the new Hydro Tasmania group brand in September 2010. This was of particular significance to our Victorian-based retail business Momentum as it continued to grow in one of the world's most competitive markets, achieving a profit for the first time in its short history, while exceeding its revenue targets for the year.

At the same time, we remained focused on increasing our trading margin, primarily through sales in the National Electricity Market (NEM), while reducing costs to remain a low cost producer. The result of this is that we have improved business profitability as well as our resilience to any future period of sustained low inflows.

It is easy to forget that only three years ago Tasmania was experiencing drought conditions with hydro storages declining to less than 20 per cent of full energy[1].

1 Full energy is explained in 'Measuring water storage levels' on page 160.

As of 30 June 2011, the storages stood at 45.9 per cent of full energy and passed the 50 per cent mark on 31 July 2011, just over 10 years since they last were at this level. Rainfall during the period yielded 10 700 GWh.

Balance sheet strength

The average inflows for the year helped the business in terms of cash flow, profitability and balance sheet strength. Our operating cash flow was strong with EBITDA (earnings before interest, taxes, depreciation and amortisation) of $264.9 million and cash from operations of $160.8 million. Net debt at the end of the year was higher than expected at $964 million because of the acquisition of $143.7 million of Roaring 40s' debt following the end of the joint venture with CLP. This figure is expected to decline significantly in 2011-2012 as we pursue a new wind development model.

Consolidated gross revenue for the group was $813 million. This included sales of $245 million for our retail business in its mainland markets, more than double its previous year's result. It is important to note that overall revenue from our Tasmanian customers declined during the year with 29 per cent sourced from non-contestable customers, down from 42 per cent last year. At the same time revenue from our major industrial customers in Tasmania increased from 41 per cent of our Tasmanian revenue to 59 per cent. During the same period, revenue from our mainland operations more than doubled.

Basslink

This strong performance would not have been achievable without Basslink which recorded a net export result for the first time since it began operations in April 2006. The link is now working as it was originally intended – exporting into the mainland at high prices and importing at low prices to help build and protect hydro storages. This followed four years during which imports across the link shielded Tasmania from the full impact of the drought that gripped the eastern states. In 2010-2011 there were exports of 1311 GWh and imports of 1095 GWh, a net export amount of 216 GWh.

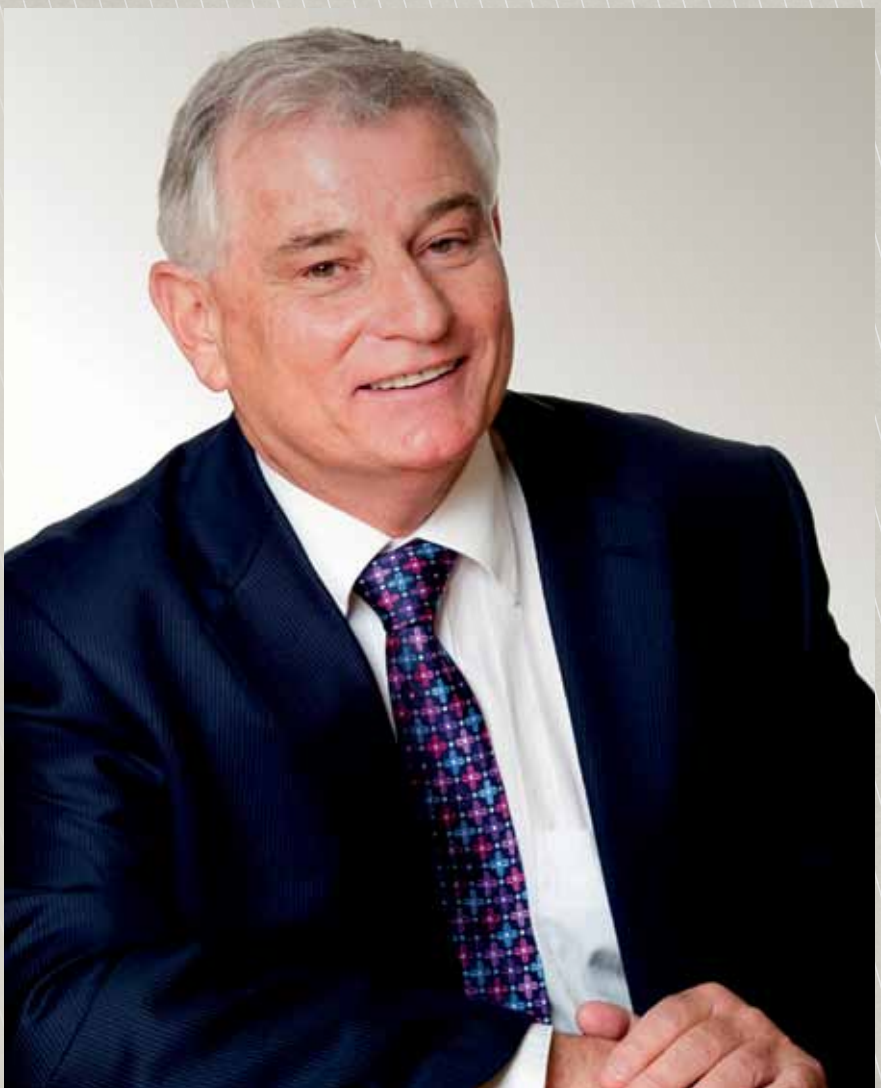
Basslink enables Tasmania to be a participant in the NEM. It provides the State with the capacity to reap the benefits of the community's investment in renewable energy over the past 100 years while providing future security of supply to the State's economy and reducing the volatility of the impact of climate change.

Carbon price

Hydro Tasmania has a key competitive advantage in that it has the lowest carbon intensity of any large generator in the NEM. With the introduction of a carbon price from July 2012, the business will start to realise the value of this advantage. While the benefits to the business could be significant, initial estimates raised in the public since the Prime Minister's announcement have been grossly exaggerated and caution is required when

‘Our strategic direction remains focused on strengthening our financial position, risk mitigation and fully integrating sustainability into our business planning.’

Dr David Crean, Chairman



estimating the likely return to the business and our shareholder. Forecasting the carbon uplift to the business is inherently difficult given the large number of variables as to how the price will be passed through our various revenue streams and the lack of certainty around how the market will respond. One thing is certain, however, and that is, based on current national policy, the introduction of a carbon price will properly value the clean energy output from the State’s hydropower generation.

Lifting value

Our strategic direction remains focused on strengthening our financial position, risk mitigation and fully integrating sustainability into our business planning. We have taken great strides over the past five years and the business is well-positioned to deal with the challenges of a market dominated by a small number of vertically-integrated competitors.

A key component is the continued growth of Momentum which puts us well along the path to having similar financial strength to our NEM competitors. Momentum’s increasing customer base reduces our exposure to the trend in the NEM for generation and retailing to consolidate into a lesser number of vertically-integrated energy companies. This will lift the value of our whole business and help to generate increased shareholder returns in the long term of around $187 million per annum by 2016. Added to this is planned further investment in wind projects and investigating gas generation opportunities on the mainland to back our retail sales and diversify our revenue streams. This strategy puts our business in a strong position to maintain our Tasmanian assets, progress with projects such as the Musselroe wind farm and pursue new business opportunities.

Entura

Hydro Tasmania’s professional consulting services business Entura continues to build a strong international reputation in the power and energy, and water and environment markets. The business turned around a difficult year previously to record a profit and exceed sales targets for 2010-2011.

Lake Parangana

It continues to build a strong client base with 72 per cent now coming from clients external to Hydro Tasmania. Eight years ago the figure was 20 per cent. A key component has been the revenue growth from international markets which now makes up 17 per cent of total external sales. Half of this came from emerging opportunities in the Malaysian state of Sarawak where Entura has developed a strong partnership with Sarawak Energy Berhad to focus on the hydropower sector.

Entura also strengthened relationships with key clients in India through its office in New Delhi while it has entered the African market with feasibility work on a wind farm in South Africa.

King Island

The rollout of the Remote Area Power Supply (RAPS) system on King Island continues to reduce the island's reliance on diesel generation and is on target to achieve an annual contribution from renewable energy generation to the island's power supplies of over 65 per cent. A RAPS approach that combines integrated technologies and systems solutions has significant global potential given the nearly two billion people in Africa and Asia who are without power or are reliant on diesel. Another emerging opportunity is how the technology could be used to power mining sites and remote communities in Australia.

The year ahead

In conclusion, I look forward to another positive year ahead. As always there will be many opportunities and some significant challenges. However, our strong financial position, the state of hydro storages, a clear growth strategy and the commitment and energy of our people mean our business will continue to demonstrate the professionalism and efficiency expected of us by our shareholders, the people of Tasmania.

Thank you to all staff, our customers and of course my fellow directors for what has been another memorable year in the great history of Hydro Tasmania.

ceo's report

Hydro Tasmania has made considerable progress towards its strategic goals during 2010-2011, achieving a number of significant milestones along the way.

In what was a comprehensively successful year for the business, the financial result was particularly strong with a 38 per cent increase in profit before fair value on the back of annual turnover increasing to $813 million per annum. This came at a time of unsustainably low wholesale electricity prices in the National Electricity Market (NEM) and was largely due to increased rainfall, growing mainland revenue and the work of a committed, enthusiastic and highly professional workforce. The financial position was reinforced by a concentrated effort to achieve enduring reductions in Hydro Tasmania's operational cost base, while at the same time maintaining and improving a strong level of service performance.

This augurs well for the future and has enabled Hydro Tasmania to position itself optimally for the future as a business committed to sustainability while competing effectively in the highly competitive environment of the NEM.

Brand and vision

The launch of the new Hydro Tasmania brand introduced a strong marketing concept across the business and was one of the main drivers behind the profitable performance of both the professional services arm Entura and the retail operation Momentum. During the year the business took the opportunity to build on the initial success of the new brand to refine its vision to more accurately reflect a desire to be a unique integrated energy player within the national market. Both the brand and the vision are strongly and actively supported within the business and provide an excellent platform on which to continue delivering strong returns to our Tasmanian shareholders while building a growing presence on mainland Australia.

Momentum

The Victorian-based retail business continued its rapid growth with a doubling of its electricity sales. Building on a unifying brand architecture, its success flowed from a strategy of leveraging off Hydro Tasmania's unique market position as Australia's largest clean energy business. This market niche capability has been successfully combined with a strong focus on responsive customer service, prompt billing and collection, and tight cost management which has seen Momentum achieve lower customer service costs and excellent customer retention levels. This track record of successful development by Momentum represents the vanguard of Hydro Tasmania's overall growth strategy and should see the retail business achieve its medium-term sales targets within the next 18 months.

Wind

Another key component of the growth strategy is wind development. In June 2011, the Roaring 40s joint venture with CLP was concluded, largely due to differences in growth appetite and the partners becoming direct competitors in the retail electricity sector. However, Hydro Tasmania is strongly committed to wind as a key part of its core business and is now moving to a development model that will enable it to control more effectively the direction, pace and quantum of its future investment.

This new model will enable the introduction of a strategic financial partner who will complement the technical wind farm development and operational skills of Hydro Tasmania. The divestment of a stake of up to 75 per cent in Woolnorth will assist in the construction of the Musselroe wind farm and progress ongoing wind development plans both in Tasmania and on mainland Australia. This is part of an overall strategy to ensure Hydro Tasmania has an appropriate portfolio of renewable energy generation to assist in meeting its Renewable Energy Certificate (REC) liability.

Expert Panel Review (EPR)

While Hydro Tasmania has a clear strategy for its future, there remains significant industry uncertainty as a result of any action that may be taken by the Government of Tasmania as a result of the findings and recommendations of the independent panel established in 2010 to investigate the State's electricity sector. The review continues to draw significantly on the internal resources of all of the State's electricity businesses as it seeks to gain an understanding of the many

‘I would like to acknowledge the material contribution made by the management and staff of Hydro Tasmania to a year of considerable achievement.’

Roy Adair, CEO

complexities and challenges facing the industry. It does so at a time of significant and understandable public anger over rising power prices.

The panel’s final report due in December 2011 will invariably involve recommendations on the future structure of the electricity industry in Tasmania. It is imperative that the canvas for this report, with its attendant recommendations, is painted against a background of ongoing national market involvement, because the alternative will only lead to a decline in returns to Tasmanian shareholders and the loss or reduction of any benefit the State may receive from its considerable investment in renewable energy assets over the past 100 years.

Asset performance

It is this investment in our asset base that is at the heart of our business.

At the commencement of the financial year 2010-2011, a sustainable strategy was introduced to manage key dams and production assets through the development of a 10-year Asset Management Plan. Under this strategic umbrella approach the business continued to embrace the highest standards of duty of care to the public, the environment and staff. These standards are consistent with worldwide benchmarks.

Under the plan, the business will continue to discharge its accountabilities on a number of fronts; from increased surveillance of targeted assets and installation of a number of additional monitoring devices through to sizeable major investment. The focus of attention during the year was on the condition and associated risk implications of Rowallan Dam located in the headwaters of the Mersey River. The aim is to improve the depth of understanding of the dam’s condition and then prioritise and implement the identified solutions over the next few years.

By far the largest element of the $64 million capital works program during the year was spent on Poatina Power Station. This has been a major focus of our asset investment in recent years to restore the condition and performance of this high

priority station to levels commensurate with its role in underpinning market delivery in the NEM. This year's project involved a five-month station outage to recoat the internal lining of the penstock and complete the works related to the station modernisation. A station outage at Poatina such as this is a rare occurrence and involved two years of liaising with downstream stakeholders and selecting and working with contractors in order to be suitably prepared to implement the works. The project was completed on time with the station restarting as planned in September 2011.

Stakeholders

Hydro Tasmania continues to develop the way it engages with stakeholders. The business is learning to better plan how it undertakes projects that impact on others and to focus on finding solutions to the priorities and issues of concern raised by stakeholders. Over 80 per cent of surveyed stakeholders rated Hydro Tasmania's performance as good or excellent. Through work with suppliers, the business is ensuring a commitment to sustainability practices across the supply chain. Suppliers' satisfaction with our performance was 81 per cent.

The business has also begun to refocus the way it is involved with the wider Tasmanian community with the development of a new initiative to be implemented in the coming year to provide targeted support for organisations supporting the young, the aged and the disadvantaged. During the year our people continued to give generously of their time in their communities while also raising funds for important causes such as the Queensland Flood Appeal and Sleeping Out for the Salvos.

IT strategy

A major piece of work completed during the year was the review and overhaul of the IT business strategy to ensure it matched strategic goals. This work identified a number of key priorities for investment in the short-term in order to provide a solid technology and software base consistent with the positioning of Hydro Tasmania for the future. Undoubtedly, the flagship of the strategy is the core application systems processes and redevelopment project (CASPaR), which is founded upon an enterprise resource planning system. At the same time the business began developing an energy trading risk management system (ETRM) to enhance the operational arrangements around trading in the market while ensuring that risk management arrangements are correspondingly tight and appropriately focused. The careful planning of these projects and the commitment of the requisite management and development resources will ensure their success.

Our People

During the course of 2010-2011 a refinement of the organisational structure was undertaken in order to align more effectively key business areas with the successful delivery of the wider business strategy. The implementation was undertaken with minimal disruption. This was reflected in the annual employee survey which showed that engagement rankings had been maintained within the top quartile of Australian businesses.

The safety of staff remains paramount and much work was undertaken during the year on a range of improvements to raise the bar of safety performance and improve the safety culture within the business. An illustration of the effectiveness of this strategy was shown by the reduction in the lost time injury frequency rate (LTIFR) from 2.4 to 0.6. In June 2011, the business reached a major milestone with the unprecedented achievement of one million working hours without a lost-time injury.

Positive outlook

The business outlook remains strong despite the many challenges of operating in a highly competitive market and at a time when the industry is under intense public scrutiny. The true value of Tasmania's renewable energy is to be recognised with a price on carbon. The business remains on track to strengthen its financial standing to BBB status by 2015 while reducing risks through diversifying operations and strengthening the capacity to manage any future hydrological downturn. Hydro Tasmania is well-positioned to assist the State in taking advantage of its leading position in the nation's renewable energy sector.

Finally, I would like to acknowledge the material contribution made by the management and staff of Hydro Tasmania to a year of considerable achievement. Their value to the business and its ongoing success can never be under-estimated or taken for granted. Their expertise, professionalism, pride in their work and their passion for this business have led not only to a year of strong performance, but have also laid a solid platform upon which Hydro Tasmania is extremely well placed to meet the challenges ahead.

statement of corporate intent

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 as laid down by the GBE Act and the Corporation's Ministerial Charter and elaborated on by Hydro Tasmania's stakeholding ministers (the Minister for Energy and the Treasurer).

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

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

Hydro Tasmania's principal objectives are to perform its functions and exercise its powers so as to be a successful business by:

- operating in accordance with sound commercial practice and as efficiently as possible
- achieving a sustainable commercial rate of return that maximises value for the State in accordance with the Corporate Plan and having regard to the economic and social objectives of the State[2].

Hydro Tasmania's core business is the generation, trading and sale of electricity in the NEM. This core business encompasses the generation of electricity (currently from hydropower and wind resources), trading in wholesale electricity and environmental energy products and the retail sale of electricity (undertaken by Momentum Energy Pty Ltd).

The GBE Act lists 27 power stations and associated dams, canals and infrastructure on mainland Tasmania as "main undertakings", at the following locations[3]:

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

2 Section 7, GBE ACT.

3 The 27 power stations and associated dams, canals and infrastructure listed in this table have special status pursuant to the *Hydro-Electric Corporation Act 1995* and constitute Hydro Tasmania's main undertakings for the purposes of the GBE Act. Hydro Tasmania also owns three mini-hydros (Butlers Gorge, Parangana and Lower Lake Margaret) on mainland Tasmania that are not classified as main undertakings.

The value of Hydro Tasmania's generation assets is realised through trading electricity and environmental energy products in the NEM and selling electricity to retail customers. Hydro Tasmania owns a retail electricity business, Momentum Energy Pty Ltd (Momentum). Momentum is headquartered in Melbourne and has customers in Victoria, South Australia, Queensland, the Australian Capital Territory and New South Wales.

Hydro Tasmania also provides consulting services under the trading name Entura. Entura is an international consulting business with offices in Hobart, Melbourne, Brisbane, Sydney and New Delhi (India). Entura provides expert engineering and environmental services in the areas of renewable energy, power engineering and environmental and water management.

Hydro Tasmania owns assets on King and Flinders islands in Bass Strait. These include the Huxley Hill wind farm on King Island and two diesel power stations and associated electricity distribution networks. Hydro Tasmania has a Community Service Obligation (CSO), funded by the Tasmanian Government under Part 9 of the GBE Act, to provide concessional arrangements to customers on the Bass Strait islands. Hydro Tasmania is currently installing additional renewable energy generation and storage solutions on King Island. Hydro Tasmania's assets on the Bass Strait islands are operated by Aurora Energy Pty Ltd under contract.

‘Hydro Tasmania’s core business is the generation, trading and sale of electricity in the NEM.’

In the recent past, Hydro Tasmania has undertaken wind farm development and generation activities within the NEM as joint owner of Roaring 40s Renewable Energy Pty Ltd (Roaring 40s) with China Light and Power Asia Limited (CLP). Hydro Tasmania and CLP, however, have discontinued the joint venture with effect from 1 July 2011 and divided Roaring 40s’ assets between the two shareholders. The Roaring 40s exit resulted in Hydro Tasmania owning the Tasmanian-based operating wind farms and the Musselroe wind farm development project. CLP owns the remaining operating assets (a 50 per cent share in Cathedral Rocks, and the Waterloo wind farm). The development pipeline was split between CLP and Hydro Tasmania.

Hydro Tasmania is a joint owner with SA Water of a mini-hydro generator in South Australia. It also owns the Bell Bay Power Station which ceased operations on 1 April 2009.

Strategic direction

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
- 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.

Hydro Tasmania’s strategy is focused on strengthening our core business position as an integrated energy business to mitigate exposure to strategic risks and enhance the value of the core business. Hydro Tasmania’s two key strategic targets were established and agreed in the 2010 Corporate Plan: achieving BBB financial strength by the end of FY2015 and continuing sales growth.

The business continues to target the achievement of BBB financial strength in FY2015, while delivering a significant increase in returns to Government to support the State Budget. The business is continuing to focus on increasing its trading margin, reducing costs to remain a low cost producer and reducing capital expenditure to minimum sustainable levels. The progress made on these initiatives has improved profitability and the Corporation’s resilience to periods of sustained low inflows.

The business also remains on track to achieve 15 TWh of sales in FY2014. Momentum is critical to Hydro Tasmania achieving its core strategic targets. At least 5 TWh of the 15 TWh of sales is targeted to be sold directly to retail customers through Momentum. Momentum is progressing well toward this target and now has business customers in all mainland regions of the NEM. The value generated from Momentum’s sales contributes to the returns Hydro Tasmania provides to the State Budget. In this respect, the Hydro Tasmania group is a successful Tasmanian export, creating value for Tasmanians through its operations across the NEM.

Hydro Tasmania has a significant history in wind development, both directly within the business and through Roaring 40s. Wind development will continue to be pursued as wind currently provides an economical source of Large-Scale Generation Certificates to back commitments arising from our retail sales.

Entura will remain an important component of Hydro Tasmania’s business into the future. Entura has a dual role within the Hydro Tasmania group. It is a stand-alone profitable business and a provider of the technical skills that are required for the construction, maintenance and operations of the Hydro Tasmania group’s generation assets.

Post the successful development of Remote Area Power Supply on King Island, Hydro Tasmania will assess whether there are avenues to commercialise this type of opportunity in other remote communities.

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 Table 3.

Hydro Tasmania’s key performance indicators are notable for sustained levels of forecast operating profit, followed by substantial increases in forecast profit levels.

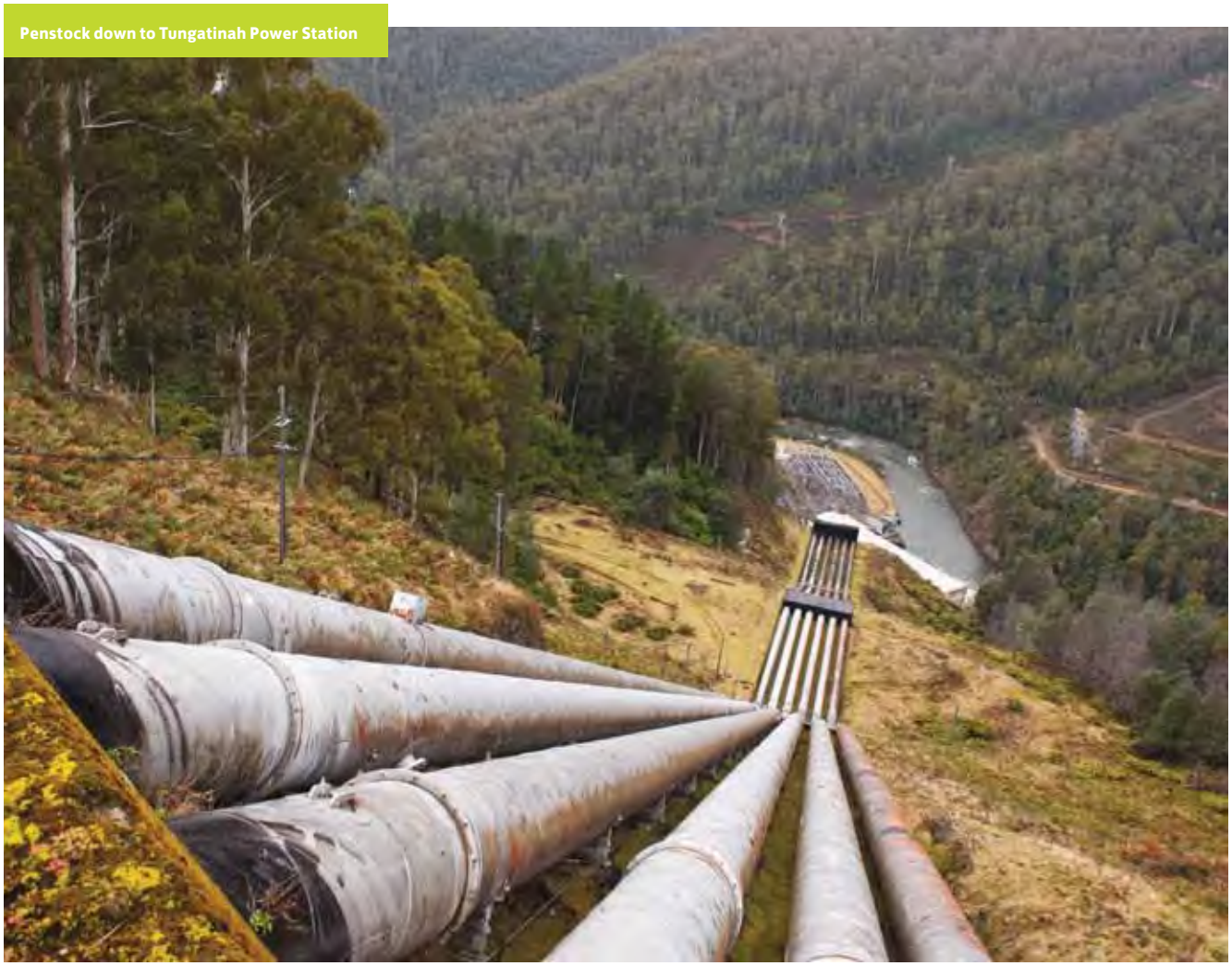
This phenomenon is chiefly driven by current low contract prices prevailing in the NEM, followed by the impact of the introduction of a carbon price. All forecasts are, therefore, volatile and subject to significant risk. The forecasts reflect the revision to the dividend payout ratio to 70 per cent of underlying profit after tax. This has resulted in a significant increase in Hydro Tasmania’s forecast contribution to the State Budget, to assist in resolving the current budgetary challenges facing Tasmania. Hydro Tasmania’s returns to Government are now forecast to be $673 million over the five years of the Corporate Plan.

Table 3: Key Performance Indicators

	Actuals	Key Performance Indicators				
	2011	2012	2013	2014	2015	2016
Financial indicators						
Operating profit[a]	$70 m	$66 m	$77 m	$90 m	$127 m	$154 m
Non-financial indicators						
Lost Time Injury	1	0	0	0	0	0
Engagement score in top quartile benchmark	N/A	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%	80%
Returns to Tasmanian Government						
Ordinary dividend	$25.5 m	$49 m	$46 m	$54 m	$63 m	$89 m
Total other returns to Government	$26.2 m	$69 m	$74 m	$60 m	$71 m	$98 m
Total returns to Government	$51.7 m	$118 m	$120 m	$114 m	$134 m	$187 m

a *Operating Profit* – profit before fair value movements, excluding the gain from the restructure of Roaring 40s JV interest and adjusted for tax.

Penstock down to Tungatinah Power Station



independent assurance statement

AA1000
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Hydro Tasmania Annual Report 2011

To Hydro Tasmania's stakeholders,

Banarra was commissioned by Hydro Tasmania to assure its Annual Report 2011 (the Report) against the AA1000 Assurance Standard 2008 (AA1000AS). Banarra was also commissioned to check the Report against the Global Reporting Initiative (GRI) G3.1 Sustainability Reporting Guidelines. This is Banarra's sixth reporting cycle with Hydro Tasmania, so we have built on our understanding of the organisation and its progress.

Assurance scope

The assurance scope was a Type 2 engagement under the AA1000AS (2008) and included:

1. Assessment, to a moderate level of assurance, of the nature and extent to which Hydro Tasmania adheres to the AA1000 AccountAbility Principles Standard 2008 (AA1000APS) principles of inclusivity, materiality and responsiveness, and how it communicates this adherence in the Report;
2. Evaluation of the reliability of specified sustainability performance information, to a moderate level of assurance, relating to a selection of material issues;
3. Evaluation of the reliability of specified sustainability performance information, to a high level of assurance, relating to Australian Scope 1 & 2 GHG emissions; and
4. Provision of a third-party check of the Report against the GRI G3.1 Sustainability Reporting Guidelines.

The performance information was assured using the GRI G3.1 Sustainability Reporting Guidelines and the associated Electric Utilities Sector Supplement, and other 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 type, contract type and turnover	GRI LA1, LA2, EU14, EU15 & EU17
	Employee engagement	AA1000APS (2008) Inclusivity Principle
	Employee health & safety	GRI LA7 & EU16
External Stakeholders: Suppliers	Supplier engagement	AA1000APS (2008) Inclusivity Principle
	Supporting local suppliers	GRI EC6
Ecosystems & heritage	Impacts and management of biodiversity	GRI EN11, EN12 & EN14
	GHG emissions intensity (excluding net generation figures)	GRI EN16
	High Level of Assurance	
Ecosystems & heritage	Australian Scope 1 & 2 GHG emissions	GRI EN3 & EN4 National Greenhouse and Energy Reporting System Measurement Technical Guidelines June 2009

Banarra assurance methodology

Our methodology included:

- Interviews with six members of Hydro Tasmania's Board and senior management team, including the CEO, Roy Adair, and 33 employees concerning sustainability management, governance and strategy, policies, material issues and implementation of responses;
- Distribution of a survey to 14 employees concerning Hydro Tasmania's adherence to the AA1000APS principles;
- Review of Hydro Tasmania's documentation relating to operational planning, risk assessment, sustainability governance, materiality, stakeholder engagement and response management;
- Review of Hydro Tasmania's materiality process;
- Two visits to Hydro Tasmania's headquarters in Hobart, Tasmania;
- 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 selected qualitative statements in the Report relating to the material issues (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 A+ requirements; and
- A review of the Report to check that it appropriately communicates the nature and extent of Hydro Tasmania's adherence to the AA1000APS principles.

Findings and recommendations

We believe that the Report has adequately communicated the nature and extent of Hydro Tasmania's adherence to the AA1000APS' principles. Findings and recommendations on the nature and extent of Hydro Tasmania's adherence to the principles are provided below.

Inclusivity – does Hydro Tasmania have an inclusive approach to stakeholders?

Hydro Tasmania has comprehensively mapped and prioritised its stakeholders in terms of their influence and interest to Hydro Tasmania. Stakeholder mapping across Entura (Hydro Tasmania's consultancy arm) and Momentum (Hydro Tasmania's retail energy business) has been integrated with that of Hydro Tasmania for the first time.

Hydro Tasmania implemented in FY11 a stakeholder engagement framework to provide a more consistent approach to identifying stakeholders and responding to their issues. However broad awareness and application of the framework within the business was not evident. Although Momentum and Entura have developed engagement plans for their stakeholders, Hydro Tasmania is yet to do so, resulting in variable engagement with stakeholders particularly in the early stages of projects.

Training is provided on an ad hoc basis to build internal competencies and maintain consistency in stakeholder engagement. Formalised stakeholder engagement training is recommended to systematically build internal capacity. Banarra also recommends that the new stakeholder engagement manager focuses on ensuring that the stakeholder engagement framework is fully embedded and supported by the development of a specific stakeholder engagement plan for Hydro Tasmania.

Stakeholder engagement outcomes are appropriately reported to the Executive Leadership Team and Board to inform decision-making. Performance indicators around stakeholder engagement are evident in business strategies across the organisation, with the exception of Entura. Although a statement of accountability to stakeholders features in the stakeholder engagement framework, Banarra identified a recognition amongst senior management that this commitment could be more strongly articulated. The current revision of Hydro Tasmania's Sustainability Code is a key opportunity to address this, as is clear communication of this commitment in future reports.

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

Hydro Tasmania has applied a materiality process for the Report that takes into account inputs from a range of stakeholders and key internal sources for Hydro Tasmania and Entura (Australia). Over thirty material issues were identified and all are clearly stated in the Report. Initially suppliers and employees were not included in the materiality process, and we recommend that Hydro Tasmania review its approach to ensure that issues from all stakeholder groups are captured. The scope of the process should also be extended to include Entura (India) and Momentum.

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 formalising guidelines for applying these criteria in order to increase the effectiveness, transparency and replicability of the process. Hydro Tasmania should also consider the maturity of the issues identified in its materiality process to help ensure that its responses are appropriate.

Although Hydro Tasmania primarily identifies material issues for reporting purposes, it is now beginning to use materiality results in wider business and decision-making processes.

Responsiveness – has Hydro Tasmania responded to these issues?

Hydro Tasmania has a range of processes for managing and responding to stakeholder issues, but should continue to look for opportunities to better integrate these processes to achieve a more holistic and consistent response to material issues across the business. Improvements in this area would be supported by the implementation of the stakeholder engagement framework.

Hydro Tasmania's sustainability principles, articulated in its Sustainability Code, have been embedded throughout the business including in its strategic planning, investment and risk management processes and in the strategies of its various business units. Entura has also aligned its operational plan with the principles and Momentum should follow suit.

Hydro Tasmania has responded strategically to a number of material issues, such as commencing the integration data management systems, developing team safety management plans and committing to drafting a biodiversity strategy. Banarra also identified a number of examples of Hydro Tasmania involving stakeholders in formulating or participating in their response to sustainability issues, such as in development of the safety management plans and a new vision and Sustainability Code.

The Report includes a comprehensive account of Hydro Tasmania's sustainability endeavours. Banarra recommends that Hydro Tasmania reviews its reporting to ensure that the narrative more clearly communicates a balanced view of the overall performance, context and significant successes and challenges during the reporting year, particularly in the CEO's and Chair's reviews.

Responses to past commitments are reported in broad terms, making it challenging for stakeholders to assess the progress made. Hydro Tasmania should also ensure that future commitments are clear and concise, with specific, measurable and time-bound targets.

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 FY11
- 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 FY11 in relation to the following material issues: employee type, contract and turnover; employee engagement; employee health and safety; supplier engagement; supporting local suppliers; impacts and management of biodiversity; GHG emission intensity (excluding net generation); and Australian Scope 1 and 2 GHG emissions.

We are pleased that Hydro Tasmania has implemented systems to gather data relating to contractors, and that it may be capable of fully disclosing contractor data in future reports. We recommend Hydro Tasmania commits to a more complete disclosure of contractor data in future reports.

Definition and communication of data boundaries in the Report was not consistent with regard to the business entities included, as well as the inclusion of contractor data. Banarra recommends that Hydro Tasmania resolves to fully integrate and report on all material performance data from all its entities in the next Report. A consistent approach and clear articulation of data boundaries would also help stakeholders assess the completeness of the information presented.

Banarra also identified inaccuracies across a number of datasets and statements, which were subsequently rectified. Improvements to the documentation of its management systems, data collection and processes for quality control are recommended, particularly relating to greenhouse gas reporting and stakeholder surveys.

Global Reporting Initiative

We concur with Hydro Tasmania's own assessment that it has achieved GRI application level A+. Whilst Hydro Tasmania has provided explanations for shortfalls that satisfy GRI requirements, we recommend a review of its approach to gathering and disclosing contractor workforce information, as it is likely to be material to the business and of 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 the AA1000AS. This opinion is provided to Hydro Tasmania's management and any reliance that third parties may place on this statement is entirely at their own risk. Banarra has provided Hydro Tasmania with a management report detailing the findings and recommendations outlined in this statement.

Banarra was paid by Hydro Tasmania to conduct this assignment. Other than this payment, and payment for a small project related to Hydro Tasmania's Sustainability Code which had no impact on this year's assurance, Banarra 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

Catriona Webster
Sustainability Assurance Practitioner

Banarra
Sydney, Australia
20 September 2011

performance

sustainability

Hydro Tasmania's commitment to sustainability is expressed in our values and in our Sustainability Code, which guide business activities, policies and procedures.

Sustainability performance 2010-2011

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.

The Sustainability Code in full is on page 2.

The Sustainability Code principles and elements are shown in Figure 5.

Self-assessment

Hydro Tasmania self-assesses its sustainability performance against elements and attributes of the Sustainability Code principles. Scores are assigned under each principle by a member of the Sustainability Working Group. The scoring criteria come from the International Hydropower Association (IHA) Sustainability Assessment Protocol 2006. For a full explanation of the criteria, see page 149.

A summary table of the assessment against the principles, their elements and attributes is on pages 150 to 154.

The overall score is a simple average of the principle scores. This year we achieved our target of 3.9, a slight increase on last year's score of 3.8 as shown in the spidergram Figure 4.

Global Reporting Initiative

Hydro Tasmania reports against GRI 3.1 guidelines and the electricity utilities supplement. For the second year we reported to A+ level.

See the full GRI index on our website.

Figure 4: Sustainability performance 2010-2011

Graduate Engineer Ryan Smyth at the Poatina penstock

Table 4: Sustainability scores over five years

Financial year ending June	Score 2008	Score 2009	Score 2010	Target 2011	Score 2011
Principle:					
Governance	3.5	3.8	3.6	3.7	3.6
Economic performance	3.7	3.6	4.1	4.2	4.3
Assets and resource use	3.7	3.8	3.9	4.0	4.1
Employees	3.3	3.6	3.6	3.8	4.0
External stakeholders	3.1	3.3	3.6	3.7	3.6
Ecosystems and heritage	3.4	3.5	3.8	4.0	3.8
	3.4	**3.6**	**3.8**	**3.9**	**3.9**

Embedding sustainability

We have achieved reasonably well against commitments of the code since 2004. We apply the code principles to decision-making processes for business planning, strategy and risk management. We have applied the principles in many of our business activities, such as procurement and tendering, hydropower generation, asset management, stakeholder engagement, asset management, water management and trading.

Sustainable practices are overseen by the Board's Environment and Sustainability Committee with operational advice and guidance the responsibility of the Sustainability Working Group which is made up of senior representatives from across the organisation.

Code review

In 2011 we began to review the code according to our commitment to do so every three years. The review covers the principles, our commitments, how we implement practices and how we report our performance. Our aim is to achieve and maintain international best practice in each of these areas. The review provides the opportunity to discuss sustainability and what it means throughout the business. It is the first time Momentum has been included in contributing to the code's development. Entura's business and operational experience over the past three years is also expected to bring another perspective. The review is expected to be completed by September 2011.

International sustainability activities

Hydro Tasmania plays a leading role in promoting sustainable development of hydropower on the international stage. In September 2010, two Hydro Tasmania employees completed their representation and coordination roles with the Hydropower Sustainability Assessment Forum. This international forum spent almost three years developing a globally applicable sustainability assessment tool for hydropower projects, known as the Hydropower Sustainability Assessment Protocol. The protocol is a consensus product achieved despite the diversity of, and in cases highly polarised, perspectives amongst the forum members on many issues of sensitivity for hydropower developments. Representatives were from industry, environmental and social non-government organisations, bank and government representatives.

Hydro Tasmania, amongst other global leaders in the hydropower industry, is committed to the principles that underpin the protocol, and also to supporting its implementation to advance sustainability of hydropower across the globe.

In addition, a Hydro Tasmania employee was contracted by ECO-Asia (USAID) to assist with the development and trial of the Rapid Basin-Wide Hydropower Sustainability Assessment Tool (RSAT). The RSAT has been developed under a partnership between the Asian Development Bank, the World Wide Fund for Nature and the Mekong River Commission since 2006 to contribute to basin planning for sustainable hydropower development. Hydro Tasmania has assisted with the trial of RSAT in the lower Mekong countries during 2011 and based on these a revised version of RSAT is to be developed by the end of 2011. This will be used to conduct sustainability assessments and stakeholder dialogue in the lower Mekong basin for a range of hydropower sustainability issues.

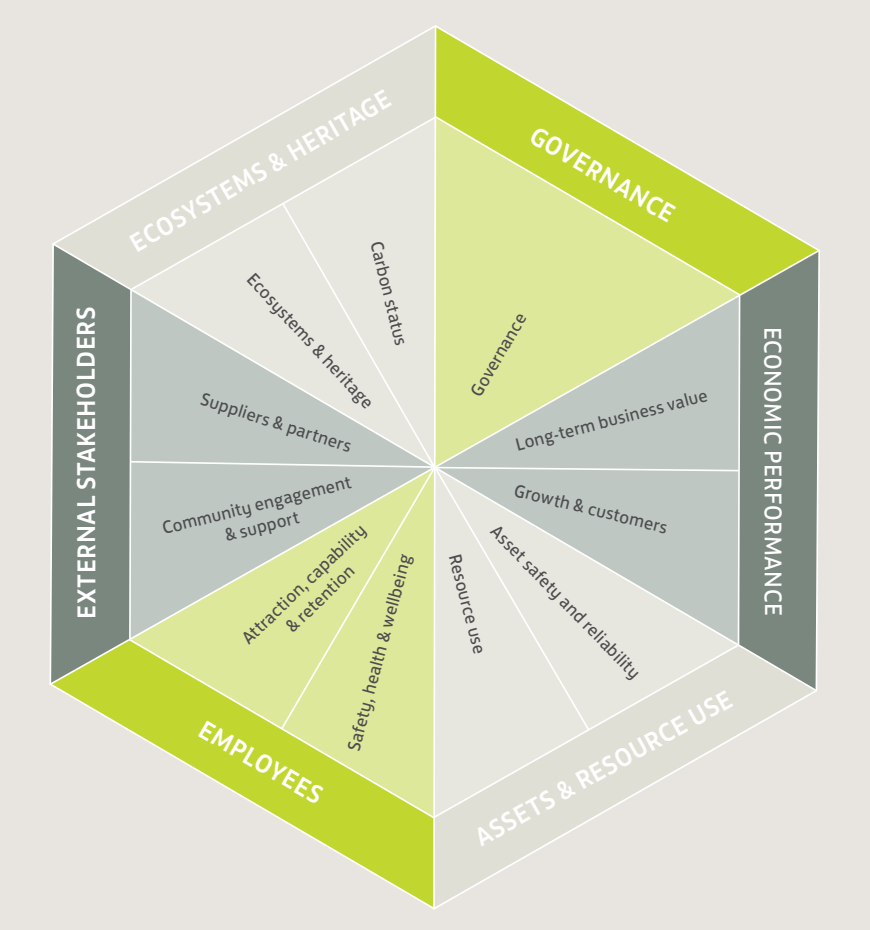


Figure 5: Sustainability principles and elements

economic performance

Key Performance Indicators

Performance 2010-2011

	Target	Result
Operating profit*	$68 m	$70.0 m
Returns to Government	$52 m	$51.7 m

Sustainability KPI: asset net value – **$2013 m.**

Sustainability KPI: cost/GWh – **$77.31.**

* Profit before fair value movements and after tax, excluding the gain from the restructure of Roaring 40s' JV interest.

Achievements

- Launched new brand to underpin strategy for growth through sales
- Strong financial performance on back of increased revenue from mainland Australia operations:
  - profit before fair value movements – $100 million
  - total returns to Government of $51.7 million
  - profit for both Momentum and Entura
  - $13 million of annual operational savings identified.

Challenges

- Progressing our plans to develop renewable energy infrastructure – the Musselroe Wind Farm
- Tasmanian community understanding of our mainland growth strategy, primarily through Momentum
- The level of community concern over rising power prices and the level of public debate on the underlying causes.

Material issues for economic performance

Material issues identified by external stakeholders	Material issues identified by internal stakeholders
Renewable energy development	Renewable energy development
Contribution to State finances	Contribution to State finances
Economic development for Tasmania from activities	Economic development for Tasmania from activities
Electricity price	Momentum
	Entura
	Brand
	Client/customer relationships

Sustainability Code: 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.

Hydro Tasmania's economic aim is to build its financial strength and deliver sustainable returns to our owners, the people of Tasmania. Our results for 2010-2011 put us on track to achieve our strategic goals of BBB financial rating and 15 TWh of electricity sales. These goals will help us to be a successful, integrated energy business operating across the NEM.

2010-2011 financial results

Hydro Tasmania improved its operating result for the year despite low energy prices. The most significant contributing factor was higher generation from higher inflows of water which also brought a higher volume of renewable energy certificates, although these also maintained low prices. Increased sales revenue came from both retail through Momentum's growing customer base and wholesale through a successful contracting strategy. Entura returned a positive result, following a loss last year.

Higher inflows also meant we could import and export through the Basslink facility more effectively to capture favourable prices. Basslink exported 1311 GWh and imported 1095 GWh of electricity, realising a net export for the first time since commissioning.

Continuing low electricity prices were offset by the variable portion of the Basslink facility fee. Overall the business identified $13 million in operational savings.

Table 5: Financial results

Year ending 30 June:	2006 $m	2007 $m	2008 $m	2009 $m	2010 $m	2011 $m
Profit/(loss) before fair value and tax	46.8	19.5	(58.0)	38.1	72.9	100.0
Profit/(loss) before tax	(67.1)	113.5	224.2	417.9	332.1	216.4
Cash flow from operating activities	140.0	37.4	25.0	43.8	178.0	160.8
Net debt	1076	1141	872	904	863	964*
Weighted average cost of debt	6.15%	6.46%	6.54%	6.62%	6.98%	7.18%
Capital expenditure operations	126.4	54.2	54.9	81.2	95.5	64.3
Cash investment in R40s	3.0	10.0	23.0	10.0	5.0	0
Other expansion and acquisitions	12.8	-	-	17.8	34.5	0
Total assets	3851	4249	4846	5213	5129	5507

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

Returns to Government

Total contribution to the State's finances for the year was $51.7 million as shown in Table 6. During 2010-2011 we paid an initial dividend of $10.2 million made up of the dividend declared from the profit for 2009-2010 and an additional $15.3 million after receiving an instruction from the Treasurer to apply a retrospective increase, revising the rate from 20 per cent to 50 per cent, making the total paid $25.5 million.

Hydro Tasmania was further instructed by the Treasurer that the rate on the declared dividend for 2010-2011 is to be 70 per cent, making the dividend to be paid in 2011-2012 a total of $49 million.

The increase this year on the dividends paid is a reflection of Hydro Tasmania's ability to provide stable and valuable returns to Government given average rainfalls and assuming continued sound financial management.

Hydro Tasmania provided income tax equivalent payments to the State, reflecting the return to profitability as a result of improved inflows and dividend relief during times of extreme drought.

Table 6: Returns to the Tasmanian Government

	2007 $ m	2008 $ m	2009 $ m	2010 $ m	2011 $ m
Government Guarantee Fee	5.1	5.6	4.5	4.9	6.6
Income tax equivalent	28.7	0	0	0	16.2
Ordinary dividend	21.2	0	0	5.3	25.5
Special dividend	0	0	0	0	0
Rates equivalent	2.8	3.9	2.8	3.01	3.3
Total returns	57.8	9.5	7.3	13.3	51.7

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 and in 2010-2011 the cost was $7.5 million. The operation of this service is outsourced to Aurora Energy Pty Ltd.

Long-term business value

Two key indicators measure changes in long-term value for Hydro Tasmania: net asset value and cost per megawatt hour of generation.

Net asset value for 2010-2011 closed at $2013 million, an improvement of $131 million over last year. This year we experienced higher than average inflows, achieved substantial cost reductions and managed well both capital expenditure and the debt portfolio.

Table 7: Net asset value

	2007	2008	2009	2010	2011
$ million	958	1396	1665	1882	2013

The cost per megawatt hour of generation continued to decline from last year due to cost reductions and higher than average generation. The cost per megawatt for the reporting period was $77.31, a decrease of $2.61 from last financial year.

Table 8: Generation cost per GWh

	2007	2008	2009	2010	2011
$/GWh	51.57	62.36	77.51	79.92	77.31

Economic development for Tasmania

Hydro Tasmania believes its business strategy is in the best interests of Tasmania for the long term. We see our role in Tasmania as supporting the Tasmanian budget and enhancing the long-term value of this business to Tasmania. Our plan to conduct more business in other NEM regions supports these objectives.

Within the State, Hydro Tasmania's activities contribute to the development of Tasmania through managing the water resource prudently for multiple use, building the capability of our people and capacity of our assets, as well as through financial returns mentioned above. More on water-related developments is on page 44.

Our work interstate and overseas through Entura's consulting services is building the capacity of Hydro Tasmania's people through exposure to a greater variety of projects. The interaction between staff across the Hydro Tasmania group is leveraging this exposure and building capability within the organisation and consequently building the intellectual base of the State. This potentially builds further economic development.

Recreational activities for tourists and local communities are facilitated on the water and land we manage and Hydro Tasmania contributes to infrastructure for this purpose. See more on this on page 69.

Similarly, the capital works on our assets increases the amount spent in the State on supplying goods and services. Hydro Tasmania spent $63.7 million on goods and services in Tasmania in 2010-2011. See more about our capital works on page 44.

Local suppliers are also exposed to different techniques and shared knowledge through working with Hydro Tasmania's interstate and overseas suppliers, which builds further capacity to contribute to economic development within the State.

Renewable energy developments

Hydro Tasmania has a strong focus on renewable energy. This year we contributed 9273 GWh of renewable energy through the hydropower system.

It has been a particularly difficult period for developers of renewable energy projects within Australia. Continued low price of Renewable Energy Certificates (RECs) and the uncertainty associated with proposed changes to planning regimes in some states have contributed.

We will continue to invest in wind with the projects acquired from the disaggregation of the Roaring 40s joint venture. Our principal focus in the near future is the development of the Musselroe Wind Farm in north-east Tasmania. Options for finance were under consideration in 2011 and we expect construction to start in early 2012. More information on the wind portfolio is on page 41.

We are increasing the efficiency of the existing hydropower system through our asset refurbishment program, using innovative and world-class management techniques. More information on this is on page 44.

Hydro Tasmania's research and development program is focused on developing products, principally focused on renewable energy application or improvements which will bring longer-term benefits. See our website for more on our R&D program.

A major project in the R&D area is developing renewable energy on King Island, where innovative application of emerging technologies is improving the power system for this remote area. More information on this project is on page 82.

‘With our new brand family launched in September 2010, the Hydro Tasmania group is working to achieve its growth targets and realise the synergies of the differentiated market strategies.’

Growth and customers

With our new brand family launched in September 2010, the Hydro Tasmania group is working to achieve its growth targets and realise the synergies of the differentiated market strategies, offering unique opportunities to customers, for retail and wholesale electricity and consulting services – drawing on Hydro Tasmania’s almost 100 years in renewable energy development and operation.

The strategies will guide product development as we grow our electricity sales in the NEM and our consulting products and services in the Asia-Pacific region.

Hydro Tasmania’s products include energy, energy-related ancillary products, electricity financial derivative products (wholesale and retail) and professional consulting engineering services for energy and water.

This year we broke new ground in Renewable Energy Credit trading by putting through Australia’s first futures transaction which was the first traded globally outside the United States.

We also developed a strategy to back the supply of our projected electricity sales growth with a range of assets and other market mechanisms. Diversifying our generation base with gas is under consideration.

Our retail business Momentum launched a new product in March 2011 that was in response to a market need for a cost-effective clean electricity product that business owners could feel good about purchasing. SmilePower has been well received.

Customer relationships

Hydro Tasmania has contractual relationships with the four biggest users of energy which account for 55 per cent of the electricity demand in Tasmania. With long-term investment horizons, these customers need long-term energy contracts to underpin investment in their operations. Capability to back these contracts comes from Hydro Tasmania’s generation and through Basslink via a long-term inter-regional hedge to Victoria. As an important component of these contractual arrangements these customers provide load tripping to the System Protection Scheme that facilitates the import capacity of Basslink.

We have received positive feedback on our interactions with these customers. The relationships are maintained through an assigned team, which with the customers builds an understanding of the objectives of each business.

In December 2010, we announced a new electricity hedge with Rio Tinto Alcan for its Bell Bay Smelter. The 11-year contract will take effect from 1 January 2015. The prices and terms negotiated were consistent with those commercially obtainable by similar large customers in the NEM.

Electricity price

The increase in power prices across Australia has been prominent in community debate about the impact of cost of living pressures facing households and businesses.

In Tasmania, the level of community concern was high, with considerable debate and public commentary around the performance of the State’s publicly-owned electricity businesses and the reasons for the increases.

Hydro Tasmania understands that the rising cost of electricity is a cause of great concern for consumers.

As a result there was considerable community interest in our activities during the year, including the cost of accessing the Basslink cable and our growth strategy on the mainland, particularly our ownership of Momentum which retails in the highly competitive national market.

Members of the Expert Panel with Hydro Tasmania staff during an asset tour

As a participant in the competitive NEM, Hydro Tasmania competes on cost at all times. Over the reporting period, Hydro Tasmania has received prices per unit of electricity below those of previous years.

In Tasmania, the State Government has established an expert panel to examine the electricity supply industry and outcomes for consumers. Hydro Tasmania is working with the panel to identify ways to ensure that Tasmanian consumers can purchase electricity at the lowest possible cost. In order to ensure long-term reliability of supply the panel must have regard to the sustainability of options under consideration. Electricity is a capital intensive business with long asset lives and investment lead times. If prices are not at sustainable levels, customers face future supply shortages or excessive future costs. Find more on the Expert Panel on page 50.

Cost pressures are not limited to (or even at their greatest in) Tasmania. Around Australia governments and regulators are grappling with the need to keep the cost of electricity to a minimum, recognising that it is an essential service for domestic consumers and a key economic input for businesses. Hydro Tasmania is actively involved in resolving the issues arising in the operation of the market that make it more efficient and cost-effective.

In 2010-2011 the biggest issues affecting Hydro Tasmania related to transmission, network pricing, establishing the one operator for both gas and electricity and market prices for technical solutions to wind supply.

Debate continues on who pays for developments in transmission lines. One option is that the generator using the line pays. This would put an onerous cost on generators. If all people benefiting contributed, business cost would be more evenly spread. Another issue is placement of new generation near existing plant. This puts constraints on supply in relation to loads on existing transmission lines and thus reduces reliability.

Network pricing is not a direct impact on Hydro Tasmania's cost structure, but we participate in industry debate on standards, regulatory interpretations and efficiency measures, as there is an impact on the total electricity price to consumers.

AEMO, which operates the electricity market, also took over the operation of the gas market during 2010-2011. Hydro Tasmania supports this outcome because there are greater benefits from combined energy operations with the ability to co-ordinate emergency response management and for greater transparency in the gas market.

The electricity market is well-designed to manage the supply of wind power in the current situation. The projected supply of 6500 MW has raised issues around supplying services that overcome the problems in the power system due to the intermittent supply of wind – who supplies and who pays? It costs generators to supply the service required and without a marketable product the cost would be unreasonable. Going forward this will become critical as the level of wind in the system increases.

Sustainability performance for economic principle

The score[4] for the principle economic performance: **4.3**

Principle elements are:

- Long-term business value, score: **4.5**
- Growth and customers, score: **4.0**

See more information on scores in the summary table on page 150.

Performance against 2010-2011 commitments

Commitment		Progress
Continue to implement a financial strategy aimed at improving financial returns, reducing the volatility of returns and improving our underlying strength.	✓	Our financial strategy was implemented last year and is now well embedded in the business. We are well on our way to improving the quantity and volatility of financial returns and improving our underlying strength. While the strategy itself is implemented we will continue to create initiatives under this strategy.
Launch the new Hydro Tasmania brand family.	✓	Completed. Brand family was launched in Australia in September 2010, and in India in December 2010.
Identify and implement economically competitive options to back our target sales growth.	✓	Hydro Tasmania is identifying development sites for wind and gas to provide future options to back our sales in mainland NEM regions.
Implement a differentiated market strategy.	✓	Implementation of the strategy has provided a framework to develop products for our three key product areas: wholesale and retail electricity and consulting services.

Progress against previous commitments

Position the trading portfolio for CPRS and hydrological risks – REC/NGAC trades – complete. Storages finished the year at 45.9 per cent of full energy and the trading portfolio position is ready for the carbon market on 1 July 2012.

Foster closer relationships with major industrial customers and be responsive to their requirements – complete. A long-term transaction was completed with our largest customer Rio Tinto and negotiations with other large industrial customers are well advanced based on sound relationships.

Increase market research for Entura clients through greater engagement – to be completed in 2011-2012 with the introduction of the new client survey that will provide continual information as opposed to the previous biennial survey.

Commitments for 2011-2012:

- Entura will implement a customer management framework to provide improved service and retain key clients by 30 June 2012.
- Momentum will implement a new product development process and put at least one new product through it by 30 June 2012.

4 The principle score is an average of the element scores. Scoring criteria are from the IHA Sustainability Protocol and are explained on page 149.

momentum

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

Our retail operator addresses the financial risks that are inherent in a single geographic market, contributes to dividends returned to the Tasmanian Government and enhances the long-term value of Hydro Tasmania to the State.

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

Performance

Momentum had a successful year in 2010-2011, contributing a profit to the Hydro Tasmania group for the first time and doubling its size through developing a reputation for outstanding service, an aggressive sales strategy and the launch of a new clean energy product, SmilePower.

It now turns over in excess of $245 million in its chosen markets.

Products and markets

Momentum offers products relating to standard energy, energy efficiency advice and renewable energy products.

SmilePower is attracting customers who feel good about or wish to promote their commitment to using sustainable energy. Its sales are backed by Hydro Tasmania's hydropower system offering a clean alternative in a coal-dominated market. Customers' energy usage is matched by clean energy supply and is audited annually.

Momentum is building brand awareness in its primary target markets by celebrating its connection with Hydro Tasmania.

It is targeting the commercial, industrial and small-to-medium enterprise markets and is attracting customers spread across the NEM. Momentum is promoting its brand progressively through selected channels to penetrate new geographic areas. At the same time, through proactive commercial and industrial account management, Momentum is retaining its existing customers in the banking, education, manufacturing, retail and mining sectors.

'Momentum is building brand awareness in its primary target markets by celebrating its connection with Hydro Tasmania.'

Customer relationships

Momentum's customer service ethos is underpinned by the understanding that customers have a choice. Customer experience is the largest driver of churn in the energy market.

In the residential and small business markets it retains happy customers through establishing a positive relationship from the seamless, timely and accurate transition from their existing retailer; maintaining low wait times when calling the contact centre; training local customer service staff to have a solid energy background and willingness to go the 'extra mile'; quality checking sales; and the provision of a simple contract renewal process.

Momentum also provides access to an interpreter service for its customers whose first language is not English. It changed its invoices this year in line with new regulations, removing visual clutter and making key information more prominent, such as the phone number for the interpreter service.

The crowd at a Geelong AFL match take part in a Momentum SmilePower promotion

Commercial and industrial customers benefit from Momentum's Business Relationship Management program which offers customers a higher level of service through:

- a single point of contact for individual customers from within a portfolio of accounts
- structured visitation and communication plans
- structured account plans
- provision of timely and accurate billing solutions
- provision of innovative and tailor-made energy solutions.

People

Nigel Clark was appointed Managing Director in May 2011 and will guide the business through its consolidation and established growth path. Nigel has been with Momentum for five years as Chief Financial Officer and previously had several years of electricity retail experience in Australia. He replaces Camillo D'Alessandro who left Momentum after successfully establishing the company, guiding it through the acquisition by Hydro Tasmania and providing strong leadership and direction for its growth into a substantial business.

Employee engagement is critical to Momentum's success. The workforce is characterised by youth and enthusiasm. A reward and recognition program supports celebrations of team and individual successes.

A strong succession planning program is in place to retain skills and knowledge within the company and to maintain a high and professional level of customer relationships. Leadership training for middle management focuses on skills that enhance the culture, the commercial success and employee engagement.

Momentum in the community

Momentum has a strong presence in Geelong through community partnerships for sponsorship such as the Geelong Cats, Run Geelong, Leaders for Geelong and Family Fun Days. It is developing partnerships in other cities and regional communities with local sporting and health organisations. Momentum supports Earth Hour.

Visit the website: www.momentum.com.au

entura

2010-2011 was a year of change for our consulting services business, Entura. It adopted its new name, established a Board, welcomed a new CEO and returned to profit.

The name Entura was adopted in September 2010. It is an anagram of nature. '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.

Entura's products and services are part of the integrated energy package that the Hydro Tasmania group offers its clients and customers. Entura provides engineering and management services to water and energy markets nationally and internationally. Entura supports Hydro Tasmania in water and environmental management and compliance and delivering its capital programs associated with hydropower and, from July 2011, wind developments.

Entura is based in a five-star, green star designed office at Cambridge, Tasmania. Other full-service offices operate in Melbourne, Brisbane and New Delhi, India, with project offices in Adelaide and Sydney.

Performance

Entura delivered a profit for 2010-2011, a turn-around from a negative result in the previous year. It accepted the challenge of the competitive environment for consulting services, especially in energy and water markets, and took steps to improve clients' experiences through efficiencies and partnerships. Improvements are shown in significant growth in sales and accounts in the power and energy, and water and environment markets nationally and internationally.

Clients' needs are critical to the success of Entura. The business introduced a third party online client survey in 2010-2011 to find out more about where it can improve clients' experiences. A number of business system initiatives introduced during the year were already showing improved project delivery at the end of the reporting period. Importantly, Entura retained its ISO9001 quality certification across all national offices.

At the end of the reporting period it was finalising a risk methodology specific to Entura that will provide a framework for assessing operational and project specific risks and appropriateness for the size of the business and markets. It will include human rights.

Entura's challenge is to return larger profits and position itself in the market as a specialist consulting business. The strategy to grow involves expanding into international markets for a more balanced portfolio.

Governance

In April 2011 a new governance structure was introduced for Entura when a Board of directors was established consisting of Hydro Tasmania's CEO and four other executives with experience in managing consulting businesses. The Board will guide Entura's future strategic direction and support the business as it grows.

General Manager Scott Baddiley guided Entura through the global financial crisis and set up a sound future for the business. Scott left Entura in April 2011 to take up a senior executive position in the private sector.

The Entura board appointed Tammy Chu as the new Managing Director in May 2011. Tammy started with Hydro Tasmania as a graduate engineer and over the next 10 years gained the experience and developed management skills fit for the position. She holds a Bachelor of Engineering from the University of Tasmania.

Our markets

Entura has continued to grow its national and international client base, with almost half of total sales for the year coming from outside Tasmania as at June 30. International work accounted for almost 20 per cent of total sales.

Further growth is expected in India, and to cater for existing and projected employees and services the New Delhi office moved to new and larger premises. The move coincided with the brand launch in India, attended by Hydro Tasmania's CEO and hosted by the Australian Trade Commission. The Indian office had 28 employees at 30 June, principally employed in various aspects of hydropower. Entura already has an excellent reputation for expert wind advice

Sarawak visit - CEO Roy Adair, third from right, with Sarawak's Deputy Chief Minister YB Datuk Patinggi. Also pictured are, from left, Entura's Tammy Chu, former Entura General Manager Scott Baddiley, Chief Financial Officer Lance Balcombe and Sarawak Energy Berhad CEO Torstein Dale Sjotveit

in India, providing business certainty to developers and turbine suppliers looking to invest in wind farm projects. Services to both wind and solar developments are projected to grow for Entura in the Indian market.

The relationship with Sarawak Energy Berhad (SEB) that was formally established last year continues to build the capacity of that business to develop the country's renewable energy resources in hydropower. During the year Entura commenced a two-year accredited hydropower operation training program, aimed at building capacity to operate SEB's planned hydropower assets. Delivered to 24 SEB employees in Sarawak and Tasmania, the program will ensure SEB is operationally ready when new assets are commissioned in 2013.

In the Solomon Islands, Entura was commissioned by the World Bank to undertake a feasibility study for the 15 MW Tina River hydroelectric project. Entura also worked with the Solomon Islands Government, the World Bank and the European Investment Bank to prepare the environmental and social impact scoping study.

Entura has continued to win projects in Papua New Guinea and to investigate opportunities for water, hydropower, and wind power in Africa, where millions of people still do not have access to electricity and water. Government programs include ambitious energy development plans and renewable energy targets.

A carbon neutral business

Entura is a carbon neutral business, having purchased offsets for emissions generated since the 2007-2008 financial year. Entura intends to maintain this position by working to minimise emissions, particularly from commercial flights, through increased use of teleconferencing. It will continue to purchase offsets that meet the Hydro Tasmania group's stringent guidelines. Entura believes being carbon neutral gives it a distinct advantage in delivering a brand promise and renewable energy, climate change and environmental services. Entura also retained ISO 14001 environmental management certification across all national offices under Hydro Tasmania's certification.

Contributing to the community

Consideration of business ethics, human rights, community investment, and sustainability are increasingly important to Entura as it expands its international operations in developing countries.

This year, Entura sponsored 19 teachers at an Indian school that provides education opportunities for young children as part of a child labour prevention campaign. The *Too Young to Work* project of the Child Labour Schools Company Limited – Indian Child Labour Overseas Aid Fund – is a registered Australian charity in India that aims to assist the elimination of child labour in India through education. Being able to support communities in which it works is important to Entura, so it has committed to sponsor the project again in 2011-2012.

Closer to home, Entura provided services to support the development of the Hepburn Community Wind Farm, which included in-kind support.

Table 9: Entura projects – a sample

Project	Client	Location	Description
Richmond Terminal Station planning application	SP AusNet	Victoria	Entura managed 15 specialist consultants to investigate environmental and social aspects of the upgrade and undertook a community consultation program to contribute to a comprehensive planning application lodged by SP AusNet.
Suma Park Dam	Orange City Council	New South Wales	Suma Park is a 30 metre-high concrete arch dam for the main water supply to Orange in central NSW. Entura developed an innovative concept design for a flood upgrade which involved replacing a small saddle dam with a fuse plug spillway, and raising and strengthening the main arch dam. This design saved the client millions of dollars in capital works compared to previous designs. Entura provided detailed investigations, concept design, detailed design, environmental assessment and contract documentation.
Dibbin 120 MW hydro-electric project	KSK Dibbin Hydro Power Projects Pvt. Ltd.	Arunachal Pradesh, India	The Dibbin hydro-electric project is run-of-river with diurnal storage. It has a rated head of 158 metres and two units with an installed capacity of 60 MW each. The project comprises a 92 metre-high mass gravity concrete dam, and a 3970 metre-long headrace tunnel leading to a surface powerhouse. Entura completed the tender design and will continue with the detailed design while helping KSK to implement the project on time and with cost efficiencies.
South-East Irrigation Scheme	Tasmanian Irrigation Development Board	Tasmania	The South-East Irrigation Scheme is designed to deliver 5000 megalitres annually to farming communities covering ~25 000 hectares. The scheme incorporates the existing Craigbourne Dam. The supply line will be 110 km long and will cross the Derwent River. Entura was appointed to undertake the feasibility assessment, business case development, project approvals and tender design. Work began in September 2010 and is expected to finish in June 2012.
Innovative metering and monitoring project	Melbourne Water	Victoria	The project will provide near real-time data of water usage on commercial and agricultural properties in the Yarra Valley. Entura is supplying and installing Ajenti telemetry and data services to 147 existing sites and 177 new sites as part of the project. The data services are web-based and supplied to individual users and Melbourne Water. Entura's experience includes telemetry, data collection and data presentation utilising modern techniques.
Murum hydropower operator training	Sarawak Energy Berhad	Sarawak, Malaysia	Entura has tailored accredited training modules on hydropower station operation to build capability in the business and ensure employees are operationally ready. At the end of the program, Entura will have delivered the training to 24 Sarawak Energy Berhad employees.

roaring 40s

Roaring 40s has been a renewable energy developer specialising in wind farms since it was established in 2005 as a 50:50 joint venture between Hydro Tasmania and Asian energy business CLP Group.

With the completion of the Waterloo Wind Farm in South Australia, Roaring 40s was the third largest operator of wind farms in Australia. However, in April 2011 it was announced that Hydro Tasmania and the CLP Group had reached an agreement to bring to a close the Roaring 40s joint venture and to divide the assets between each shareholder. The strategic goals of the joint venture partners had changed and the amicable decision was made to end the partnership.

As part of this split, Hydro Tasmania acquired the following assets on 30 June 2011 which were previously part of the Roaring 40s' portfolio:

Name	MW	Location	Status
Woolnorth Bluff Point	65	North-west Tasmania	Operational
Woolnorth Studland Bay	75	North-west Tasmania	Operational
Musselroe	168	North-east Tasmania	Pre-construction
Various projects		Australia	Feasibility/land agreements/wind monitoring

Achievements in 2010-2011

The construction of the 111 MW Waterloo Wind Farm in South Australia was completed on time and under budget and opened on 17 February 2011. Further work was undertaken on the development pipeline, which includes the Musselroe Wind Farm in Tasmania.

Staffing

As a result of the split of the business, 22 of the 38 Roaring 40s staff were able to secure roles at either Hydro Tasmania (15) or CLP (7). The remaining 16 staff members were made redundant. Of these, 14 were based in Tasmania.

Health, safety and environment

Roaring 40s remained committed to occupational health and safety as a key priority for the business. Roaring 40s kept its commitment to ensuring that developments were undertaken in a manner sensitive to environmental and community concerns. Roaring 40s recruited highly qualified and experienced people and engaged contractors who reflected or were aligned with the company's core values and who demonstrated commitment to safety and the protection of environmental values. Occupational, health and safety and environmental management, including occurrence response, emergency planning, risk assessment and planning, operational management and compliance auditing, was 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 (excluding Waterloo Wind Farm) retained certification against both standards.

Musselroe wind farm site

Managing avian issues

Roaring 40s focused on research to further its knowledge in a range of areas. Various potential mitigation strategies and solutions and both on-site and off-site management strategies were implemented or tested over the past 12 months. The focus of these initiatives and programs was targeted at eagles and orange-bellied parrots.

Roaring 40s' eagle offset package for Bluff Point and Studland Bay Wind Farms was completed, which consisted of:

- covenants covering over 430 hectares of eagle nesting habitat including the nests of at least 13 breeding pairs of wedge-tailed eagles and white-bellied sea eagles
- an aerial nest survey campaign identifying several new eagle nest sites across Tasmania
- financial support for key eagle research being conducted by Tasmania's Forest Practices Authority
- other smaller projects including aviary construction and funding genetic work (UTAS)
- eagle conservation education and promotion activities, including an eagle education kit, *Soaring*, targeted at middle school students.

Significant progress was also made on the eagle offset requirements for the Musselroe Wind Farm. This included negotiation of perpetual covenants for five wedge-tailed eagle nest sites and 164 hectares of associated habitat and a further three white-bellied sea eagle nest sites and 77 hectares of associated habitat.

assets and resource use

Key Performance Indicators

Performance 2010-2011

- Number of strong and reliable production lines: **achieved 10 against a target of 11**. (See Table 10.)
- Capital expenditure on generation assets was **$49.2 m**.
- Storage levels at 1 July 2011: **45.9%**.
- Energy in storage at 1 July 2011: **6630 GWh**.

Achievements

- Developed a detailed 10-year Asset Management Plan that supports strategic objectives
- Work started on $60 million Tungatinah Power Station modernisation and $20 million Poatina project

Challenges

- Completing the transition from pre-existing capital and major works plans to meet the new requirements and challenges of the 10-year Asset Management Plan
- Balancing the various demands for water from stakeholders – electricity production, agriculture, industry, community needs and environmental flow

Material issues for assets and resource use

Material issues identified by external stakeholders	Material issues identified by internal stakeholders
Energy supply in Tasmania	Energy supply in Tasmania
Emergency management of dams	
Water management in catchments	Water management in catchments
Water supply from catchments	Water supply from catchments

Storage levels remained in the preferred operating zone of between 30 and 50 per cent of full energy throughout the year.

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

Hydro Tasmania generates electricity from 30 power stations in an integrated hydropower portfolio spread over six water catchments in Tasmania. Hydro Tasmania manages the water in the catchments under its water licence for electricity production and other use. Managing the assets so that they can operate on demand, and managing water for a sustainable multiple-use supply are considerable challenges we face in providing a reliable energy supply.

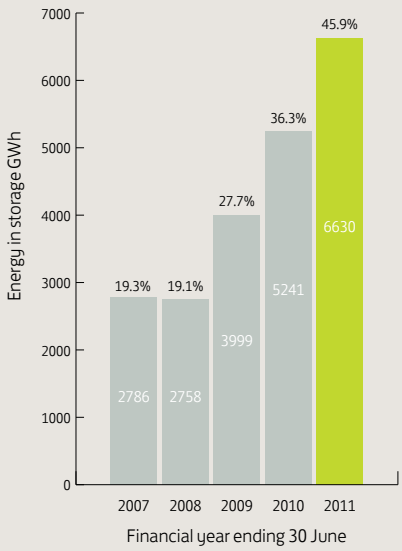


Figure 6: Storage level and energy in storage

Asset safety and reliability

Of our 30 power stations and supporting infrastructure, 27 were commissioned between 1914 and 1994. The age profile of these assets demands substantial capital investment over the long term in order to manage the condition and performance of our infrastructure and ensure a reliable and sustainable supply of electricity.

A strategic aim of our asset management is to increase the number of strong and reliable production lines. A strong and reliable production line is currently defined as one where there are no significant unmanaged risks, 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.

Maintaining a reliable energy supply in Tasmania depends upon managing our assets for reliability. Managing water is the other critical element which we discuss under 'Resource use'.

During the reporting period we developed the new 10-year Asset Management Plan which changed the priorities of our asset investment and resulted in changing the target to 10 strong and reliable production lines for 2011. This target was achieved.

Table 10: Strong and reliable production lines

At June 30	2009	2010	2011	2012
Actual	6	9	10	-
Target	5	9	11	14

10-year Asset Management Plan

Integral with establishing the business strategic goals was to extend the planning window of the management and investment in our asset portfolio from five years to 10 years and to adjust the profile of investment to support the business objectives. This involved a comprehensive review of asset management strategies and practices consistent with the priorities of the asset management policy. We developed a roadmap for prudent and sustainable management of asset risks to deliver the production that underpins our revenue – the 10-year Asset Management Plan.

The plan relies on realising efficiencies through innovative refurbishment and risk mitigation strategies and standardised solutions and practices. An important philosophy of the management plan is to focus attention on those assets where our depth of understanding of conditions and risk is not sufficiently complete.

Over the next year we will be integrating the Tasmanian wind assets acquired from Roaring 40s into our asset management system and the asset development program. The Musselroe Wind Farm will be the first new project.

Capital works

Major capital works projects this year included the Tungatinah modernisation, the primary protection asset program and Poatina penstock painting. Other work addressed significant risks to transformers.

Primary protection

Safety remains our first priority – to the public, our employees, contractors and assets. Primary protection assets are devices which provide safety by interrupting and isolating sources of energy when faults occur. They are critical elements in Hydro Tasmania discharging its accountability for safety. This reporting period we invested $12 million in the refurbishment, upgrade and replacement of gates, valves, electrical protection and circuit breakers at a number of stations as well as the ongoing improvement of our testing, maintenance and condition assessment practices.

Poatina Power Station

As Hydro Tasmania's second largest station, Poatina is a priority asset. The original internal coating of the single 46-year-old penstock had deteriorated to the point where corrosion was a threat to the steel pipe.

As part of the planning, two years ago we consulted with stakeholders because it was necessary to cut water flow, which meant a potentially significant impact on downstream users. We found that winter was the most acceptable time of year to minimise the impact on their businesses, although painting at that time would be logistically challenging.The project was technically challenging due to the steep incline of much of the penstock, the application of coatings in cold conditions and the environmentally responsible handling of the waste product from the removal of the original coating. The project was completed on time with operations resuming at the start of September 2011.

Tungatinah Power Station

Tungatinah Power Station is another priority asset in terms of production, revenue and water management. At over 50 years old, the station no longer delivers the required performance and carries a number of potential duty-of-care risks. The $60 million modernisation project is addressing risk and performance and aims to improve capacity and efficiency on three of the five machines.

After some years of assessment, planning and procurement, at the end of this year we had nearly completed site work on the first of the machines. The project will take a further two years.

Transformers

The failure of a transformer has the potential to remove a station from service for up to two years. This is a high impact business risk addressed through condition monitoring and replacing units. The year's transformer program was completed – we invested in replacing 65-year-old units at Butlers Gorge Power Station and completed major repairs at Bastyan and mid-life refurbishments on two other transformers.

Kaplan turbines

The four Kaplan turbines in power stations located on the Derwent and Forth rivers generate about six per cent of Hydro Tasmania's sales. The 40-year-old machines are known to be deteriorating and have the potential for environmental damage if they were to discharge oil into the river. During this period we started the $37.5 million project to upgrade the first two of these four machines over the next four years. Upgrading the machines will convert them to an 'oil-less' design and provide a small but notable improvement in machine efficiency.

Major planned maintenance

The major planned maintenance outage program involves intrusive work on selected machines to assess their condition and performance and undertake repairs. Before taking the generating assets out of service, detailed planning is required to implement repairs for minimal commercial impact. This year's major planned maintenance expenditure for 13 machines was $4.5 million. The program ensures that the machines can

‘All planned outages are managed within the integrated hydropower system so that the power supply is not interrupted.’

meet commercial commitments and fulfil our safety, duty of care, operational and legislative obligations.

All planned outages are managed within the integrated hydropower system so that the power supply is not interrupted. Similarly, forced outages for the year were managed for a continuous power supply through the integrated system.

Gordon intake tower

The Gordon Power Station intake tower is gradually expanding due to a rare reaction of the concrete aggregate called alkali silicate reaction (ASR) which is affecting the operation of the intake gate. The station was shut down for substantial works in late 2010 to implement accurate monitoring devices and to adjust the gate.

Emergency management of dams

Hydro Tasmania’s Dam Safety Emergency Plan (DSEP) provides a robust framework for managing any event that could threaten the safety of one or more of our dams. We review and update the plan biennially and hold exercises so that staff are familiar with current practice. We update training in dam surveillance and incident management every year to ensure we have the requisite skills.

In May 2011 we initiated a review of our response to operational and extreme flood events through an holistic approach to managing flood and spillway gate operation. Part of the exercise was a flood simulation exercise for the Derwent River. The simulation generally showed that Hydro Tasmania’s flood protocols are simple and robust and well executed by the relevant parties. Several opportunities for improvements were identified, including to update existing operating guidelines, and to document existing communication and data sharing arrangements with the Bureau of Meteorology.

Dam safety

Hydro Tasmania ensures public safety of Australia’s largest portfolio of 204 dams with a specific risk management plan and approach based on the Australian National Committee on Large Dams (ANCOLD) guidelines. The framework combines activities that require regular inspections, the collection and analysis of monitoring data, engineering assessments, a maintenance program and upgrades.

The dam portfolio component of the 10-year Asset Management Plan is subject to the ANCOLD guidelines.

During 2010-2011 Hydro Tasmania completed the investigation and assessment of the condition of Rowallan Dam on the Mersey River. We are now in a position to refine options and solutions for a major structural upgrade of the dam and expect to start the first stage of construction in 2012 with initial preparatory work beginning in September 2011.

We also developed a program to install and upgrade monitoring equipment on both earth and concrete dams over the next three years. Other monitoring improvements will enhance the risk assessment and management of Hydro Tasmania’s 140 ‘small’ dams and improve our understanding and fault-finding capability for the 27 large earth dams.

Communicating with stakeholders

Where our projects and activities may have a direct impact on the community, downstream users and other stakeholders, we include stakeholder consultation and communications in the project, such as our major works at Poatina. Our level of engagement with the community in relation to the work at Poatina provides a model for future stakeholder communication.

Resource use

Hydro Tasmania is Australia’s largest water manager. The total amount of water that passes though the bottom power station in all our schemes is 15 364 gigalitres per annum (average over the past 10 years). This compares to 6596 gigalitres used for irrigation in the Murray-Darling basin in 2009-2010.

Water management in catchments

Hydro Tasmania operates an integrated power system which uses water from six major catchments in Tasmania. This use is authorised under our water licence. We have water management guidelines for managing the system both as a whole and for the individual water bodies that make up the system. These guidelines include establishing long-term storage targets, following storage operating rules, and managing storage risks and protocols for communication with stakeholders. Our overall water management strategy was under revision during the year and is to be complete in 2011-2012. Figure 7 shows considerations within the existing framework.

Long-term storage targets are established using system modelling, which makes extensive use of historical water level and flow data. For example, Hydro Tasmania reduced the long-term hydropower system expected yield to 8700 GWh in 2007 based on in-house modelling. This modelling incorporated the latest climate change predictions from CSIRO and was reaffirmed by data from the System Yields project which concluded in 2011. See more on system yields in the climate change section on page 81.

For each of the water bodies we manage, storage operating rules have been developed. These describe how water levels and releases from the storage are to be managed. In developing the rules we consider the attributes of the particular lake – physical, climatic, multiple-use, social, environmental and operational requirements.

Adjustments to rules are made when conditions surrounding these attributes change significantly. If the proposed change may have a significant impact on stakeholders then the change is discussed with them prior to implementation. For example, the memorandum of understanding regarding water levels for Arthurs Lake between Hydro Tasmania and the Inland Fisheries Service is an agreement that has been incorporated in the storage operating rules; it was recently updated to include the potential water requirements of the Midlands Irrigation Scheme.

Risks are principally associated with short-term climatic conditions and the consequences for social amenities and environmental values. Hydro Tasmania developed risk bands to apply to lakes during times of low water levels or drought, and has specific communication and data sharing protocols with stakeholders during drought conditions. We monitor the rivers and lakes for operational and environmental conditions. See more on monitoring in the Ecosystems and Heritage section, page 75.

Water supply from catchments

Access to a reliable water supply is of particular concern to the many stakeholders who use the lakes and the water downstream for recreation, agriculture, industry and town water supplies. Hydro Tasmania is prepared to make water available to other users provided it does not have an adverse effect on its operations.

Water availability and conditions of supply are discussed with the Tasmanian Irrigation Development Board as various irrigation schemes across Tasmania are proposed and examined.

The Ouse River project is an example of an integrated and holistic project to address a range of interrelated water supply issues in a catchment. The outcomes from this project will improve resource management for multiple-use, including irrigation, recreation, the environment and energy generation.

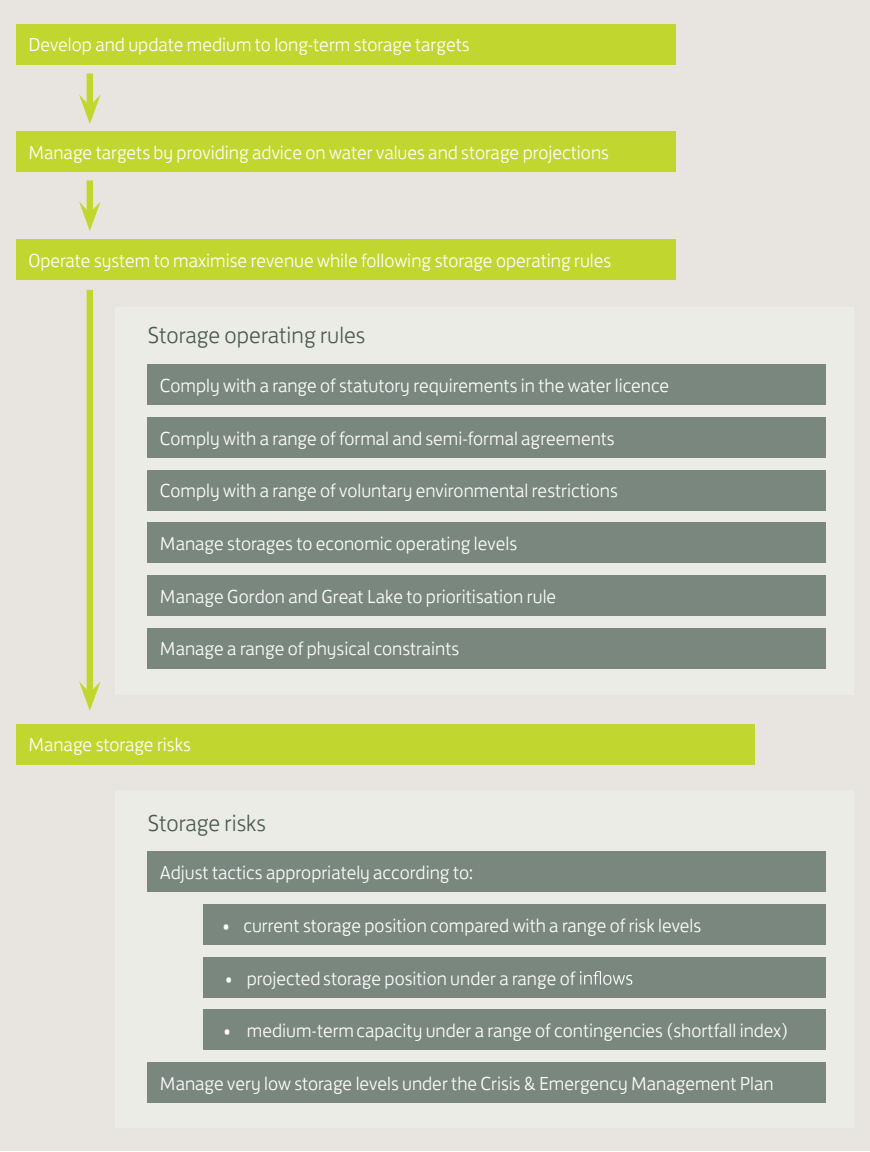


Figure 7: Storage management guidelines framework

Tungatinah Power Station

Communicating with stakeholders

Communicating with stakeholders is embedded in the storage operating rules. We are continually seeking ways to improve the timing and method of communication. During the year we implemented some improved methods (i.e. email and via the web) of advising downstream water users of flows and planned outages at power stations in catchments where the effect of an outage may have a significant impact on downstream users and residents.

Sustainability performance for assets and resource use

The score[5] for the principle assets and resource use: **4.1**

Principle elements are:

- Asset safety and reliability, score: **4.1**
- Resource use, score: **4.1**

See more information on scores in the summary table on page 150.

Performance against 2010-2011 commitments

Commitment		Progress
11 strong and reliable production lines in our generating portfolio.	–	The new 10-year Asset Management Plan changed the priorities for investment and the target was altered to 10 lines and was achieved.

Commitments for 2011-2012:

- 14 strong and reliable production lines
- Deliver a strategic water resource management plan.

Progress against previous commitments

Commence the Rowallan Dam upgrade for the dam safety program – investigation and assessment continued this year. We expect to start the first stage of construction in 2012.

Develop consistent approach to stakeholder engagement and issues raised for operational impact on water management. This year we improved methods for communicating with downstream stakeholders and and continue to work on a consistent approach.

5 The principle score is an average of the element scores. Scoring criteria are from the IHA Sustainability Protocol and are explained on page 149.

governance

Key Performance Indicators

Performance 2010-2011

- No compliance fines: **achieved**.

Achievements

- Adopted new corporate vision to reflect our aspirations for the future

Challenges

- Providing resources to meet the requirements of the Expert Panel Review in the Tasmanian Electricity Supply Industry

Material issues identified for governance

Material issues identified by external stakeholders	Material issues identified by internal stakeholders
	Expert Panel Review into the Tasmanian electricity industry
	Governance – Entura – See page 38

The Sustainability and Ethics Codes guide our approach to the way we do business – creating a sustainable future and working with honesty and integrity.

The Assurance Policy incorporates governance, risk management, compliance and internal audit and is annually reviewed to ensure a high standard. Board committees oversee implementation of policies and activities.

Our governance framework is scrutinised by the Tasmanian Government under the guidelines and we publish the governance report in accordance with GBE requirements on our website.

The governance structure was strengthened this year by the addition of steering committees for strategic operational programs.

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

Corporate governance at Hydro Tasmania is supported through the strong bases of our Sustainability Code, Code of Ethics and Assurance Policy and the *Guidelines for Tasmanian Government Businesses – Corporate Governance Principles*, issued under the *Government Business Enterprises Act 1995*.

A new vision

Hydro Tasmania developed a new vision statement this year to reflect the business strategy with the input of a range of employees who attented workshops to look at the future from various perspectives. Common themes were identified and the Executive Leadership Team considered these, and with the help of a small number of employees, arrived at the new vision: *Australia's leading clean energy business, inspiring pride and building value for our owners, our customers and our people.*

Code reviews

In 2011 we began to review of the Sustainability Code and the code of ethics, according to our commitment to do so every three years. The Sustainability Code review is expected to be complete in September 2011, while the Code of Ethics review began in June 2011. More information on the Sustainability Code is on page 2.

Compliance

This year we continued to improve the compliance program with process developments for dealing with environmental non-conformances and by aligning administrative incidents with business risk management.

There were no fines or non-monetary sanctions imposed on Hydro Tasmania during 2010-2011.

Expert Panel Review into the Tasmanian electricity industry

In June 2010, the Tasmanian Government announced its intention to establish an independent panel of experts to assess the electricity industry, its current status and options for its ongoing development. The panel has two key objectives:

- identifying how and why the Tasmanian electricity sector is delivering the pricing and other outcomes that are currently being experienced, and how these outcomes compare with elsewhere in Australia
- identifying opportunities for structural, governance and regulatory reform that will provide greater confidence that costs and prices within the sector are efficient, while maintaining a safe, secure, reliable and sustainable system.

Hydro Tasmania is co-operating fully with the review. We have a dedicated team preparing submissions and providing information required by the panel. We are also developing scenarios for the panel's consideration about possible structural options for the industry.

During the reporting period Hydro Tasmania provided information on its investment decisions, how we manage the generation system in times of drought, our financial position and strategic direction. We also responded to the panel's issues and discussion papers which are published on the panel's website.

The Panel is to report to Government by 15 December 2011.

Sustainability performance for principle

The score[6] for the principle: **3.6**

See more information on scores in the summary table on page 150.

Commitment

Hydro Tasmania is committed to staying at the forefront of governance, compliance and risk. We will continue to review our policies, standards and procedures on a regular basis.

6 The principle score is an average of the element scores. Scoring criteria are from the IHA Sustainability Protocol and are explained on page 149.

Inside the Poatina penstock – Manager Civil and Dam Safety Angus Swindon, left, inspects the interior

the board

Membership – Hydro Tasmania's Board at 30 June 2011 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.


David Crean


Roy Adair


Saul Eslake


Sally Farrier


Janine Healey


Stan Kalinko


Chloe Munro

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

David was Treasurer of the State of Tasmania from August 1998 until his retirement from the position in February 2004. He was also Minister for Employment from July 2002 to February 2004, Member of the Legislative Council from 1992 to May 2004, and a Member of the House of Assembly between 1989 and 1992. From 1993-1998 he held Shadow Portfolios of State Development, Public Sector Management, Finance and Treasury. Prior to this he was in private medical practice for 10 years. He holds a 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 Roy 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 National Electricity Market in Australia and was founding Chairman of the National Generators Forum. Prior to joining Senoko, Roy was also Chief Operating Officer of Pacific Hydro.

A former Director of the Electricity Supply Association of Australia, he is currently 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 until July 2009. He was formerly the Chair of the Tasmanian Arts Advisory Board and is currently 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 postgraduate 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 member of the Australian Institute of Company Directors.

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

Sally is a professional non-executive director and corporate adviser. Her professional career has focused on the utility industries (water, electricity and gas) spanning a number of consulting roles and areas. She has advised governments, regulators and market agencies, worked alongside finance and engineering management inside public and private businesses, and provided advice to industry bodies.

In addition to her role in Hydro Tasmania, Sally is a Director of Manidis Roberts, a National Water Commissioner, and a founding director of Farrier Swier Consulting. She was a Director of Western Power (the Western Australian electricity network business) between 2006 and 2009. In Victoria, she was a Member of the Victorian Water Trust Advisory Council from its inception in 2003 until it was wound up in early 2011, and a Member of the Independent Panels for the Central, Western and Gippsland Sustainable Water Strategies.

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

Janine Healey 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 has a strong history of community and commercial involvement in Tasmania which includes serving as a member of the University of Tasmania Council Audit and Finance Committee (including a term as Chair), Treasurer of the Launceston Chamber of Commerce, Director of the Inveresk Railyard Development Authority (including Chair of the Audit Committee), Director of the Female Factory Historic Site Ltd in Hobart and Director and Chair of the Audit Committee of the Port of Launceston Pty Ltd. Janine is a director of the Tasmanian Electronic Commerce Centre Pty Ltd (a joint venture between the Government of Tasmania and the University of Tasmania).

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

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

Stan 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 chairman 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 September 1996 and February 2004, and held the positions of Secretary of the Department of Natural Resources and Environment and of the Department of Primary Industries. Prior to this she was a Deputy Secretary in the Department of Treasury and Finance.

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 11: Board committee membership at 30 June 2011

Audit committee	Business Risk committee	Corporate Governance committee	Sustainability committee	Human Resources and Remuneration committee
Janine Healey*	Sally Farrier*	Dr David Crean*	Stan Kalinko*	Stan Kalinko*
Dr David Crean	Dr David Crean	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 12: Directors' attendance at board and committee meetings during 2010-2011

	Board (regular and special meetings)		Audit committee		Business Risk committee		Corporate Governance committee		Environment and Sustainability committee		Human Resources and Remuneration committee	
	A	B	A	B	A	B	A	B	A	B	A	B
Dr David Crean	13	12*	5	4*	4	4	1	1			3	3
Saul Eslake	13	11*	5	4*	4	4						
Sally Farrier	13	12*	5	5	4	4			3	3		
Janine Healey	13	12*	5	5							3	3
Stan Kalinko	13	13					1	1	3	3	3	3
Chloe Munro	13	12			4	4			3	3		
Roy Adair	13	13			4	4	1	1	3	3	3	3

Notes:

A = Maximum number of meetings the director could have attended

B = Number of meetings attended

*Leave of absence granted

executives

Back, L-R, Alan Evans, Andrew Catchpole, Evangelista Albertini, Stephen Bendeich and Lance Balcombe
Front, L-R, Kate Gillies, Roy Adair, Tammy Chu, Stephen Davy and Nigel Clark

Business Development

Director (Acting), Alan Evans

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

Commercial

Chief Commercial Officer, Stephen Davy

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

Consulting – Entura

Managing Director, Tammy Chu

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

Corporate Services

Director, Andrew Catchpole

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

Finance and Risk

Chief Financial Officer, Lance Balcombe

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

Retail – Momentum

Managing Director, Nigel Clark

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

Technical and Operations

Chief Technical and Operations Officer, Evangelista Albertini

Technical and Operations creates production opportunities to deliver a reliable electricity supply to customers 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 Technical and Operations and Commercial teams work with Hydro Tasmania's network service providers to ensure production can be delivered. The teams also liaise with regulators and AEMO to ensure Hydro Tasmania is not disadvantaged in the market.

Legal and Market Regulation

General Counsel, Stephen Bendeich

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

Strategic Planning

Head, Kate Gillies

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

people

employees

Key Performance Indicators

Performance 2010-2011

- Engagement score in the national benchmark top quartile:* **achieved with a score of 58% against benchmark of 36%.**
- Lost time injury frequency rate (LTIFR: incidents per number of hours worked x 1,000,000). **At 30 June the rate was 0.6 compared to 2.1 last year.**

* To find the national benchmark, Right Management hires a market research company to survey a representative group reflecting the Australian labour market in four factors – industry, size of organisation, age and gender – asking the same eight questions to measure engagement and calculating the average. This year the average was 36 per cent.

Achievements

- Refined organisation's structure to support business goal to be an integrated energy business with a material presence in the NEM
- One million hours worked without a lost time injury[7] (absence from a complete shift due to workplace injury) and lowest safety LTIFR on record

Challenges

- Allowing for the differences between the cultures of wholesale and retail sales and consulting operating environments to better manage human resources across the Hydro Tasmania group
- Driving zero LTIFR

Material issues

Material issues identified by external stakeholders	Material issues identified by internal stakeholders
	Organisational refinement
	Developing our people
	Attract and retain talent
	Work processes
	Working overseas
Safety on Hydro Tasmania sites	Safety on Hydro Tasmania sites

This year Hydro Tasmania undertook an organisational refinement to support the business goals. Despite the challenges it presented, employee engagement remained in the top quartile of Australian businesses.

7 Data for hours worked without lost time injury includes contractor hours since October 2010 and the Hydro Tasmania group, excluding Entura India.

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

Hydro Tasmania aims to be the premier employer of the most capable people. Our focus is on providing a safe workplace, supporting our employees' health and wellbeing and promoting personal and professional development.

Organisational refinement

The structural refinement aimed to put the business in better shape to achieve its strategic objectives and reflect the nature of Hydro Tasmania's business operations now and into the future as we work towards being an integrated energy business with a material presence in the NEM. The changes were initiated in October 2010 and completed in April 2011.

The process identified cost savings, efficiency opportunities and business process improvements. Aiming for role clarity and accountability, it also identified duplicated roles. This meant farewelling 28 people who were eligible for redundancies, 3.5 per cent of total employees. Dealing sensitively with people leaving and recognising that those who stay also suffer loss was built into the process. All employees had support through workplace support officers and the Employee Assistance Program (EAP). Those employees leaving the business were offered the services of a contractual outplacement program.

The refinement also meant opportunities for many employees to take on new roles, 97 per cent of which were filled with existing staff. New teams have settled and are finding ways to perform their newly-defined tasks in line with new business needs.

Table 13: Hydro Tasmania total employees

30 June:	2007	2008	2009	2010	2011
Hydro Tasmania	523	491	493	492	483
Entura	294	328	367	352	308
Entura India*	8	19	20	24	28
Momentum **	n/a	n/a	n/a	55	95
Total	825	838	880	923	914

* Entura's India office opened on 17 February 2007.
** Momentum was fully acquired in 2010.

A result of the refinement was a reorganisation of human resources services. Managers with specialist technical skills were assigned to implement specific human resource strategies that will meet future needs of organisational capability. These strategies will support business objectives through: talent management training; employee development for adapting to change; building the appropriate culture; and maintaining a constructive relationship with unions. Planning for the strategies was well under way at 30 June.

Table 14: Employees leaving the organisation

Termination Reason	2007	2008	2009	2010	2011
Compulsory redundancy	28	62	6	24	28
Voluntary redundancy	4	1	2	4	4
Resignation	80	54	36	51	54
Retirement	9	1	2	9	3
Contract term expired	28	10	10	17	11
Deceased		1	1	1	1
Probation unsatisfactory			1		
Termination	2		2	1	1
Transfer of business*	1		31		
Ill health	1				
Total	**153**	**129**	**91**	**107**	**102**

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

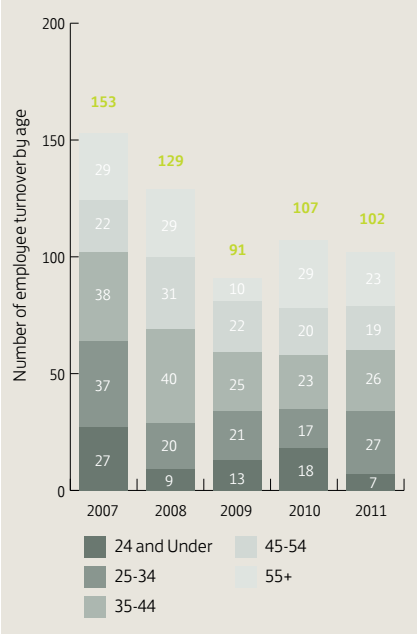


Figure 8: Number of employee turnover by age

Figure 9: Number of employee turnover by region

‘Employees maintained a high level of engagement, remaining in the top quartile of the national benchmark.’

Attraction, capability and retention

In the competitive market within which we operate and to attract some of the specialist skills Hydro Tasmania needs, we put effort into employing the right people into the right positions, building the capability of our employees, providing conditions that keep our employees with us and responding to the issues raised in the employee feedback survey.

Employee engagement

The employee feedback survey measures employees’ satisfaction with their job and the organisation. The survey included all employees of the Hydro Tasmania group, including India and Momentum, with a response rate of 63.2 per cent which is 593 employees. Employees maintained a high level of engagement, remaining in the top quartile of the national benchmark. The score of 58 per cent was down from last year’s score of 63 per cent but well above the national benchmark of 36 per cent. See Figure 10.

Engagement is measured by the proportion of employees who give a favourable response to the eight survey items that specifically relate to satisfaction with both their job and the organisation.

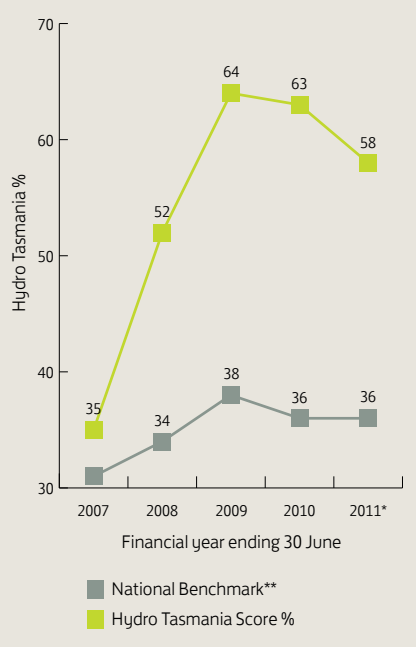


Figure 10: Employee engagement

* The first year to include Momentum and Entura India in the survey. Previous years have only included Hydro Tasmania and the Australian offices of Entura.

** See explanation(*) on page 59.

Again this year employees rated highly that Hydro Tasmania lives up to its ‘zero harm’ safety policy and promotes health and wellbeing. They also indicated that they are encouraged to come up with new and better ways of doing things and that they see their immediate manager demonstrating the business values. Employees indicated that improvements can be made in learning from the past, honest and open communications and senior leaders valuing employees.

Actions to address these issues will be determined in the coming financial year as the survey data was received at the end of June. However, the executive team has committed to addressing the issues through a standing agenda item with monthly action reports.

During the year action was taken on the issues raised for improvement in the 2010 survey. Actions to address ‘learning from the past’ included appointing a technical specialist in change management to a senior role; documenting the knowledge and processes of people about to retire who held key roles; and improving the mentoring program for graduates. This issue was identified again this year and we expect to find improvements in future surveys as the change management strategy takes effect. To improve managers seeking upward feedback we provided further training to managers on successful performance development interviews. In addition, we are pursuing how to implement suggestions put forward by staff through the Improving Service program. The issue of ‘attracting and retaining talent’ was addressed through the integrated talent management and succession planning discussed below. The final issue of performance measures is part of improvements in the performance development reviews, where measures are agreed between each employee and their manager.

Developing our people

Meeting the challenges of establishing a competitive culture and ensuring employees have the right skills is the driver behind the new approach to managing human resources. Hydro Tasmania recognises that change is a constant and that there are differing needs for wholesale, retail and consulting cultures.

Building the capability of our people to understand customer needs and adapt to change is to be met through workforce planning and development. We are working with unions to put in place a workforce planning process that meets business and employee needs, a commitment under the current Hydro Tasmania Enterprise Partnership Agreement (EPA).

A strategy for an integrated approach to talent management and succession planning was prepared this year. The strategy takes into consideration that there is a competitive market for some of the specialist skills we require. It takes a whole-of-business approach and ownership is placed at senior management level. It connects with other strategies relating to training, development, reward and recognition and workforce planning. It includes processes for managers to identify talent and development opportunities and is to be implemented in 2011-2012.

A training and development strategy was developed during the year and is to be implemented in 2011-2012. It aims to bring a whole-of-business approach to training, introduce a standardised process and leverage from the best practices already in place.

Development opportunities continued to be offered under skills programs for technical employees. Twenty-four GenTech employees were in the nationally approved in-house training program, 45 people in the graduate program and 14 in the apprentice program.

Adapting to change

Hydro Tasmania has put considerable effort into preparing our people to adapt to change through in-house development programs over the past three years. This bore fruit this year with employees' response to the organisational refinement.

Building on the skills our people have developed for managing change, in 2011-2012 Hydro Tasmania will develop a methodology, tools and approach for a change management function to apply consistently across the business in various kinds and levels of tasks and projects.

Remuneration

Another project plan completed this year to be implemented next year was the challenging task of creating incentive arrangements for executives for the collective achievement of business targets. Hydro Tasmania sees a need for a holistic remuneration model aligned with the business strategy. An approach on how to transpire the incentive arrangement for EPA employees was still under review. 75 per cent of employees of Hydro Tasmania are included in EPAs.

WorkCover highly commended - the Hydro Tasmania team of, from left, Bruce Hill, Grant Chorvat, David Shields, Jane Knowles, Michael Sylvester, Grant Bender, Claire Stonehouse, Mick Cuppari, Kate Fehlberg and Adam Rosevear

Work processes

Hydro Tasmania has been reviewing its work processes, especially in the critical areas of marketing, sales and billing, asset management and financials. We have created a program to investigate the introduction of improved business processes and supporting systems to support business growth and efficiency. We realise that this will have an impact on our business and our people long term and will involve a high degree of change management.

IT roadmap

Hydro Tasmania is investigating information technology systems that will improve system functionality to support the business objectives of growing the business, reducing cost, and managing strategic risk. It is expected that we will start replacing outdated and inefficient systems in the coming year with an enterprise resource planning solution. We expect installations to be complete in three to four years.

A second program is investigating the replacement of trading processes for contract and spot operations and improved energy risk management and reporting.

A new service delivery model for IT is being implemented to support the growing demand on IT in the business which includes our outsourcing agreement with Logica.

Working overseas

Hydro Tasmania group employees working overseas are ambassadors for our business. The Sarawak Energy Berhad partnership involves Entura providing a range of business support to the energy company and the secondment of Hydro Tasmania employees. We host delegations from Sarawak Energy Berhad and other electricity utilities in Tasmania who train in specific hydropower skills.

It is rewarding for our employees to be contributing to people's ability to access electricity in developing countries. At the same time they are meeting cultural challenges in everyday life in each country. Safety on the job presents a particular challenge to staff. Drawing on Hydro Tasmania's safety and cultural training, our employees demonstrate and encourage safe work practice within the limits posed by the realities of the environment.

Safety, health and wellbeing

Hydro Tasmania is highly committed to a safe and healthy workplace and looking after our employees' balance between work and lifestyle. Our safety vision is 'no harm to anyone at any time' which encompasses physical and mental health and wellbeing. Hydro Tasmania takes a business-wide approach to reducing safety risks.

Safety performance

Hydro Tasmania had good safety results this year (see Table 15) with the lowest LTIFR on record and achieving more than a million man hours worked across Australian sites without lost-time injury . We celebrated the million hours milestone throughout the Hydro Tasmania group, distributing first aid kits to all employees for personal use and pledging a donation to the Volunteer Ambulance Service in Tasmania.

We believe the results are attributable to a number of factors addressed through the Safety Improvement Plan, including greater awareness of risks, addressing relevant risks and an improvement in the safety culture.

We regard the rise in the medical treatment injury rate (MTIR) as a positive indication of improved injury management process through earlier intervention and treatment using the preferred doctors model. We also attribute this as a further reason that the LTIFR and the severity rate are lower.

Table 15 : Safety statistics[a]

30 June:	2007	2008	2009	2010	2011
Fatalities	0	0	0	0	0
Lost time injury frequency rate[b]	4.1	3.6	2.8	2.1	0.6
Medical treatment injury frequency rate[c]	8.4	8.9	6.6	6.0	11.6
Severity frequency rate[d]	17.6	38.1	60.0	21.3	13.5
All injury frequency rate[e]	49.0	49.8	42.0	39.4	31.4
Occupational diseases rate[f]			0	0.645	0
Contractor lost time injuries	1	1	1	2	0

a This data does not include Entura's India office. Momentum data was included from November 2010. Contractor hours are not included in frequency rates.

b OHS data does not comply with GRI methodology, as it is based on AS 1885, except the number of employees is based on full-time equivalent (FTE) rather than head count. Contractor incidents and hours are included in the LTIFR.
The calculation for frequency rate is:
(Number of incidents/number of hours worked) x 1,000,000
Number of hours worked = number of FTE x number of working days x number of hours in a working day (7.5)
Lost Time Injury (LTI) is an absence from a complete shift due to workplace injury (scheduled work only).

c Medical Treatment Injury (MTI) is receiving medical attention due to workplace injury and returning to work.

d Severity rate is the average number of work days lost per lost time injury per million man hours.

e All injury frequency rate is LTIs, MTIs and first aid treatments.

f This relates to stress.

Safety on our sites

Hydro Tasmania is determined to improve safety on our sites to achieve our safety vision. The Safety Improvement Plan is our road map to improving safety.

Safety Improvement Plan

This year we changed our approach to the annual review of the Safety Improvement Plan to drive ownership of health and safety to all levels of the organisation. Instead of consulting in each area of the business, this year each work team produced a safety plan to address the specific risks relating to the team's work and location.

Data from these plans, along with quantitative data from the incident and quality management system, were used to review the organisation's Safety Improvement Plan for 2011-2012 and to ensure overall business focus remains on high priority risks and improvement programs.

In 2010-2011 the Safety Improvement Plan focused on the following priorities.

Critical procedures review

We reviewed the critical procedures which resulted in three main improvements: producing a reference handbook, *Safe work practices*, that is an easy-to-carry summary of all critical procedures and the key steps, an improved Permit to Work system and the introduction of personal isolation locks.

At 30 June over 90 per cent of employees and contractors (for Hydro Tasmania and Entura in Australia) had been trained in using the handbook and the revised procedures. The intranet safety site was completely redesigned for easier access to more relevant and detailed information. Feedback from the training courses indicated that there is a high level of employee engagement with the procedures and that there has been a significant increase in use of the intranet.

Health and safety management system

We began to redevelop the current occupational health and safety system, Hydrosafe, to prepare for certification under the internationally recognised standard, OHSAS 18001.

We reviewed the risk management, incident management and emergency response procedures, aligned them with OHSAS 18001 and incorporated them with the ISO 14001 requirements. We conducted a number of drills in power stations to train our people in the revised procedures.

We developed a health and safety overview manual which describes our commitment to the elements of OHSAS 18001 and developed a number of Hydro Tasmania health and safety standards that describe how this will be implemented.

In 2011-2012 the focus will be developing an integrated health, safety and environment (HSE) system. It will include a review of monitoring and reporting to meet the requirements of the standard and the needs of the business.

Implement a training and competency plan

The training and competency plan is integral to all of the Safety Improvement Plan priorities and this year we developed a competency standard to draft stage for further development in 2011-2012.

We achieved our goal of widespread training in critical procedures which is discussed above. Managers were trained in identifying and supporting positive safety attitudes and behaviours and employees were trained where relevant in the safe work practice procedures. We conducted an emergency response exercise for overseas personnel in India as a consequence of civil unrest.

In the coming year we will identify OHS competency requirements for critical positions within the business and train managers in their role as leaders in supporting the safety management system and train employees in the use of the system. All training will focus on building the safety culture.

Build the safety culture

Building the safety culture, we are focusing on behaviours, attitudes and ownership. Discussion on attitudes and behaviours was part of the training for the *Safe work practices* handbook discussed above. Those identified as supporting a positive safety culture will be incorporated into the training plan.

As a major drive to build ownership of safety, we undertook a risk-profiling exercise with all work teams in Australia. Each team identified the specific health and safety risks relevant to it and developed a management plan to mitigate the risks which is to be implemented in 2011-2012.

Fit for work, fit for life

The Healthy Hydro program takes the lead to deliver this program. It consists of health and fitness assessments and advice, ergonomic assessments and a fatigue measuring program conducted through a contracted service provider, Healthy Business. Participation rate was high throughout the year and at 30 June rated approximately 80 per cent .

The program continued to focus on stress and fatigue. We purchased fatigue bands that record the amount and quality of sleep per night. This gives a measure of the time spent in the 'mental effectiveness' range and an estimation of elevated risk of incidents or accidents due to fatigue. The data from 178 employees showed elevated risk was 16.75 per cent. Repeat measures were recorded for 43 of these employees who changed their lifestyle and work habits to reduce fatigue and the assessment showed an average reduction of risk of 36 per cent. This program will continue.

We believe that this work is a major factor in the reduction of the absentee rate for 2011. See Figure 11.

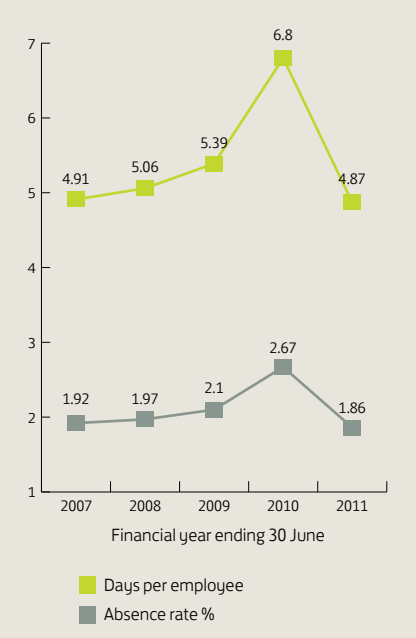


Figure 11: Absenteeism

Sustainability performance for employees:

The score[8] for the principle 'employees' is **4.0**

Principle elements are:

- Attraction, capability, retention – score: **3.7**
- Safety – score: **4.3**

See more information on scores in the summary table on page 150.

Performance against 2010-2011 commitments

Commitment		Progress
Continue building skills for change and responsiveness to customers through the development programs (Change Agents, Leadership Initiative and Improving Service) by providing training to more people.	✓	52 employees completed training (Leadership Initiative, Change Agents and Improving Service Program).
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.	✓	Achieved. Managers with specialist skills have been appointed in the areas of industrial relations, remuneration, recruitment and organisational change and have developed strategies that will be implemented in 2011-2012.
Address actions identified in the Safety Improvement Plan for 2010-2011.	✓	Actions progressed according to plan. See details in the text.

8 The principle score is an average of the element scores. Scoring criteria are from the IHA Sustainability Protocol and are explained on page 149.

Commitments for 2011-2012:

- Implement key HR strategies (talent management, remuneration, training and development and employee relations) to support business objectives by June 2012.
- Develop a strategy by April 2012 that supports the business objectives in relation to Hydro Tasmania and Entura EPAs. Commence negotiations with stakeholders by July 2012.
- Build an organisational change management function (methodology, approach and toolsets) to leverage the knowledge and skills built through change readiness initiatives and ensure consistent application of these across business projects by June 2012.
- Work completed to enable certification of the Hydro Tasmania group's Australian operations to OHSAS 18001 by December 2012.
- Integrate wind assets into the safety system.
- Address actions to be identified for the Safety Improvement Plan for 2011-2012 in areas identified as high priority:
  - safe work practices
  - emergency response
  - fatigue
  - driving
  - fit for work; fit for life
  - integration of safety and environment management systems.

external stakeholders

Key Performance Indicators

Performance 2010-2011

- Greater than **80%** of surveyed stakeholders rate our performance as good or excellent: **80% rated our performance in stakeholder communication as good or excellent**.

Achievements:

- Established Hydro Tasmania Community Initiative to focus corporate sponsorship; expenditure in Tasmania of $457 838
- 80 per cent of surveyed stakeholders rated our performance as good or excellent

Challenges:

- Implementing a consistent stakeholder engagement approach across the business
- Balancing differing recreational interests and activities on land and water under Hydro Tasmania's management

Material issues

Material issues identified by external stakeholders	Material issues identified by internal stakeholders
Community (sponsorship)	Community (Community Initiative)
Communicating with stakeholders	Communicating with stakeholders
Recreation on land or water	

Hydro Tasmania identifies stakeholders as those who may be impacted by or have an impact upon our business and its operations. Our stakeholder groups are listed in Table 16.

Throughout this report you will find information about communication with stakeholders.

In this section we discuss our stakeholder engagement framework, our charitable activities in the community and recreational management. We also specifically pay attention to our suppliers and partners.

This year our focus was on developing an active community engagement framework – the Community Initiative. It is about fundraising, community partnerships, sponsorship and employee volunteering.

Sustainability Code: At Hydro Tasmania we recognise that our operations have a significant impact on other members of the community. In turn, our operations are impacted by many other decision makers. We seek to build a relationship with our stakeholders – those who are impacted by us, and those who have an influence over our business and its operations.

Community engagement and support

Table 16: Stakeholder groups

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

Communicating with our stakeholders

Across the range of our stakeholders, the way we communicate is important. On the whole our stakeholders provide positive feedback. We are aware that we can improve in some pockets and develop a consistent approach across the business to engaging with all our stakeholder groups.

Our aim is to develop relationships that are mutually beneficial. To this end the principles of our stakeholder engagement framework are based on listening well and being clear on our intent, considering other views in our decision-making and being accountable to our stakeholders for our decisions and actions arising from them.

The organisation is increasingly using formal stakeholder engagement plans at program and project level to bring a structured approach to identifying and engaging with stakeholders. Further work is needed to ensure that the people dealing with our stakeholders have a greater understanding of using the framework so that our stakeholders' interests are consistently recognised in decision-making.

In order to put our resources where they have the most effect, this year we identified and grouped stakeholders according to our perceived level of their influence over and interest in Hydro Tasmania. The frequency and method of engagement will depend on the influence and the impact of current issues facing the business and its stakeholders.

We believe that the level of awareness within the business of the importance of stakeholder relationships has increased over the past two years. An example comes from the water users forum we held in November 2010 which provided information on our various programs and the opportunity for stakeholders to discuss interests with program managers. Feedback indicated that the stakeholders who attended appreciated the opportunity to discuss information and issues face-to-face with their contacts.

CEO Roy Adair at the launch of the Tasmanian Symphony Orchestra's Accesstix program

In 2010-2011, we surveyed 85 of our stakeholders in all categories except for sponsorship partners, competitors and employees and had 20 responses. Eighty per cent rated our performance in stakeholder communication as good or excellent.

We have also identified an opportunity to develop a feedback system so that we have a continuous picture of the issues of interest to our stakeholders and can share this information across the organisation for a more holistic understanding of, and response to, their issues.

Hydro Tasmania in the community

Hydro Tasmania and its employees aim to make a genuine difference to the communities in which we operate. Hydro Tasmania's focus remains in Tasmania where our hydropower facilities touch many regions. Momentum and Entura are becoming increasingly involved in the communities they touch through their activities which are outlined on pages 37 and 40.

Building on a long-standing culture of supporting communities that need a helping hand, in April 2011 we launched the Hydro Tasmania Community Initiative to provide an umbrella for fundraising, community partnerships, sponsorship and to encourage our employees to actively participate in the community. The aim of the initiative is to help the young, the aged and the disadvantaged through charitable organisations nominated by our employees.

We sought employee feedback on volunteering and community involvement. They indicated a willingness to contribute their time to causes supported by Hydro Tasmania and would prefer our efforts to focus on the welfare of the community. We discovered that our employees were already contributing more than the 10 000 hours of voluntary community service that we had set as a target.

The first fundraising event provided over $2000 each to Lifeline, Meals on Wheels and Able Australia (Tasmania).

The Community Initiative will form partnerships through sponsoring organisations where our people have the opportunity to get involved. New partnerships will be announced during 2011-2012 with work to begin on developing a staff volunteering program.

Sponsorship

Hydro Tasmania provides support to a variety of groups and organisations in the Tasmanian community through donations and sponsorships.

This year we donated $10 000 to the Salvation Army's Sleep Out for the Salvos. We also donated $37 468 to the Queensland Flood appeal, with $13 872 of the total coming from staff.

The total sponsorship program for the year was $457 838.

Principal sponsor partnerships are:

- Greening Australia Tasmania – sponsoring river environmental programs. We are a founding supporter of Greening Australia's science and ecology learning centre planned for Hobart
- Ten Days on the Island – an inaugural supporter of the State's premier arts festival

- Tasmania Symphony Orchestra – sponsoring the Accesstix program, providing free tickets to disadvantaged Tasmanians to attend concerts in partnership with Reclink, an organisation dedicated to bringing sport and the arts to the disadvantaged
- Young Achiever Awards, Environment category – the awards recognise, encourage, reward and inspire young Tasmanians
- United Nations Youth Assembly – providing support for a young person to attend the assembly
- Hydro Tasmania Tullah Challenge – an annual triathlon held in the rainforests of Tasmania's west coast. We provide financial support and our people in the region help organise the event
- Back to Pedder Fishing Competition – a fishing competition organised by the Lake Pedder Anglers' Club to provide social and financial support for Camp Quality. We open the former Lake Pedder Chalet as accommodation for competitors.

Further information on the sponsorship program and our partnerships is on our website.

Recreation

Hydro Tasmania provides water releases when possible to accommodate requests for organised recreational activities on its waterways, such as white water rafting, canoeing and rowing. Releases are constrained by high or low flows, power production and station outages. In 2010-2011 Hydro Tasmania was able to meet most of these requests.

Beyond facilities used for our operations, Hydro Tasmania provides pro bono infrastructure to the community for recreation such as walking tracks, boat ramps, camping grounds, jetties, pontoons and car parking, catering for a range of activities on land and water under our management.

'Hydro Tasmania aims to provide and maintain recreational facilities on a sustainable basis.'

Together with the Inland Fisheries Service and Marine and Safety Tasmania (MAST) we developed the Recreational Boating Infrastructure Plan for the State which was implemented during the year and is supported by the boating community. Hydro Tasmania made a direct donation of $60 000 for boat ramps to the Boating Infrastructure Fund, administered by MAST.

Hydro Tasmania is working with government agencies so that developments are in line with the broader recreational objectives of Tasmania for the greater social, environmental and economic benefit of the Tasmanian community. Hydro Tasmania aims to provide and maintain recreational facilities on a sustainable basis. During 2010-2011 we classified locations under our care according to the standard of recreation facilities that exist or can be established and maintained. Future developments will consider the potential safety risks, the range of activities and number of visitors the location can support, the level of wealth people using the location bring to the local community and our ability to maintain the site, whether directly or through partnerships.

An example of such a partnership is to redevelop and manage two camping grounds at Arthurs Lake sites with the Bothwell Tourism Association – Pump House and Jonah Bay. Hydro Tasmania is providing capital and ongoing support for the Association to manage the site and reinvest the income to build community capacity in tourism and recreation.

Suppliers and partners

In our ongoing quest to be easy to do business with, this year Hydro Tasmania:

- developed a consistent method to improve and maintain supplier relationships
- received feedback that our payment system has improved compared to the previous financial year
- established contract models for eight of our significant categories of expenditure.

We continued to encourage sustainable business practices in the supply chain through our annual survey, asking suppliers to rate our performance and to self-assess their performance against our sustainability principles.

Paloona Dam

Key Performance Indicators

Performance*

- Suppliers satisfaction with our performance: **81%.**
- Suppliers sustainability self-assessment against Hydro Tasmania's sustainability principles: **76%.**
- Supply expenditure in Tasmania: **$63.7 m.**

* The data provided covers Hydro Tasmania and Entura in Australia and excludes Entura India and Momentum because invoices are processed separately by these entities. Supply expenditure at these two businesses is insignificant compared to the data provided.

Supplier relationships

This year, Hydro Tasmania published a set of supplier relationship management principles that describe the way we and our suppliers would like to deal with one another. They were developed by employees who deal with major suppliers and tested with our suppliers through additional questions in our annual supplier survey. With a very positive response from suppliers, we have communicated the principles to relevant employees and have made them available to suppliers on our website.

Network service providers are a vital part of the electricity supply chain.
We work with Transend Networks and the Basslink owner, CitySpring, to ensure our production can be delivered and to resolve technical transmission issues.

We have an ongoing contractual dispute with Basslink Pty Ltd, a wholly owned subsidiary of CitySpring Infrastructure Trust. The parties have made commercial and technical progress this year to resolving the dispute, including a trial of a revised arrangement. We anticipate that we will be in a position to either proceed to implement a technical and commercial settlement or alternatively proceed to formal dispute resolution during 2011-2012.

Preferred supplier agreements

Hydro Tasmania aims to maximise the value of our procurement expenditure. In 2010-2011 we established appropriate contract models for eight of our significant expenditure categories, which included a number of preferred supplier agreements. The result of these agreements is fewer suppliers for the categories and the opportunity to develop better relationships with the suppliers.

Supplier survey

Our annual survey of suppliers asks them to rate their satisfaction with our performance as a customer. We surveyed all our suppliers and had a response from 192. Overall satisfaction was up by one per cent from last year to 81 per cent – see Table 17.

Table 17: Supplier feedback on satisfaction

		2009	2010	2011
Key supplier satisfaction ratings of Hydro Tasmania	Result	80	80	81
	Target	75	75	75

The most significant improvement from last year's results was the ranking of timely payment. This reflected our internal indicator which also showed a significant improvement over the year.

We offer a follow-up conversation about the survey which some respondents took up. The discussions were mostly about the novelty of a supplier satisfaction survey which they considered a good idea and a reversal of customer satisfaction.

Sustainability in the supply chain

Each year we ask different key suppliers to self-assess their own performance on sustainability against our principles. This year 19 suppliers were asked and 12 responded. The overall score was 76 per cent – see Table 18. Although down one per cent from last year, this remains a pleasing result because the suppliers this year were mostly smaller businesses without the resources of larger companies we have targeted previously to implement a formal sustainability program.

Table 18: Suppliers' sustainability self-assessment

		2009	2010	2011
Supplier and partner sustainability performance self-assessment	Result	85	77	76
	Target	75	75	75

Supply expenditure

In 2010-2011, Hydro Tasmania spent $63.7 million with Tasmanian firms and $119.2 million in total. Tasmanian firms are defined as businesses operating in Tasmania which have a permanent office or presence in Tasmania and employ Tasmanian workers. Utility costs such as electricity, transmission and fixed telephony are excluded. See Table 19.

Our procurement policy states that Hydro Tasmania will give consideration to source supplies in Tasmania. Hydro Tasmania works with the Industry Capability Network (ICN) to help source Australian suppliers of the goods and services we need before sourcing from overseas. Our tender documents require that firms provide information on their environmental and safety practice and their sustainability policy.

Table 19: Supply expenditure by region

Supplier Location	No. of suppliers	Annual spend	% of total spend
Tasmania	699	$63.7m	53.4%
Mainland Australia	529	$50.1m	42.0%
Overseas	58	$5.4m	4.6%
Total	**1286**	**$119.2m**	

Sustainability performance for external stakeholders

The score[9] for the principle external stakeholders: **3.6**

External stakeholders elements are:

- Community engagement and support, score: **3.3**
- Suppliers, score: **4.0**

See more information on scores in the summary table on page 150.

Performance against 2010-2011 commitments

Commitment		Progress
Prepare a 'good neighbour' plan to target 10 000 hours per annum of community support provided by our people.	✓	Launched the Hydro Tasmania Community Initiative. We found that employees were already contributing more than 10 000 hours of voluntary community service.
Achieve buy-in and commitment from employees to the stakeholder engagement framework.	–	Published stakeholder engagement principles, framework and guidelines for our employees. There is further work to ensure a consistent approach and improve employee stakeholder engagement, commitment and capability.
Develop a model to understand and strategically manage our supplier relationships and communicate this internally and with our suppliers.	✓	Completed. Supplier relationship management principles developed and tested with suppliers.

Commitments for 2011-2012

- Establish three community partnerships supporting the young, the aged and the disadvantaged.
- Establish a process for capturing information about our stakeholders and their material issues that can be used by stakeholder managers to understand our stakeholders' issues and concerns.
- Develop an information and education package for employees to build stakeholder engagement capability.
- Establish a supplier prequalification register to improve the efficiency of how we deal with suppliers.

9 The principle score is an average of the element scores. Scoring criteria are from the IHA Sustainability Protocol and are explained on page 149.

environment

ecosystems and heritage

Key Performance Indicators

Performance 2010-2011

- Nil significant environmental incidents: result – **0**.
- Emissions intensity: **0.0047** tonnes of CO_2 equivalents per megawatt hour (tCO_2-e/MWh).

Achievements

- Established a systematic, rotational lake environmental monitoring and assessment program
- Agreed to increase the environmental flow through Cataract Gorge
- Started the Mersey-Forth water management review

Challenges

- Uncertainty about requirements for infrastructure management in the World Heritage Area until a revised management plan is approved by the State Government
- National debate over carbon tax and specifically the benefits to Hydro Tasmania

Material issues

Material issues identified by external stakeholders	Material issues identified by internal stakeholders
Water quality in catchments	Water quality in catchments
River health protection in catchments	
Threatened species protection on land and water	Environmental incidents
Land management	
European heritage protection	
Aboriginal heritage protection	
Addressing climate change	Addressing climate change

As Australia's largest water manager and with a licence to manage water in a sustainable way, Hydro Tasmania's biggest exposure to environmental risk is in our storages and downstream. Potential risks include impacts on water quality, biodiversity and threatened species. Risks arise from our operations, a variety of asset failure scenarios such as oil leaks and from weather, particularly in extreme low or high rainfall periods.

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

Hydro Tasmania is committed to a sustainable environment. We want current and future generations to enjoy an environment that is clean and healthy. We aim to maintain a leading position as an environmentally responsible and low carbon intensity business.

We also have responsibility for managing tracts of land with issues associated with fire, vegetation and disturbance from infrastructure such as roads and quarries. We have areas of land within the World Heritage Area in south-west Tasmania which have their own unique management requirements. Assets and land are also subject to cultural heritage considerations. In the future we will have exposure to the impact of wind farms on biodiversity, particularly with the high profile of the effect of operations on threatened species of birds.

Managing the water environment

Managing the water environment is an integral part of the framework storage management guidelines discussed on page 47.

Our environmental monitoring program provides data that helps manage the aquatic environment.

The extensive monitoring program covers obligations for river and lake levels, water quality and biological information on water bodies we manage, including from the operation of Basslink.

We provide the data to other stakeholders. We publish river and lake levels where available in near real-time on our website. We prepare and present annual compliance monitoring reports to the Tasmanian Minister for Primary Industries and Water on monitored data, issues and mitigating actions.

On a voluntary basis we monitor water bodies to address key issues such as the recent research into the ecology of threatened fish species. In addition this year we established a systematic, rotational environmental monitoring and assessment program in the Mersey-Forth catchment covering seven lakes and four rivers. This information provides a good understanding of the status of waterways in the Mersey-Forth as we initiate a water management review in the catchments. Find more on water management reviews on our website.

Water quality in catchments

Good rainfall during the year across the catchments increased storage water levels and helped maintain or improve water quality in most of the lakes for the year.

Water quality data provides us with information on the effect of our operations on the lakes used for power generation. The current water quality monitoring program includes 18 lakes, some with environmental issues relating to turbidity, algal blooms and metals.

Tasmania has some renowned trout fishing lakes which are under our custodianship. Hydro Tasmania works closely with the Inland Fisheries Service to maintain the fishery. We have increased monitoring at prime fishing lakes in the central highlands, Arthurs Lake, Penstock Lagoon and Lake Augusta, in response to fishers' concerns about turbidity and algal blooms.

Algal blooms are an indicator of elevated nutrients. We recorded blooms at Arthurs Lake, Lagoon of Islands and at Penstock Lagoon. We continued to support NRM North's monitoring of summer algal levels at Lake Trevallyn in the north of Tasmania. No blooms were recorded this year in Lake Trevallyn. An extensive bloom persisted at Lagoon of Islands.

High concentrations of metals were consistently recorded from Lake Pieman throughout the year, as is typical of west coast lakes.

River health protection in catchments

Hydro Tasmania's infrastructure and operations change the hydrology of rivers downstream of operations. As a consequence, the geomorphological, riparian vegetarian, biological and water quality characteristics of rivers may be altered.

The impact of these changes varies in magnitude and significance depending on the numerous factors and characteristics of each catchment, including the ability of rivers to reach a level of equilibrium with changed conditions over time. We assess environmental impact by comparing indicators of river health in altered river reaches with reference data from reaches which are unchanged or less changed. For example, we monitored four rivers in the Mersey-Forth catchment in 2010-2011 with results indicating river health to be good.

The compliance monitoring program includes river health assessments on 11 rivers. Overall the condition was good with no notable problems or concerns.

The most extensive river monitoring and assessment that we undertake is for Basslink obligations in the catchments of Gordon, King and downstream of Poatina Power Station. Four years of data were collected on each river before the Basslink cable came into operation and six years of data are being collected post Basslink to assess changes. Our water licence conditions refer to 'no net environmental effect' from Basslink operations. One of the Gordon River mitigation measures is discussed below. Details of the Gordon River Basslink monitoring program can be found on our website.

During 2011 we focused other activities on particular issues at Cataract Gorge on the South Esk River and the Ouse River.

South Esk River: Cataract Gorge environmental flow

Hydro Tasmania recognises that the flow through Cataract Gorge is very important to the Launceston community and has

conducted a review of the environmental flow regime that has been in place since 2003. Over the past two years we completed scientific flora and fauna studies, visual assessments under different flow scenarios and consulted with local stakeholders. In April 2011 we agreed to increase the base flow through the gorge from 1.5 cumecs to 2.5 cumecs. This is the second voluntary increase we have agreed to.

The increased flow will improve the aesthetic conditions and while it provides additional habitat area for some aquatic species, it reduces the habitat for some threatened plant species growing near the water's edge. Hydro Tasmania has applied for a threatened species permit from the Tasmanian Government, a necessary prerequisite for the increased flow to be introduced.

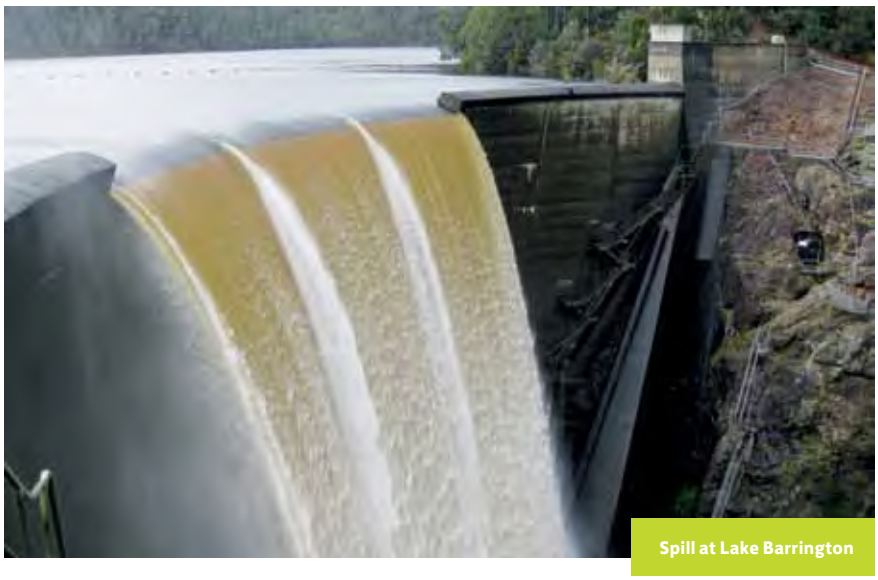
Ouse River: environmental flow assessment

Hydro Tasmania is conducting an assessment of the Ouse River to consider the need for provision of additional environmental flows. This work forms part of an integrated project to address the range of inter-related water management issues currently facing stakeholders in the Derwent catchment. The outcomes from this project will address some environmental issues as well as improve water management for multiple-use, including irrigation, recreation and energy generation.

Gordon River: erosion mitigation

Changed operation of the Gordon Power Station due to Basslink can affect the condition of the Gordon River. There is the potential for seepage erosion, that is, water removing sediment as it seeps out of the saturated river bank. This happens when there is a rapid decline in water level when water released from the station is significantly reduced.

The ramp-down rule stipulates the rate for reducing discharge from the power station and was introduced at the beginning of Basslink operation to mitigate this risk. The Basslink Review Report 2006-2009 concluded that the rule was not working as intended. We are working with the Department of Primary Industries, Parks, Water and Environment and the Gordon River Scientific Reference Committee to improve the rule. This year we conducted seepage trials to find the conditions under which bank saturation causes seepage. A revised rule is being developed.



Spill at Lake Barrington

Threatened species protection

A two-year research program commissioned by Hydro Tasmania into the ecology and biology of threatened galaxiid species in Great Lake was completed in June 2011. The research was undertaken by Forest Contracting Services, Inland Fisheries Service and University of Tasmania. The results will assist in establishing more sustainable management of lakes where the galaxiids are found to protect these species.

Hydro Tasmania's GIS database identifies habitats on our land for threatened species which include those on the International Union for Conservation of Nature red list and national and state threatened and endangered lists. The GIS database contains information to be included in planning work on any areas with sensitive habitats. Projects must follow ESMS guidelines on mitigating and managing any impacts on these habitats.

Land management

Hydro Tasmania is participating with government agencies and community associations to implement integrated management strategies for effective statewide solutions for a range of environmental issues such as *chytrid* (frog fungus), platypus mucous fungus, *phytophera* (root rot of native plants) and *didymo* (rock snot). These pests threaten ecosystems and the longevity or viability of various industries and recreations across the State.

To raise awareness of these risks, Hydro Tasmania developed a training program to minimise the spread of pathogens through practical hygiene methods. Training sessions were attended by 60 people, including Hydro Tasmania staff, contractors and people from other organisations. The training program is being used by other organisations, including the Southern Tasmanian Councils Association, Parks and Wildlife Service and Trout Guides and Lodges Tasmania.

World Heritage Area

During the year the Government confirmed that legislative change would be required to enable the electricity entities to implement an agreement in the World Heritage Area that Hydro Tasmania, Transend Networks and Aurora Energy had been negotiating with the Parks and Wildlife Service over recent years.

Weed management

Hydro Tasmania is working with the three regional NRM organisations to develop co-operative programs. We are represented on the Southern Tasmanian Weed Management Strategy Committee along with government agencies.

This year we collaborated with Southern Tasmanian Councils Association to develop a program to eradicate orange hawkweed, a weed of national significance. Collectively we mapped the infestation and agreed on a budget and joint funding for 2011-2012. It is found on Hydro Tasmania land and adjacent properties in several areas in the south of the State. A collaborative framework in association with the Tasmanian Parks and Wildlife Service and NRM South's Derwent group proved effective with the successful eradication of Spanish heath and gorse in the south-west World Heritage Area .

Rehabilitation

During 2010-2011, Hydro Tasmania and land owners around Lake Meadowbank developed and agreed on a joint five-year plan to address environmental issues on the lake banks. This was the result of consultation for the Lake Meadowbank drawdown in the previous year.

In March 2011, Hydro Tasmania received notice that we had breached the conditions of a quarry licence at Sandbanks Tier. After investigation we discovered that we did not have processes in place to manage quarries. In 2011-2012 we will develop a register, environmental and safety management plans and audit quarry operations. To address the particular issues at Sandbanks Tier quarry, Hydro Tasmania submitted a rehabilitation plan to Parks and Wildlife Service for comment that addresses the impacts in the area outside the quarry lease. We have also developed a quarry plan for Sandbanks Tier which was submitted to Mineral Resources Tasmania.

'With close to 100 years of history, Hydro Tasmania's assets contain a wealth of social and industrial history.'

Environmental incidents

Hydro Tasmania had no significant incidents and was not required to pay any fines for environmental incidents in 2010-2011. Hydro Tasmania is very keen to maintain that result to maintain public confidence in our environmental credentials.

There were a total of 31 incidents reported that were classified as either insignificant or minor under our environmental management system.

The majority of these were oil spill incidents that were contained and completely cleaned up. In addition, there were four major non-conformances recorded. These included two major non-conformances that were reported to external authorities. The first of these involved the construction of a stormwater drain at Lake Margaret outside the approved scope of work. This had potential impacts on heritage values in the area. Remediation work has since re-instated the site. The second involved frog sampling without an appropriate permit and an investigation is currently under way regarding this issue.

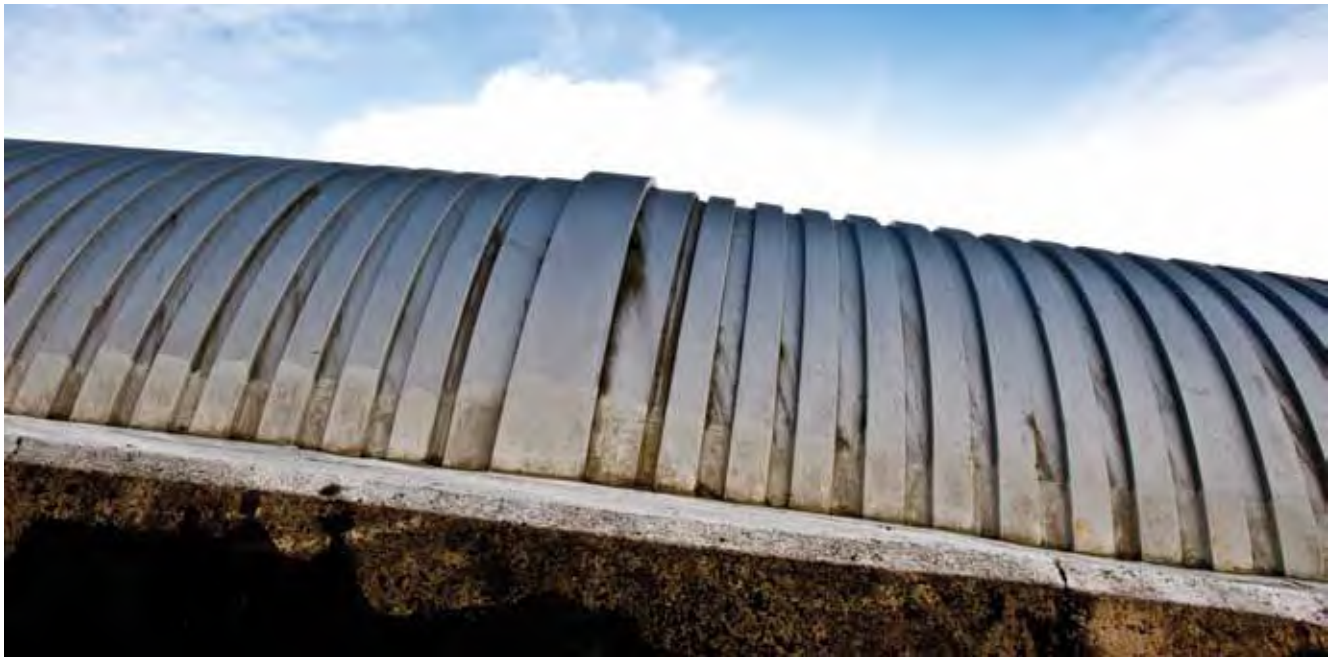
Heritage

European and Aboriginal heritage protection

With close to 100 years of history, Hydro Tasmania's assets contain a wealth of social and industrial history. We manage the cultural heritage values through a program guided by a five-year plan. The Cultural Heritage team manages the program, maintains the heritage database and provides guidance, advice and training for employees. Asset and project managers are responsible for considering heritage values in asset works.

This year, a comprehensive review of the five-year plan with asset project managers across the power system resulted in a major project to develop heritage guidelines for asset types. We completed guidelines for two asset types and a manual is expected to be complete in three to four years time.

Our sites are also of interest to the Aboriginal community. We co-operate to record sites and artefacts of heritage value. This year we planned and completed improvements in the accuracy of our Aboriginal heritage predictive model. The Tasmanian Aboriginal community's concerns about heritage management of major infrastructure projects by other agencies meant that representatives were not available to assist us with heritage assessments. This delayed plans to test and refine the Hydro Tasmania Aboriginal heritage predictive modelling with field surveys. We will resume as soon as the representatives are available.
A quarterly newsletter keeps stakeholders informed of our heritage activities. It is available on our website.



Key Performance Indicators

Performance 2010-2011

- Emissions intensity: **0.0047** tonnes of CO_2 equivalents per megawatt hour of energy produced (tCO_2-e/MWh).

Carbon status

Carbon emissions

With no thermal generation under our management, Hydro Tasmania's emissions intensity at 0.0047 tCO_2-e/MWh is the lowest emissions intensity for a major generator in Australia (see Figure 12).

Hydro Tasmania's total carbon emissions were 44 282 tonnes in 2010-2011 (See Figure 13), up 51 per cent from 2009-2010. Emissions from pump stations increased this year, principally from the Arthurs Lake pump which came back online after major maintenance in 2009-2010. See more details on sources of emissions in Figure 15.

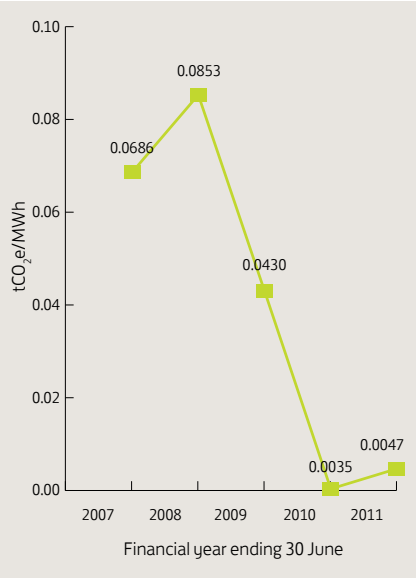


Figure 12: Hydro Tasmania's emissions intensity

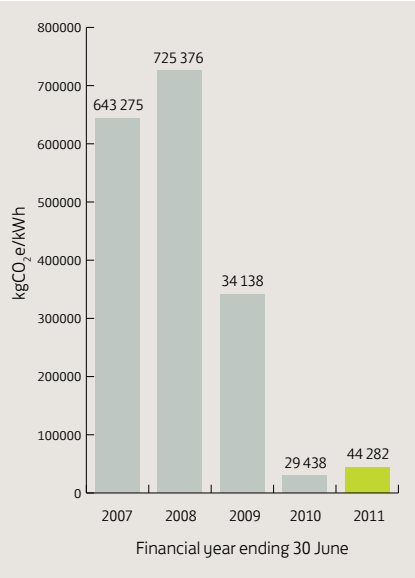


Figure 13: Hydro Tasmania's carbon emissions in tonnes of CO_2e

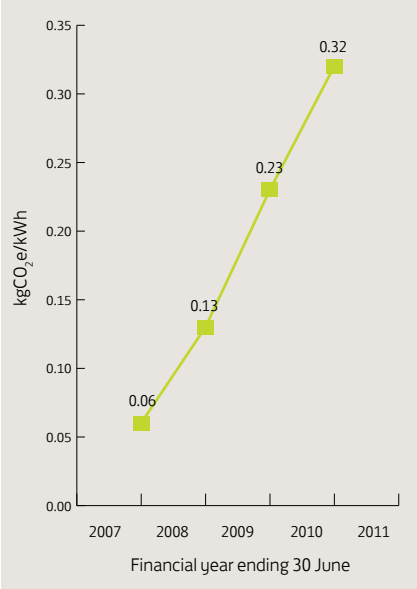


Figure 14: Tasmanian emissions factor for electricity consumption determined by Commonwealth Government

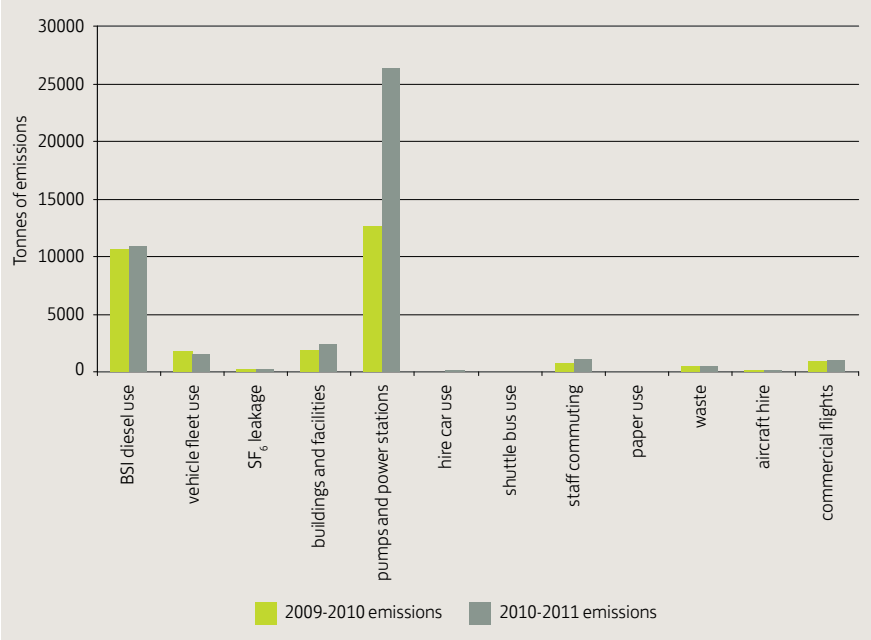


Figure 15: Hydro Tasmania's emissions by source[10]

Using a specified emissions factor, all electricity consumed within Tasmania is converted to an associated proportion of emissions. Tasmania's emissions factor for electricity use is determined annually by the Commonwealth Government and changes relative to the amount of Basslink imports and the use of gas-fired generation within the State, outlined in Figure 14.

Hydro Tasmania is refining a method for determining what is material for calculating indirect emissions (scopes 2 and 3). Some Scope 1 and Scope 2 emission sources from Momentum and Entura's India office have not been included as they have been assessed as immaterial (see Figures 15 and 16).

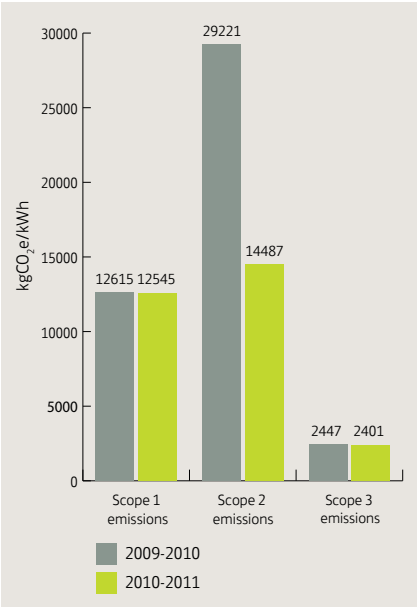


Figure 16: Emissions by Scope 1,2 and 3*

* Data for Scope 2 includes Momentum and Entura India. Scopes 1 and 3 exclude data from Momentum and India because they contribute less than 5% and this exclusion complies with NGERS reporting criteria

Vehicle fleet

Emissions from our vehicle fleet were down 11 per cent compared to 2009-2010. This is the result of continued reductions in fleet numbers, switching to more fuel efficient vehicles and implementing a car pool booking system. This year we continued research into improving video conferencing options, looking for a more effective alternative to vehicle use and air flights. We also began investigating the effectiveness of limiting the size of hire cars.

Buildings

Our actual energy use in buildings decreased by 19 per cent. Emissions increased 18 per cent compared to 2009-2010. This increase is a result of both an increase in Tasmania's emission factor from 0.23 kg CO_2/kWh to 0.32 CO_2/kWh, and growth in electricity use in India and Victoria, both of which have relatively high emissions factors of 1.06 CO_2/kWh and 1.23 CO_2/kWh respectively.

10 Emissions data is the same for Figures 15 and 16.

This year we aimed to implement measures for energy efficiency across the business. We began conducting energy audits of our facilities and implemented some energy efficiency projects such as upgrading part of the lighting system at our Hobart office and lowering the air temperature at the Strathgordon Recreation Centre.

Table 20: Waste by type and disposal method[20]

waste type	disposal method	unit	2009-2010 amount disposed	2010-2011 amount disposed
oil	recycled	litres	27 300	27 400
hydrocarbons	landfill	cubic metres	13	24
solid waste	landfill	kilograms	234 479	229 330
recycling	recycled	kilograms	102 908	107 808
paper/cardboard	recycled	kilograms	102 300	88 831

Table 21: NGERS emission scopes

Scope	Criteria *	Hydro Tasmania emission sources
Scope 1 Direct emissions	Emissions from sources that are owned or controlled by the reporting entity	BSI diesel generation Fleet vehicle fuel SF_6 leakage
Scope 2 Indirect emissions	Emissions that are a consequence of the activities of the reporting entity, but occur at sources owned or controlled by another entity	Electricity used in buildings, pumps and power stations
Scope 3 Other indirect emissions	Indirect emissions such as the extraction and production of purchased materials and fuels, transport-related activities in vehicles not owned or controlled by the reporting entity, electricity-related activities (e.g. transmission and distribution losses) not covered in Scope 2, outsourced activities, waste disposal, etc	commercial flights staff commuting paper use waste aircraft hire hire car use shuttle bus use

* Criteria are defined by the international greenhouse gas accounting tool, the Greenhouse Gas Protocol

20 Data includes all entities within the Hydro Tasmania group and is in accordance with GRI reporting requirements.

Bass Strait islands

Bass Strait islands generation is not included in our NGERS data as the management of the power stations is outsourced to Aurora Energy. However, as we own the facilities, we continue to include them in our sustainability report. Emissions from power stations on King Island and Flinders Island increased by 2 per cent compared to 2009-2010 due mainly to the variable nature of wind generation and higher electricity demand from commercial users. The islands used 4 025 116 litres of diesel in 2010-2011, up from 3 846 510 in 2009-2010. The King Island Renewable Energy Integration Project will dramatically reduce emissions. See details of this project on page 82.

Waste

Waste sent to landfill contributes to greenhouse gas emissions. Improved recycling has reduced our waste to landfill in Tasmania by 13 per cent compared to 2009-2010 – see Table 20.

We extended cardboard collection to a major power station, found more cardboard while cleaning out redundant stores and implemented an organic waste collection system at the Hobart office which turned this waste to a resource in the form of garden compost.

Addressing Climate Change

Climate change presents both opportunities and risk to Hydro Tasmania. Through our renewable energy generation we provide clean energy products in a coal-dominated market.
As a predominantly hydropower and wind generator, Hydro Tasmania is particularly vulnerable to changes in rainfall, temperature and wind speeds that may occur with a changing climate.

Some effects from climate change on water and hydropower generation are discussed on page 46.

Prime Minister Julia Gillard, second right, visits King Island. She is pictured with, from left, Hydro Tasmania's Ray Massie, Braddon MHR Sid Sidebottom and Hydro Tasmania's Andrew Catchpole

Bass Strait islands renewable energy research

Hydro Tasmania has developed the King Island Renewable Energy Integration Project (KIREIP) which involves a series of initiatives to increase renewable energy penetration and to save diesel fuel on King Island. The project has funding support from both Commonwealth and Tasmanian governments. The total cost of the project is expected to be $40.9 million and will be developed over the next two years with construction on the diesel UPS due to start in September 2011. The main elements of the project follow.

Biodiesel trial

The biodiesel trial will be undertaken at the Currie Power Station. Its findings will determine whether to fully integrate biodiesel into the power station and implement biodiesel at the Whitemark Power Station on Flinders Island. We expect trials to begin in September 2011.

Diesel UPS

The project involves the installation of a diesel-uninterruptible power supply (D-UPS) at the King Island power station. It seeks to enhance the value of existing renewable energy generation on King Island by allowing all diesel units to remain offline during periods where renewable energy generation exceeds the customer demand, resulting in 100 per cent renewable energy penetration.

Vanadium redox battery (VRB) repair

This project will look to reinstate or replace the VRB with a suitable alternative storage technology.

Wind farm expansion (IES)*

An increase in the wind farm capacity on King Island will increase the level of wind power available, allowing for a greater percentage of time running in 100 per cent renewable mode. This project derives much of its benefit from the enabling nature of the D-UPS project and energy storage. Development approvals are in place for two additional wind turbines on Hydro Tasmania land at the Huxley Hill Wind Farm site.

Carbon block (IES)*

The function of the energy storage carbon block is to store excess wind energy as thermal energy for later use through the use of an organic rankine cycle (ORC) turbine.

Smart grid project

Smart grid is the next phase in the evolution of electrical power generation, transmission and distribution. In the King Island context, the smart grid is a deployment of demand-side management infrastructure and smart grid technology through an interconnected network of centrally controlled smart meters.

* IES is Integrated Energy Solutions Pty Ltd. This is the 50/50 joint venture company between Hydro Tasmania and CBD Energy Pty Ltd. It is currently proposed that IES will deliver the wind farm and carbon block portions of the KIREIP.

Climate Futures

The Climate Futures for Tasmania project concluded in early 2011 and provides data models to 2100 at a local scale for Tasmania. Hydro Tasmania was a partner in the three-year project undertaken by ACE-CRC. The data will be useful for a range of users, including water managers, agricultural producers, emergency services and government, and will inform planning, operations and policy.

Hydro Tasmania used this data to run hydrological models to estimate inflow into our water storage system up to 2100. This information is being used to manage risks to our long-term storages and associated environmental impacts. It will underpin work in 2011-2012 on Hydro Tasmania's climate change adaptation plan.

Climate change strategy

In 2011 Hydro Tasmania initiated a review of its five-year climate change strategy and its targets. This is because the path set in 2007 to be a carbon neutral generator no longer seems consistent with our new strategic goals where gas may be included in generation. The review will also take into consideration the national climate change policy as it evolves.

With a progressive electricity sales target, Hydro Tasmania's generation portfolio may include gas in the medium term which would lift our emissions intensity above current levels. We aim to continue to be Australia's lowest emissions generator providing clean energy and renewable products to a carbon-intensive market.

We are aiming to deliver a credible and genuine response to climate change that reflects our changing business. Towards this end, we foresee a new climate change strategy being delivered in 2012.

In the meantime we remain committed to reducing our emissions, acting on energy efficiency opportunities and meeting offset commitments for Entura.

We report our emissions as required by NGERS and will comply with Energy Efficiency Opportunities regulations which came into effect on 1 July 2011.
We continue to advocate for an effective climate change legislative framework.

Advocating for climate change

As stated above, climate change presents a business risk to Hydro Tasmania through the vulnerabilities of hydropower and wind generation. Hydro Tasmania believes that to address anthropogenic climate change, Australia must contribute to meaningful action and place a price on carbon, ensuring a smooth and certain economic transition to a lower carbon economy.

Hydro Tasmania supports action to reduce Australia's emissions and has acknowledged the need for carbon pricing for many years. We believe that carbon pricing is an essential reform if Australia's energy sector emissions are to be reduced in a market-based, cost-effective manner. A well designed emissions trading scheme (ETS) should form the basis of Australia's long-term response to climate change.

Further, Hydro Tasmania supports the recycling of carbon revenue to households and businesses, and cites the research, development, commercialisation and export of low and zero emissions technologies as a key area that requires greater funding. Revenue should also be targeted at overcoming infrastructure impediments such as electricity transmission.

We advocate this position directly to politicians and as a member of the Clean Energy Council.

Poatina penstock

Sustainability performance for ecosystems and heritage

The score[11] for the principle ecosystems and heritage: **3.8**

Principle elements are:

- Ecosystems and heritage, score: **3.9**
- Carbon status, score: **3.7**

See more information on scores in the summary table on page 150.

Performance against 2010-2011 commitments

Commitment		Progress
Gordon River Evaluate the development of a new and more efficient ramp-down rule for the Gordon River.	✓	Trials were undertaken to provide data and a revised rule is being developed.
Water management review Initiate the Mersey Forth water management review.	✓	Initiated – the first stage is under way: a review of social, environmental and operational activities and issues in the catchment. The water management review will take at least three years to complete.
Systematic monitoring program Establish a systematic, rotational environmental monitoring and assessment program for Hydro Tasmania's lakes.	✓	The program is established. Monitoring was undertaken in seven Mersey-Forth lakes.
Energy efficiency measures Define and develop measures to track improvements in energy efficiency.	–	We created a plan to define and develop measures in 2011-2012.

Progress on commitments from previous years

Finalise protocol for asset maintenance in the WHA – we still await legislative change to enable the agreement with Tasmanian electrical entities to be finalised. An interim arrangement is in place.

Revise the aquatic program to include an assessment of environmental health and improve reporting – revision of program completed. We streamlined intranet reporting mechanisms this year to provide data and an assessment of its status as soon as possible.

Lagoon of Islands rehabilitation – this year we completed planning the project to decommission the dam wall in 2011-2012 and, in collaboration with the Department of Primary Industries, Parks, Water and Environment (DPIPWE), surveyed the existing vegetation species in the lagoon. The lagoon is to be restored to a wetland state.

Commitments for 2011-2012:

- Integrate the environmental and safety management systems by end 2011-2012 (a commitment also under Safety with information outlined in this report on page 64).
- Incorporate Momentum retail operations within the scope of our ISO14001 certification.
- We will develop a register of environmental and safety management plans and audit quarry operations.
- Develop a draft strategy for biodiversity for land and water by June 2012.
- Finalise development of a more efficient ramp-down rule for the Gordon River.
- Develop guidelines for heritage management of three asset types.
- Implement eight energy efficiency projects in Hydro Tasmania and Momentum.

11 The principle score is an average of the element scores. Scoring criteria are from the IHA Sustainability Protocol and are explained on page 149.

financial report

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financial report 30 June 2011

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2011

	NOTE	CONSOLIDATED 2011 $'000	CONSOLIDATED 2010 $'000	PARENT 2011 $'000	PARENT 2010 $'000
Revenue	2(a)	812,772	726,933	588,823	619,877
Operating expenses	2(b)	628,395	567,666	404,853	451,212
Finance costs	2(c)	80,481	80,337	80,482	80,337
Share of loss of joint venture entities		3,880	6,044	-	-
Total expenses		712,756	654,047	485,335	531,549
Profit/(loss) before fair value gain/(losses)		100,016	72,886	103,488	88,328
Fair value gains/(losses)	2(d)	116,389	259,194	94,188	259,772
Profit before income tax equivalent expense		216,405	332,080	197,676	348,100
Income tax equivalent expense	4(a)	65,313	95,646	65,618	101,578
Profit after tax attributable to owners of the parent		151,092	236,434	132,058	246,522
Other comprehensive income					
Foreign currency translation gain/(loss)		(264)	95	-	-
Fair value gain on cash flow hedges		2,653	1,660	2,653	1,659
Actuarial gains/(losses) on RBF provision	16	6,210	(24,302)	6,210	(24,302)
Income tax on other comprehensive income	4 (b)	(2,659)	6,793	(2,659)	6,793
Other comprehensive income/(loss)		5,940	(15,754)	6,204	(15,850)
Total comprehensive income attributable to the owners of the parent		157,032	220,680	138,262	230,672

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 92 to 141.

BALANCE SHEET AS AT 30 JUNE 2011

	NOTE	CONSOLIDATED 2011 $'000	CONSOLIDATED 2010 $'000	PARENT 2011 $'000	PARENT 2010 $'000
Current assets					
Cash and cash equivalents		7,680	2,791	597	1,533
Receivables	6	114,253	82,657	67,227	68,583
Investments	7(a)	5,519	247	-	-
Inventories	8	65,461	57,168	62,139	55,684
Other financial assets	10(a)	201,892	117,554	207,467	123,179
Total current assets		394,805	260,417	337,430	248,979
Non-current assets					
Investments	7(b)	-	121,790	190,262	190,278
Property, plant and equipment	9	4,414,220	4,161,631	4,139,438	4,158,532
Other financial assets	10(b)	649,773	537,368	649,345	536,940
Goodwill	11	47,796	47,796	-	-
Total non-current assets		5,111,789	4,868,585	4,979,045	4,885,750
TOTAL ASSETS		5,506,594	5,129,002	5,316,475	5,134,729
Current liabilities					
Payables	12	81,260	69,935	53,010	61,311
Interest-bearing liabilities	13(a)	380,283	206,835	373,236	206,835
Provisions	14(a)	44,610	36,017	27,945	27,470
Provision for income tax	4(c)	29,388	11,392	29,388	11,392
Other financial liabilities	15(a)	94,831	148,537	112,161	152,437
Total current liabilities		630,372	472,716	595,740	459,445
Non-current liabilities					
Interest-bearing liabilities	13(a)	603,083	666,029	455,807	666,029
Deferred tax liabilities	4(d)	775,296	737,707	773,242	741,317
Provisions	14(b)	326,544	327,444	312,053	315,727
Other financial liabilities	15(b)	1,157,846	1,043,176	1,157,846	1,043,176
Total non-current liabilities		2,862,769	2,774,356	2,698,948	2,766,249
TOTAL LIABILITIES		3,493,141	3,247,072	3,294,688	3,225,694
NET ASSETS		2,013,453	1,881,930	2,021,787	1,909,035
EQUITY					
Contributed equity		271,100	271,100	271,100	271,100
Reserves		(5,576)	(7,965)	(5,328)	(7,981)
Retained earnings		1,747,929	1,618,795	1,756,015	1,645,916
TOTAL EQUITY		2,013,453	1,881,930	2,021,787	1,909,035

The Balance Sheet is to be read in conjunction with the notes to and forming part of the Financial Report included on pages 92 to 141.

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2011

	NOTE	CONSOLIDATED 2011 $'000	CONSOLIDATED 2010 $'000	PARENT 2011 $'000	PARENT 2010 $'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Inflows:					
Receipts from customers		781,480	788,458	572,383	684,777
Operating grants and subsidies received		9,467	7,450	9,467	7,450
Interest received		214	652	101	563
Outflows:					
Payments to suppliers and employees		(552,170)	(555,461)	(353,488)	(449,490)
Interest paid		(55,290)	(58,103)	(55,290)	(57,885)
Government guarantee fee		(6,646)	(4,954)	(6,646)	(4,954)
Income tax equivalent paid		(16,249)	-	(16,249)	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	5(b)	160,806	178,042	150,278	180,461
CASH FLOWS FROM INVESTING ACTIVITIES					
Inflows:					
Proceeds from sale of property, plant and equipment		753	859	753	859
Proceeds from loan to associate		-	800	-	800
Proceeds from financial derivatives		-	476	-	476
Proceeds from loan to subsidiaries		-	-	10,990	5,155
Outflows:					
Investment in joint venture		-	(5,000)	-	(5,000)
Loans to subsidiaries		-	-	(1,563)	(500)
Business acquisition		-	(34,500)	-	(39,500)
Payments for financial derivatives		(27,674)	-	(27,674)	-
Payments for property, plant and equipment		(64,618)	(94,748)	(63,975)	(94,050)
NET CASH USED IN INVESTING ACTIVITIES		(91,539)	(132,113)	(81,469)	(131,760)
CASH FLOWS FROM FINANCING ACTIVITIES					
Inflows:					
Proceeds from Tascorp loans		262,600	101,300	262,600	101,300
Equity contribution received		-	1,100	-	1,100
Cash balances acquired in business acquisition	30	10,639	-	-	-
Outflows:					
Repayments of Tascorp loans		(306,300)	(170,000)	(306,300)	(170,000)
Repayment of finance lease		(535)	(521)	(535)	(521)
Dividend paid		(25,510)	(5,332)	(25,510)	(5,332)
NET CASH USED IN FINANCING ACTIVITIES		(59,106)	(73,453)	(69,745)	(73,453)
NET INCREASE/(DECREASE) IN CASH		10,161	(27,524)	(936)	(24,752)
CASH AT BEGINNING OF THE YEAR		3,038	30,562	1,533	26,285
CASH AT END OF THE YEAR	5(a)	13,199	3,038	597	1,533

The Cash Flow Statement is to be read in conjunction with the notes to and forming part of the Financial Report included on pages 92 to 141.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2011

	NOTE	CONSOLIDATED 2011 $'000	CONSOLIDATED 2010 $'000	PARENT 2011 $'000	PARENT 2010 $'000
CONTRIBUTED EQUITY					
Balance at the beginning of the year		271,100	270,000	271,100	270,000
Equity contributions from the State of Tasmania		-	1,100	-	1,100
Balance at the end of the year		271,100	271,100	271,100	271,100
RESERVES					
Derivative revaluation reserve	1.2(j), 1.2(r)				
Balance at the beginning of the year		(7,980)	(9,640)	(7,981)	(9,640)
Forward exchange contracts		(80)	(26)	(80)	(27)
Interest rate swaps		2,733	1,686	2,733	1,686
Balance at the end of the year		(5,327)	(7,980)	(5,328)	(7,981)
Foreign currency translation reserve					
Balance at the beginning of the year		15	(80)	-	-
Foreign currency translation		(264)	95	-	-
Balance at the end of the year		(249)	15	-	-
TOTAL RESERVES		(5,576)	(7,965)	(5,328)	(7,981)
RETAINED EARNINGS					
Balance at the beginning of the year		1,618,795	1,405,202	1,645,916	1,422,235
Net profit for the year		151,092	236,434	132,058	246,522
Dividend paid		(25,510)	(5,332)	(25,510)	(5,332)
Deferred income tax recognised directly in equity	4(b)	(2,659)	6,793	(2,659)	6,793
Actuarial gain /(loss) on RBF defined benefit plan	16	6,210	(24,302)	6,210	(24,302)
Balance at the end of the year		1,747,929	1,618,795	1,756,015	1,645,916
TOTAL EQUITY		2,013,453	1,881,930	2,021,787	1,909,035

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 92 to 141.

1.1 DETAILS OF REPORTING ENTITY

The financial statements and notes thereto relate to Hydro-Electric Corporation (the Corporation), which is a Tasmanian Government Business Enterprise and a consolidated reporting entity. The Corporation was established as the Hydro-Electric Commission by the *Hydro-Electric Commission Act 1944* and was incorporated by the *Hydro-Electric Corporation Act 1995*. The Corporation trades using the business names Hydro Tasmania, Entura and Momentum Energy.

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

The Corporation owns 64 major dams, 28 operating hydropower stations, a wind farm, supplies electricity to Bass Strait islands via diesel and wind power generation and operates a consulting business. The Corporation also owns a retail electricity company, Momentum Energy Pty Ltd, trading in the Victorian, New South Wales, Australian Capital Territory, Queensland and South Australian regions.

At 30 June 2011 the Corporation had 884 full-time equivalent employees (FTEs) including 6 non-executive directors (2010: 914 FTEs).

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

The financial report for the year ended 30 June 2011 was adopted by the directors on 11 August 2011.

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).

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following Australian Accounting Standards are applicable to the Corporation and have recently been issued or amended but as they are not yet effective the Corporation has chosen not to adopt them for the year ended 30 June 2011:

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 – disclosure amendments under review	1 January 2011	30 June 2012
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
AASB 2010-4	Further amendments to Australian Accounting Standards	Amends a number of pronouncements – minimal effect of accounting policies expected	1 January 2011	30 June 2012
AASB 1054	Australian Additional Disclosures	Requires additional disclosures – disclosure amendments under review	1 July 2011	30 June 2012

(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 1.2 (i) 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.

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 Entura consulting receivables which, if past due, are charged interest in accordance with the contract.

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

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

(g) Inventories

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

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

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

(h) Cash and cash equivalents

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

(i) Property, plant and equipment

The Corporation carries its hydro and wind 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:

	2011	2010
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.

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 or sell 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.

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Wind generation assets are classified as a separate CGU.

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

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

(n) Payables

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

(o) Provisions

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

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

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

(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 2011, the on-costs attributable to the annual leave provision were $0.9 million (2010: $0.8 million). Sick leave is non-accumulating and is recognised as an expense when the leave is taken.

- **Long service leave**

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

The provision is calculated using expected future increases in wage and salary rates including related on-costs and the expected rate of utilisation based on historical patterns and is discounted using Commonwealth Bond rates at reporting date. The provision is segregated into current and non-current portions based on expected utilisation of entitlements in the next 12 months. For 2011, the on-costs attributable to the long service leave provision were $1.4 million (2010: $1.2 million).

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- **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.

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 2011 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.

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- **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.

(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.

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- **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 acquisition method. The cost of the business combination is measured as the aggregate of the fair values of net assets at acquisition. The acquiree's identifiable assets, liabilities and contingent liabilities are recognised at their fair values at the acquisition date.

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(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.

2. REVENUE AND EXPENSES

	NOTE	CONSOLIDATED 2011 $'000	CONSOLIDATED 2010 $'000	PARENT 2011 $'000	PARENT 2010 $'000
(a) Revenue					
Sale of products and services		804,181	717,246	580,360	610,286
Other		8,591	9,687	8,463	9,591
		812,772	726,933	588,823	619,877
(b) Operating expenses					
Direct operating expenses		374,930	319,018	170,350	221,019
Labour		104,660	100,763	95,050	95,453
Depreciation	9	79,873	77,681	79,330	77,382
Other operating expenses		68,932	70,204	60,123	57,358
		628,395	567,666	404,853	451,212
(c) Finance costs					
Loan interest		52,613	54,242	52,614	54,242
Government guarantee fee		6,646	4,954	6,646	4,954
RBF interest	16	20,781	20,718	20,781	20,718
Other finance costs		441	423	441	423
		80,481	80,337	80,482	80,337
(d) Fair value gains/(losses)	3				
Energy price derivatives		17,725	232,207	17,725	227,530
Treasury derivatives		166	21	166	21
Basslink financial asset and liabilities		76,261	15,599	76,261	15,599
Impairment reversal	10	36	-	36	-
Provision for demolition	14	(444)	(12,905)	-	-
Gain on inventory revaluation		-	16,622	-	16,622
Gain on provision for business acquisition		-	7,650	-	-
Gain on Roaring 40s' restructure		22,645	-	-	-
		116,389	259,194	94,188	259,772

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

Mainland electricity contracts are valued using published forward energy prices. The Corporation has developed a model to calculate the fair value of the Tasmanian electricity contracts. The restatement of the fair value of energy price derivatives at 30 June 2011 has resulted in a gain being recorded in the Statement of Comprehensive Income [note 2(d)]. Details of the methodology adopted are provided in note 17(c).

Basslink financial asset and liabilities

The financial asset and liabilities associated with the Basslink agreements are recorded at fair value in accordance with AASB 139. The restatement of the net financial liability to fair value at 30 June 2011 has resulted in a gain being recorded in the Statement of Comprehensive Income [note 2(d)]. Note 17(c) details the methodology used to calculate the fair value of the Basslink financial asset and liabilities.

Provision for demolition

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

Gain on revaluation of inventory

The Corporation changed the valuation basis for environmental energy products (EEPs) inventory in the 2010 financial year to fair value. The impact of this change was 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 of the remaining shares took place in September 2009 for a consideration less than provided. This difference was disclosed as a gain through the Statement of Comprehensive Income in the 2010 financial report.

Investment in Roaring 40s Renewable Energy Joint Venture

Hydro Tasmania and CLP Asia Renewable Projects Limited (CLP) disaggregated their joint venture, Roaring 40s Renewable Energy Pty Ltd (Roaring 40s) on 30 June 2011 by Roaring 40s selling mainland assets to CLP and buying back CLP's shareholding in the joint venture. This resulted in each taking full ownership of allocated net assets and exchanging a net cash settlement to reflect the difference in value of those net assets.

As a result the Corporation equity accounted a 50% share of the trading loss of the joint venture up to 30 June 2011 including the profit recorded by Roaring 40s on the disaggregation transaction. On consolidation of the Roaring 40s group of entities into the Hydro Tasmania group at 30 June 2011, a fair value gain is recognised representing the increment from the former investment in joint venture to the fair value of the assets and liabilities of the entities joining the group. Refer notes 2 and 30.

The fair value of the net assets acquired by the Corporation was assessed on disaggregation resulting in an excess of fair value over the carrying value of the Corporation's investment in the joint venture prior to the acquisition. This excess has been recognised as a fair value increment on the wind farm assets on consolidation.

4. INCOME TAX EQUIVALENT

	CONSOLIDATED		PARENT	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
(a) Income tax expense reported in Statement of Comprehensive Income				
Current income tax liability	34,245	28,827	36,352	34,878
Deferred income tax expense arising from origination and reversal of temporary differences	31,068	66,819	29,266	66,700
Income tax expense recognised in the Statement of Comprehensive Income	65,313	95,646	65,618	101,578
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	216,405	332,080	197,676	348,100
Income tax expense calculated at 30%	64,922	99,624	59,303	104,430
Adjustment in respect of income tax of previous years	540	(1,628)	540	(488)
Expenditure not allowable for income tax purposes	140	40	6,064	26
Research and development concession	(225)	(225)	(225)	(225)
Investment allowance	(64)	(2,165)	(64)	(2,165)
Income tax expense recognised in the Statement of Comprehensive Income	65,313	95,646	65,618	101,578
(b) Income tax benefit/(expense) recognised directly in equity				
Revaluation of effective hedges	(796)	(498)	(796)	(498)
Actuarial assessment of RBF provision	(1,863)	7,291	(1,863)	7,291
Income tax benefit/(expense) recognised in equity	(2,659)	6,793	(2,659)	6,793
(c) Current tax liabilities:				
Provision for income tax	29,388	11,392	29,388	11,392
	29,388	11,392	29,388	11,392
(d) Deferred tax balances				
Deferred tax assets comprise:				
Deductible temporary differences	391,710	414,126	407,695	407,766
Deferred tax liabilities comprise:				
Assessable temporary differences	1,167,006	1,151,833	1,180,937	1,149,083
Net deferred tax liabilities	775,296	737,707	773,242	741,317

4. INCOME TAX EQUIVALENT (CONTINUED)

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

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

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

4. INCOME TAX EQUIVALENT (CONTINUED)

	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 liabiltiies	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)
Tax losses	2,739	(6,322)	-	6,746	3,163
Other	1,191	3,889	-	-	5,080
	470,511	(76,781)	7,291	6,745	407,766
Net deferred tax liabiltiies	691,296	66,700	(6,793)	(9,886)	741,317

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

At 30 June 2011, there is no recognised or unrecognised deferred income tax liability (2010: nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or joint ventures. The Group has no liability for additional taxation should such amounts be remitted.

5. NOTE TO THE CASH FLOW STATEMENT

	CONSOLIDATED		PARENT	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
(a) Cash reconciliation				
For the purposes of the Cash Flow Statement, cash includes cash on hand and in banks and short-term money market investments net of outstanding bank overdrafts. Cash at the end of the reporting period as shown in the Cash Flow Statement is reconciled to the related items in the Balance Sheet as follows:				
Cash	7,680	2,791	597	1,533
Money market investments	5,519	247	-	-
	13,199	3,038	597	1,533
(b) Reconciliation of net cash provided by operating activities to net profit for the year				
Profit after income tax equivalent expense	151,092	236,434	132,058	246,522
Adjusted for non-cash items of income and expense:				
Depreciation of property, plant and equipment	79,873	77,681	79,330	77,382
Impairment losses	(36)	-	(36)	-
Loss on derecognition of property, plant and equipment	2,733	1,708	2,733	1,668
Gain on business acquisition	(22,645)	(7,650)	-	-
Change in fair value of inventories	-	(16,622)	-	(16,622)
Change in fair value of energy derivatives	(17,725)	(232,207)	(17,725)	(227,530)
Change in fair value of treasury derivatives	(166)	(21)	(166)	(21)
Change in fair value of Basslink financial instruments	(76,261)	(15,599)	(76,261)	(15,599)
Provision for demolition	444	12,905	-	-
Equity accounted share of joint venture (profit)/loss	3,880	6,044	-	-
Income tax expense	65,313	95,646	65,618	101,578
Cash from operating profit before changes in working capital	186,502	158,319	185,551	167,378
(Increase)/decrease in receivables	(14,764)	71,699	1,356	75,051
(Increase)/decrease in inventories	(6,150)	11,323	(6,455)	12,801
(Decrease)/increase in other financial assets and liabilities	(14,214)	34,236	(24,412)	26,662
(Decrease)/increase in payables	5,538	(101,153)	(8,301)	(99,876)
(Decrease)/increase in provisions	20,143	3,618	18,788	(1,555)
Income tax equivalent paid	(16,249)	-	(16,249)	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	160,806	178,042	150,278	180,461

6. RECEIVABLES

	CONSOLIDATED		PARENT	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Trade receivables	115,161	83,537	67,227	68,583
Provision for impairment	(908)	(880)	-	-
	114,253	82,657	67,227	68,583
Ageing of past due but not impaired trade receivables:				
60-90 days	1,181	489	961	193
Over 90 days	3,047	1,883	971	517
	4,228	2,372	1,932	710

The amount past due but not impaired included in trade receivables is predominantly attributable to consulting services clients and retail customers. A provision for impairment has been recorded following assessment of the credit quality of the clients or customers with overdue accounts. This provision represents those accounts considered to be wholly or partially non-recoverable. The Corporation expensed $1.3m of bad debts during the year (2010: $1.0m). The Corporation does not hold any security over the balances past due.

7. INVESTMENTS

		CONSOLIDATED		PARENT	
	NOTE	2011 $'000	2010 $'000	2011 $'000	2010 $'000
(a) Current investments					
Money market investments		5,519	247	-	-
(b) Non-current investments					
Investment in joint ventures	28	-	121,774	-	132,998
Investment in associates		-	16	-	16
Investment in subsidiaries	25	-	-	190,262	57,264
		-	121,790	190,262	190,278

8. INVENTORIES

	CONSOLIDATED		PARENT	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Maintenance stores	3,599	2,689	1,370	1,205
Environmental energy products	61,862	54,479	60,769	54,479
	65,461	57,168	62,139	55,684

9. PROPERTY, PLANT AND EQUIPMENT

Asset valuation

The generation class of assets, consisting of hydro and wind, 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. 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 valuation also includes projected revenue under the existing large-scale mandatory renewable energy target until 2030.

In 2009, the Corporation included a conservative assumption in the fair value of generation assets to reflect the expected impact on forecast prices of the proposed carbon trading scheme. Due to lack of progress on this scheme and uncertainty as to the impact on revenues of the Federal Government's recently proposed carbon tax no further change to fair value has been recorded.

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 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 forecasts annual inflows at 8700 GWh.

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 liabilities for the same forecast price change. Fair value of generation assets is estimated to increase by $650 million (2010 $616 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 (2010: unchanged).

Impairment of assets

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

An assessment of impairment triggers in 2011 has not indicated any impairment of the generation class of assets.

Fair value has been assessed in 2011 and remains unchanged.

9. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

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

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 & Impairment							
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 & Impairment							
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

10. OTHER FINANCIAL ASSETS

	NOTE	CONSOLIDATED 2011 $'000	CONSOLIDATED 2010 $'000	PARENT 2011 $'000	PARENT 2010 $'000
(a) Current other financial assets					
Prepayments		7,130	288	4,948	280
Loans to subsidiaries (i)		-	-	7,757	5,690
Loans to joint ventures (ii)		135	170	135	170
Other		3	8	3	9
Energy price derivatives	15	152,362	74,275	152,362	74,217
Basslink financial asset (iii)	15	42,262	42,813	42,262	42,813
		201,892	117,554	207,467	123,179
Movement in provision for impaired financial assets (ii)					
Balance at the beginning of the year		36	36	36	36
Impairment reversal during the year		(36)	-	(36)	-
Balance at the end of the year		-	36	-	36
(b) Non-current other financial assets					
Basslink financial asset (iii)	15	441,067	383,305	441,067	383,305
Basslink security deposit (iv)		50,000	50,000	50,000	50,000
Energy price derivatives	15	157,988	103,635	157,988	103,635
Other		290	-	290	-
Prepayments		428	428	-	-
		649,773	537,368	649,345	536,940

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

(ii) Loans to joint ventures represents a loan to Cathedral Rocks Construction and Management Pty Ltd (CRCM) and in 2010 is presented net of the provision for impairment. The previous year also includes a loan to Cathedral Rocks Wind Farm Pty Ltd that attracted interest on a daily basis at the bank bill rate plus a margin. This loan was repaid as part of the restructure of the Roaring 40s group.

(iii) The Basslink financial asset represents the fair value of the contractual rights to receive revenue under the Basslink Services Agreement (Note 17).

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

11. GOODWILL

	CONSOLIDATED		PARENT	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Goodwill recognised on acquisition of Momentum Energy Pty Ltd	47,796	47,796	-	-

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

12. PAYABLES

	CONSOLIDATED		PARENT	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Trade creditors	28,560	32,529	22,892	29,568
Accrued expenses	37,868	23,413	18,028	17,750
Accrued interest payable	14,832	13,993	12,090	13,993
	81,260	69,935	53,010	61,311

13. INTEREST BEARING LIABILITIES

	CONSOLIDATED		PARENT	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
(a) Interest-bearing liabilities				
Current				
Loans from Tascorp	372,600	206,300	372,600	206,300
Bank loan secured	7,047	-	-	-
Finance lease liability	636	535	636	535
	380,283	206,835	373,236	206,835
Non-current				
Loans from Tascorp	450,000	660,000	450,000	660,000
Bank loan secured	147,276	-	-	-
Finance lease liability	5,807	6,029	5,807	6,029
	603,083	666,029	455,807	666,029

The secured bank loan is a cash advance facility repayable by quarterly principal and interest instalments. The facility is secured by fixed and floating charges over all present and future rights, property and undertakings of Woolnorth Bluff Point Wind Farm Pty Ltd, Woolnorth Studland Bay Wind Farm Pty Ltd and their respective parent companies, Woolnorth Bluff Point Holdings Pty Ltd and Woolnorth Studland Bay Holdings Pty Ltd. There is no recourse to the Corporation. The facilty for Woolnorth Bluff Point Wind Farm Pty Ltd matures in January 2015 while the facility for Woolnorth Studland Bay Wind Farm Pty Ltd matures in October 2016.

	CONSOLIDATED		PARENT	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
(b) Loan facilities				
Master loan facility				
Facility limit	1,185,000	1,185,000	1,185,000	1,185,000
Less: used/committed	822,600	866,300	822,600	866,300
Balance	362,400	318,700	362,400	318,700
Standby revolving credit facility				
Facility limit	34,200	30,000	30,000	30,000
Less: used/committed	4,025	-	-	-
Balance	30,175	30,000	30,000	30,000
Bank overdraft				
Facility limit	3,000	1,000	1,000	1,000
Less: used/committed	-	-	-	-
Balance	3,000	1,000	1,000	1,000
Corporate purchasing card				
Facility limit	8,180	7,515	7,500	7,500
Less: used/committed	4,103	5,038	3,993	5,038
Balance	4,077	2,477	3,507	2,462
Bank loan secured				
Facility limit	154,324	-	-	-
Less: used/committed	154,324	-	-	-
Balance	-	-	-	-

13. INTEREST BEARING LIABILITIES (CONTINUED)

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

	PARENT & CONSOLIDATED			
	2010 $'000	2010 $'000	2010 $'000	2010 $'000
	Less than one year	Between one and five years	Later than five years	Total
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

(d) Fair value disclosures

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

14. PROVISIONS

		PARENT & CONSOLIDATED			
		CONSOLIDATED		PARENT	
	NOTE	2011 $'000	2010 $'000	2011 $'000	2010 $'000
(a) Current provisions					
Employee entitlements		10,191	10,148	9,663	9,740
Retirement Benefits Fund provision	16	18,282	17,730	18,282	17,730
Onerous contracts		425	-	-	-
Regulatory environmental schemes liability		9,177	1,773	-	-
Demolition provision		6,535	6,366	-	-
		44,610	36,017	27,945	27,470
(b) Non-current provisions					
Employee entitlements		10,639	10,137	10,616	10,137
Retirement Benefits Fund provision	16	301,437	305,590	301,437	305,590
Onerous contracts		797	-	-	-
Reserve capacity provision		1,571	-	-	-
Demolition provision		12,100	11,717	-	-
		326,544	327,444	312,053	315,727

15. OTHER FINANCIAL LIABILITIES

	CONSOLIDATED		PARENT	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
a) Current other financial liabilities				
Income received in advance	327	2,097	310	2,025
Basslink Services Agreement	69,316	111,626	69,316	111,626
Basslink Facility Fee Swap	5,933	(8,880)	5,933	(8,880)
Interest rate swaps	4,925	7,743	4,925	7,743
Loans from subsidiaries (i)	-	-	17,347	4,030
Energy price derivatives	14,330	35,951	14,330	35,893
	94,831	148,537	112,161	152,437
b) Non-current other financial liabilities				
Basslink Services Agreement	781,626	729,283	781,626	729,283
Basslink Facility Fee Swap	180,586	224,206	180,586	224,206
Energy price derivatives	195,634	89,687	195,634	89,687
	1,157,846	1,043,176	1,157,846	1,043,176

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

15. OTHER FINANCIAL LIABILITIES (CONTINUED)

	NOTE	CONSOLIDATED 2011 $'000	CONSOLIDATED 2010 $'000	PARENT 2011 $'000	PARENT 2010 $'000
Energy price derivatives movement reconciliation:					
Liability/(asset) at the beginning of the year		(52,272)	176,200	(52,272)	171,523
Amount included in electricity revenue due to settlement during the year		134,637	(172,643)	134,637	(172,643)
Net cash receipts/(payments) on futures margin account		(27,668)	476	(27,668)	476
Fair value loss/(gain) on contracts outstanding as at 30 June		(155,083)	(56,305)	(155,083)	(51,628)
Liability/(asset) at the end of the year		(100,386)	(52,272)	(100,386)	(52,272)
Represented by:					
Current energy price derivative liability		14,330	35,951	14,330	35,893
Non-current energy price derivative liability		195,634	89,687	195,634	89,687
		209,964	125,638	209,964	125,580
Current energy price derivative asset	10	152,362	74,275	152,362	74,217
Non-current energy price derivative asset	10	157,988	103,635	157,988	103,635
		310,350	177,910	310,350	177,852
Net energy price derivatives liability/(asset)		(100,386)	(52,272)	(100,386)	(52,272)
Net Basslink financial liability movement reconciliation:					
Balance at the beginning of the year		630,117	609,840	630,117	609,840
Current year revenue and operating expenses realised during the year and included in the opening valuation		(60,933)	(41,864)	(60,933)	(41,864)
Increase in present value of projected rights and obligations of later years as at 30 June		58,354	26,424	58,354	26,424
Loss/(gain) arising on re-estimation of fair value of contract rights and obligations over the remaining contract term as at 30 June		(73,406)	35,717	(73,406)	35,717
Balance at the end of the year		554,132	630,117	554,132	630,117
Represented by:					
Current Basslink financial liability		75,249	102,746	75,249	102,746
Non-current Basslink finanical liability		962,212	953,489	962,212	953,489
		1,037,461	1,056,235	1,037,461	1,056,235
Current Basslink financial asset	10	42,262	42,813	42,262	42,813
Non-current Basslink financial asset	10	441,067	383,305	441,067	383,305
		483,329	426,118	483,329	426,118
Net Basslink financial liability		554,132	630,117	554,132	630,117

16. RETIREMENT BENEFITS FUND PROVISION

Plan information

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

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

Principal actuarial assumptions as at balance date

	2011 %	2010 %
Discount rate	5.50	5.35
Expected salary increase rate	4.50	4.50
Expected rate of return on plan assets	7.50	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 2011 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 plus 1.0% of pension payments. This cost has then been allocated to each authority in proportion to assets.

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

The percentage invested in each asset class:

	30 June 2011 %	30 June 2010 %
Australian equity	25	26
International equity	22	22
Fixed income	13	12
Property	19	20
Alternatives/other	18	14
Cash	3	6
	100	100

Reconciliation of the present value of the defined benefit obligation:

	2011 $'000	2010 $'000
Present value of defined benefit obligations at the beginning of the year ^	400,400	375,483
Current service cost ^	5,298	5,040
Interest cost	20,781	20,718
Estimated contributions by plan participants	1,597	1,681
Actuarial (gains)/losses ^	(7,666)	24,236
Estimated benefits paid	(30,698)	(26,017)
Estimated taxes, premiums and expenses paid	(748)	(741)
Present value of defined benefit obligations at year end	388,964	400,400

^ 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.

16. RETIREMENT BENEFITS FUND PROVISION (CONTINUED)

Reconciliation of the fair value of scheme assets:

	2011 $'000	2010 $'000
Fair value of plan assets at beginning of the year	77,080	77,835
Expected return on plan assets	5,208	5,259
Actuarial gains/(losses)	(1,456)	(66)
Estimated employer contributions	18,263	19,128
Estimated contributions by plan participants	1,597	1,681
Estimated benefits paid	(30,699)	(26,017)
Estimated taxes, premiums and expenses paid	(748)	(740)
Fair value of plan assets at end of the year	69,245	77,080

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:

	2011 $'000	2010 $'000
Actual return on plan assets	3,752	5,193

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

	2011 $'000	2010 $'000
Defined benefit obligation	388,964	400,400
Fair value of plan assets	(69,245)	(77,080)
Net superannuation liability	319,719	323,320
Comprising:		
Current net liability	18,282	17,730
Non-current net liability	301,437	305,590
Net superannuation liability	319,719	323,320

Expense recognised in the Statement of Comprehensive Income

	2011 $'000	2010 $'000
Service cost	5,298	5,040
Interest cost	20,781	20,718
Expected return on assets	(5,208)	(5,259)
Total expense recognised	20,871	20,499
Gain/(loss) recognised in retained earnings		
Actuarial gains/(losses)	6,210	(24,302)

16. RETIREMENT BENEFITS FUND PROVISION (CONTINUED)

Historical information

	2011 $'000	2010	2009 $'000	2008 $'000	2007 $'000
Present value of defined benefit obligation	388,964	400,400	375,483	385,627	407,259
Fair value of plan assets	69,245	77,080	77,835	86,399	96,990
Deficit in plan	319,719	323,320	297,648	299,228	310,269
Experience adjustments (gain)/loss - plan liabilities	3,661	2,311	4,734	(7,767)	2,595
Experience adjustments (gain)/loss - plan assets	1,456	66	10,285	10,754	(8,987)

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

	$'000
Expected employer contributions for the financial year ending 30 June 2012:	18,282

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 2011 $'000	Net fair value 2011 $'000	Carrying amount 2010 $'000	Net fair value 2010 $'000	Carrying amount 2011 $'000	Net fair value 2011 $'000	Carrying amount 2010 $'000	Net fair value 2010 $'000
Financial assets								
Cash	7,680	7,680	2,791	2,791	597	597	1,533	1,533
Loans and receivables								
Receivables	114,253	114,253	82,657	82,657	67,227	67,227	68,583	68,583
Held to maturity								
Investments	5,519	5,519	247	2	-	-	-	2
Designated hedge accounting derivatives								
Forward foreign exchange contracts	-	-	3	3	-	-	3	3
Fair value through profit or loss								
Credit swaps	2,712	45,274	3,494	68,605	2,712	45,274	3,494	68,605
Forward foreign exchange contracts	107	107	-	-	107	107	-	-
Basslink financial asset	483,329	483,329	426,118	426,118	483,329	483,329	426,118	426,118
Energy price derivatives	310,350	310,350	177,910	177,910	310,350	310,350	177,852	177,852
Other assets	61,241	61,241	52,499	52,499	64,560	64,560	52,499	52,499
	985,191	1,027,753	745,719	810,585	928,882	971,444	730,082	795,195
Financial liabilities								
Loans and receivables								
Accounts payable	63,685	63,685	55,942	55,942	40,920	40,920	47,318	47,318
Tascorp loans	834,690	848,422	894,286	911,526	834,690	848,422	894,286	911,466
Bank loan - secured	159,807	159,807	-	-	-	-	-	-
Designated hedge accounting derivatives								
Interest rate swaps	848	5,760	1,141	8,821	848	5,760	1,141	8,821
Forward foreign exchange contracts	857	857	46	46	857	857	46	46
Fair value through profit or loss								
Credit swaps	2,712	45,274	3,494	68,605	2,712	45,274	3,494	68,605
Basslink Services Agreement	850,942	850,942	840,909	840,909	850,942	850,942	840,909	840,909
Basslink Facility Fee Swap	186,519	186,519	215,326	215,326	186,519	186,519	215,326	215,326
Energy price deriviatives	209,964	209,964	125,638	125,638	209,964	209,964	125,580	125,580
Other liabilities	4,893	4,893	7,016	7,016	4,883	4,883	7,016	7,016
	2,314,917	2,376,123	2,143,798	2,233,829	2,132,335	2,193,541	2,135,116	2,225,087

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, and through the variable portion of the Basslink facility fee. The Corporation is exposed to fluctuations in electricity market prices in all NEM regions in relation to its retail operation in Victoria and other NEM regions. Exposure to these fluctuations in market price is managed through the use of derivative contracts executed 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.

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.

	2011				2010			
	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	24,872	-	24,872	-	25,064	-	25,064	-
Energy derivative net asset	(137,624)	-	(137,624)	-	(50,525)	-	(50,801)	-
Electricity forward price -10%								
Basslink net liability	(15,399)	-	(15,399)	-	(12,724)	-	(12,724)	-
Energy derivative net asset	169,474	-	169,474	-	48,825	-	49,100	-

The sensitivity of the fair value of the Basslink Services Agreement to energy price movements has been based on adjustments to forecast price differences between the Tasmanian and Victorian regions. The sensitivity of the fair value of energy price derivatives to energy price movements has been determined by adjusting the forecast prices for the Tasmanian and mainland regions. The forecasts are based on published 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. Uncertainty as to the timing and impact of a carbon tax has delayed any positive revaluation of generation assets.

(B) Interest rates

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

Cash flow hedges

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

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

At 30 June 2011 fixed rate loans varied from 5.6% to 7.4% (2010: 5.5% to 7.4%). Floating rates were based on bank bill rates and these varied from 4.7% to 6.4% (2010: 4.2% to 6.3%).

The Government Guarantee Fee rate varied from 0.5% to 2.3% for this financial year (2010: 0.5% to 2.9%).

Basslink

The Basslink Services Agreement (BSA) and Floating Facility Fee Instrument (FFFI) between the Corporation and Basslink Pty Ltd (BPL) establish the rights and obligations of both parties with respect to the operation of Basslink including the monthly payment of the Basslink Facility Fee (BFF) by the Corporation to BPL. These agreements are financial assets and financial liabilities whereby the Corporation is committed to make payments to BPL over the term of the contract should BPL meet its obligations to keep Basslink available in exchange for the right to receive Inter Regional Revenues (IRRs). The latter has been recognised as a financial asset.

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

17. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

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.

	2011				2010			
	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	680	-	680	-	737	-	737	-
Financial liabilities	(1,442)	(105)	(1,442)	(105)	(904)	(82)	(904)	(82)
Forward interest rates -0.1 bps								
Financial assets	(680)	-	(680)	-	(737)	-	(737)	-
Financial liabilities	1,442	105	1,442	105	904	82	904	82

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

The Weighted Average Cost of Debt (WACD) for 2011 for both the parent and consolidated entities is 7.18% (2010: 6.98%). This incorporates both loans and interest rate swaps as at the reporting date and also includes the government guarantee fee of 0.94% (2010: 0.70%).

(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.

17. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

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

	CONSOLIDATED		PARENT	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Receivables				
Not later than one year	631	744	631	744
Later than one year but not later than two years	-	441	-	441
Later than two years	-	-	-	-
Total	631	1,185	631	1,185
Payables				
Not later than one year	7,166	914	7,166	914
Later than one year but not later than two years	1,422	439	1,422	439
Later than two years	1,935	-	1,935	-
Total	10,523	1,353	10,523	1,353

(iii) Credit Risk

Credit risk represents the loss that would be recognised at the reporting date if counterparties failed to meet their contractual obligations. The Corporation measures credit risk on non-derivative financial instruments as the carrying amount of any instruments that represent an asset to the Corporation.

Derivative financial instruments

The credit exposure on a derivative financial instrument is its positive market valuation at the reporting date. In addition a potential exposure, calculated broadly in accordance with Reserve Bank guidelines, is included for all interest rate swaps. These include the BFFS and the Basslink credit swaps.

In the main, the Corporation reduces credit risk on derivative financial assets by only transacting with high credit quality counterparties up to a pre-determined counterparty limit or by limiting credit exposure to unrated counterparties. The Corporation also obtains credit support for counterparties of low credit quality. Interest rate swaps and energy contracts are subject to the industry recommended International Swap Dealers Association (ISDA) documentation. Where possible this documentation contains clauses enabling the netting of exposures.

Receivables

Receivables represent amounts due from AEMO, electricity, treasury and environmental energy product counterparties, consulting services 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.

17. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

	CONSOLIDATED		PARENT	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Credit risk exposure by instrument type				
Financial assets				
Investments and bank balances	13,199	3,038	597	1,533
Receivables	114,253	82,657	67,227	68,583
Basslink financial asset	653	1,623	653	1,623
Derivative financial instruments				
Interest rate swaps	15,125	80,980	15,125	80,980
Forward foreign exchange contracts	1,443	316	1,443	316
Basslink Facility Fee Swap	95,996	29,990	95,996	29,990
Energy price derivatives	66,801	177,910	66,801	177,852
Total credit risk exposure	307,470	376,514	247,842	360,877
Credit risk exposure by institution ratings				
Australian based institutions				
AA+ to AA- ratings	56,385	78,532	56,385	78,532
A+ to A ratings	105,131	65,490	105,131	65,490
BBB+ to BBB- ratings	8,871	10,819	8,871	10,819
Unrated	130,581	190,033	70,953	174,396
	300,968	344,874	241,340	329,237
Overseas based institutions				
AA+ to AA- ratings	-	5,270	-	5,270
A+ to A ratings	6,037	26,226	6,037	26,226
Unrated	465	144	465	144
	6,502	31,640	6,502	31,640
Total credit risk exposure	307,470	376,514	247,842	360,877

(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 2011 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 performance guarantee in favour of ETSA Utilities 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.

17. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

	2011							
	CONSOLIDATED				PARENT			
	Less than 6 months $'000	6-12 months $'000	1-5 years $'000	Over 5 years $'000	Less than 6 months $'000	6-12 months $'000	1-5 years $'000	Over 5 years $'000
Financial assets								
Loans and receivables								
Cash	7,680	-	-	-	597	-	-	-
Receivables	114,253	-	-	-	67,227	-	-	-
Held to maturity								
Investments	5,519	-	-	-	-	-	-	-
Fair value through profit or loss								
Credit swaps	5,389	21,570	171,424	475,665	5,389	21,570	171,424	475,665
Forward foreign exchange contracts	112	-	-	-	112	-	-	-
Energy price derviatives	80,858	52,249	107,569	237,042	80,858	52,249	107,569	237,042
Basslink financial asset	22,082	22,082	235,616	1,145,198	22,082	22,082	235,616	1,145,198
Other assets	10,813	-	-	50,428	14,560	-	-	50,000
	246,706	95,901	514,609	1,908,333	190,825	95,901	514,609	1,907,905
Financial liabilities								
Loans and Receivables								
Accounts payable	63,685	-	-	-	40,920	-	-	-
Tascorp loans	173,165	212,725	416,786	102,429	173,165	212,725	416,786	102,429
Bank loan - secured	3,392	3,614	92,401	53,992	-	-	-	-
Designated hedge accounting derivatives								
Interest rate swaps	4,341	9,058	52,897	6,576	4,341	9,058	51,233	3,744
Forward foreign exchange contracts	270	406	429	-	270	406	429	-
Fair value through profit or loss								
Credit swaps	5,389	21,570	171,424	475,665	5,389	21,570	171,424	475,665
Forward foreign exchange contracts	98	-	-	-	98	-	-	-
Basslink Services Agreement	37,795	37,795	392,463	1,714,905	37,795	37,795	392,463	1,714,905
Basslink Facility Fee Swap	11,258	26,285	199,405	610,681	11,258	26,285	199,405	610,681
Energy price derivatives	8,311	5,672	160,432	243,204	8,311	5,672	160,432	243,204
Other liabilities	4,893	-	-	-	4,893	-	-	-
	312,597	317,125	1,486,237	3,207,452	286,440	313,511	1,392,172	3,150,628

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
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

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. The fair value of energy trading derivatives reflects carbon pricing to the extent that published price curves have been influenced by the proposed carbon tax.

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

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

	CONSOLIDATED							
	2011				2010			
	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
Fair value through profit or loss								
Credit swaps	2,712	-	-	2,712	3,494	-	-	3,494
Forward foreign exchange contracts	107	-	-	107	31	-	-	31
Basslink financial asset	-	-	483,329	483,329	-	-	426,118	426,118
Energy price derivatives	99,042	211,308	-	310,350	60,518	117,392	-	177,910
	101,861	211,308	483,329	796,498	64,046	117,392	426,118	607,556
Financial liabilities								
Designated hedge accounting derivatives								
Interest rate swaps	848	-	-	848	1,141	-	-	1,141
Forward foreign exchange contracts	857	-	-	857	46	-	-	46
Fair value through profit or loss								
Credit swaps	2,712	-	-	2,712	3,494	-	-	3,494
Forward foreign exchange contracts	-	-	-	-	16	-	-	16
Basslink Services Agreement	-	-	850,942	850,942	-	-	840,909	840,909
Basslink Facility Fee Swap	-	-	186,519	186,519	-	-	215,326	215,326
Energy price deriviatives	52,336	157,628	-	209,964	36,416	89,222	-	125,638
	56,753	157,628	1,037,461	1,251,842	41,113	89,222	1,056,235	1,186,570

17. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

	PARENT							
	2011				2010			
	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
Fair value through profit or loss								
Credit swaps	2,712	-	-	2,712	3,494	-	-	3,494
Forward foreign exchange contracts	107	-	-	107	31	-	-	31
Basslink financial asset	-	-	483,329	483,329	-	-	426,118	426,118
Energy price derivatives	99,042	211,308	-	310,350	56,357	121,495	-	177,852
	101,861	211,308	483,329	796,498	59,885	121,495	426,118	607,498
Financial liabilities								
Designated hedge accounting derivatives								
Interest rate swaps	848	-	-	848	1,141	-	-	1,141
Forward foreign exchange contracts	857	-	-	857	46	-	-	46
Fair value through profit or loss								
Credit swaps	2,712	-	-	2,712	3,494	-	-	3,494
Forward foreign exchange contracts	-	-	-	-	16	-	-	16
Basslink Services Agreement	-	-	850,942	850,942	-	-	840,909	840,909
Basslink Facility Fee Swap	-	-	186,519	186,519	-	-	215,326	215,326
Energy price deriviatives	52,336	157,628	-	209,964	36,358	89,222	-	125,580
	56,753	157,628	1,037,461	1,251,842	41,055	89,222	1,056,235	1,186,512

Basslink financial instruments

The Basslink financial instruments comprise the Basslink Services Agreement (BSA), Floating Facility Fee Instrument (FFFI) and Basslink Facility Fee Swap (BFFS). The fair value of the Basslink financial instruments has been calculated using a valuation model based on the present value of expected contractual cash flows. The fair value of expected receipts of inter regional revenues (IRRs) under the BSA has been separately calculated based on experience to date, 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 20 year forward market interest rate.

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

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 2011 are not attributable to changes in credit risk.

Fair values are disclosed in Table 17(a).

18. COMMITMENTS FOR EXPENDITURE

	CONSOLIDATED		PARENT	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
(a) Capital expenditure commitments				
Not later than 1 year	26,705	27,704	26,675	7,552
Over 1 year and up to 2 years	558	450	558	450
Over 2 years and up to 5 years	11	231	11	231
	27,274	28,385	27,244	8,233
(b) Operating lease commitments				
Future minimum lease payments				
Not later than 1 year	4,207	8,532	3,586	3,934
Over 1 year and up to 2 years	3,662	4,639	3,041	3,623
Over 2 years and up to 5 years	7,530	9,724	7,064	7,355
Later than 5 years	17,343	32,188	17,343	21,010
	32,742	55,083	31,034	35,922

The majority of the Corporation's leases are for office accommodation.

Payments made under operating leases are expensed as incurred over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

(c) Other commitments				
Not later than 1 year	43,221	37,515	34,483	31,384
Over 1 year and up to 2 years	20,858	17,043	16,631	12,580
Over 2 years and up to 5 years	40,369	44,652	33,702	33,905
Later than 5 years	15,481	25,729	-	-
	119,929	124,939	84,816	77,869

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.

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	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Amounts received, or due and receivable, by the Auditor-General from the Corporation for auditing the financial statements of the Corporation.	295	308	290	246
Amounts received, or due and receivable, for compliance audits.	4	7	4	7

21. KEY MANAGEMENT PERSONNEL COMPENSATION

	Short-term employee benefits		Post-employment benefits		Other long-term benefits		Termination benefits		Total	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Directors	466	416	106	73	-	-	-	-	572	489
Management	4,309	3,621	422	338	136	1	926	-	5,793	3,960
Total	4,775	4,037	528	411	136	1	926	-	6,365	4,449

For the year ended 30 June 2011 the Corporation identified ten employees (2010: 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 2011.

22. RELATED PARTY INFORMATION

	Sales to related parties		Purchases from related parties		Amounts owed by related parties		Amounts owed to related parties	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000
CONSOLIDATED								
HT Wind Operations Pty Ltd (formerly Roaring 40s Renewable Energy Pty Ltd)	517	1,680	-	7	-	-	-	-
Cathedral Rocks Construction and Management Pty Ltd	-	-	-	-	135	-	-	-
PARENT								
HT Wind Operations Pty Ltd (formerly Roaring 40s Renewable Energy Pty Ltd)	517	1,690	-	7	-	-	11,210	-
Cathedral Rocks Construction and Management Pty Ltd	-	-	-	-	135	-	-	-
Bell Bay Power Pty Ltd	11	120	-	-	1,463	280	-	-
Bell Bay Three Pty Ltd	-	-	-	-	-	444	4,339	4,339
Lofty Ranges Power Pty Ltd	-	-	-	-	821	755	-	126
Hydro Tasmania Consulting (Holding) Pty Ltd	-	-	-	-	4,386	4,299	-	-
Hydro Tasmania Consulting India Pvt Ltd	383	308	-	-	380	38	-	-
RE Storage Project Holding Pty Ltd	7	-	-	-	940	930	-	-
Momentum Energy Pty Ltd	107,473	43,611	-	24	8,598	9,973	-	-

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

Outstanding balances at year end are unsecured and interest free. Settlement with related parties not wholly owned occurs in cash. Cash settlement does not occur between wholly-owned subsidiaries and the parent.

The Directors of the Corporation as at 30 June 2011 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

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

23. EVENTS SUBSEQUENT TO BALANCE DATE

The Federal Government's carbon tax legislation was tabled in Parliament in July 2011. As explained in note 9 the Corporation has not changed the fair value of its generation assets.

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 (2010: $8 million) as detailed below:

Community Service Obligations

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

During the year ended 30 June 2011, the State paid the Corporation $7.5 million (2010: $6.9 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 programme.

Under this agreement the Corporation was to receive $5.8 million over an initial three year term of the agreement for the collection and management of water use data for irrigation licensees through the installation of 3,000 telemetry units for on-farm water metering across the State. The agreement has since been extended for a further 12 months to 30 June 2011. 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 2011, the Corporation received $1.7 million (2010: $0.08) and recognised $0.2 million (2010: $0.7 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 2011 the Corporation entered into a funding agreement with the Bureau of Meteorology (Bureau) under the *Federal Water Act* 2007.

Under this agreement the Corporation will receive $0.3 million for three projects with the Bureau of Meteorology under the Modernisation and Extension of Hydrologic Monitoring Systems Grants. The Corporation will conduct training for 14 hydrographers from several Tasmanian organisations; collect key metadata for rainfall, storage and offtake sites in Tasmania; and improve the quality and frequency of data received by the Bureau.

During the year ended 30 June 2011, the Corporation received $0.3 million of the grant funds and recognised $0.3 million in the Statement of Comprehensive Income on the basis of work completed.

Department of Resources, Energy and Tourism – King Island Renewable Energy Integration Project

During the year the Commonwealth Government entered into a $15.28m funding agreement with the Corporation under the auspices of the Renewable Energy Demonstration Program.

Under the agreement the Corporation will receive 33.3% funding for the integration of multiple renewable energy sources into an existing small scale diesel generation system.

As at 30 June 2011 the Corporation had not recognised nor received any funding in relation to the grant.

25. CONTROLLED ENTITIES

	Footnote	Country of Incorporation	Percentage of shares held by Hydro-Electric Corporation 2011 %	2010 %
Parent entity				
Hydro-Electric Corporation				
Controlled entities				
Bell Bay Power Pty Ltd	1	Australia	100	100
Lofty Ranges Power Pty Ltd	2	Australia	100	100
Bell Bay Three Pty Ltd	3	Australia	100	100
RE Storage Project Holding Pty Ltd	4	Australia	100	100
Hydro Tasmania Consulting (Holding) Pty Ltd	5	Australia	100	100
Hydro Tasmania Consulting India Private Limited	6	India	0.1	0.1
Momentum Energy Pty Ltd	7	Australia	100	100
HT Wind Operations Pty Ltd (formerly Roaring 40s Renewable Energy Pty Ltd)	8	Australia	100	50

Footnotes

1. Bell Bay Power Pty Ltd was incorporated on 20 December 2001.
2. Lofty Ranges Power Pty Ltd was incorporated on 26 April 2002.
3. Bell Bay Three Pty Ltd was incorporated on 7 December 2005.
4. RE Storage Project Holding Pty Ltd was incorporated on 11 April 2006.
5. Hydro Tasmania Consulting (Holding) Pty Ltd was incorporated on 20 October 2006. It holds a 99.9% interest (9,999 shares) in Hydo Tasmania Consulting India Private Limited with Hydro Electric Corporation holding 1 share.
6. Hydro Tasmania Consulting India Private Limited was incorporated on 20 December 2006 in India.
7. Hydro 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.
8. Hydro Tasmania acquired 100% of the issued capital of HT Wind Operations Pty Ltd (formerly known as Roaring 40s Renewable Energy Pty Ltd) on 30 June 2011. HT Wind Operations Pty Ltd owns 100% of Woolnorth Bluff Point Holdings Pty Ltd, Woolnorth Studland Bay Holdings Pty Ltd, Heemskirk Holdings Pty Ltd, Musselroe Holdings Pty Ltd and HT Wind New Zealand Pty Ltd. HT Wind Operations Pty Ltd was registered on 29 November 2004.

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	2011 %	2010 %	2011 %	2010 %	2011 %	2010 %	2011 %	2010 %
HT Wind Operations Pty Ltd (formerly Roaring 40s Renewable Energy Pty Ltd)	Wind farm development and operation	30 June	-	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 held a 50% interest in a joint venture with CLP Asia Renewable Projects Limited during the year through equal ownership of Roaring 40s Renewable Energy Pty Ltd. The purpose of the joint venture was to pursue domestic renewable energy opportunities, including construction of wind farms. The joint venture was terminated on 30 June 2011 when the Corporation became 100% owner of HT Wind Operations Pty Ltd (formerly Roaring 40s Renewable Energy Pty Ltd), the parent entity in the Roaring 40s group of entities.

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.

27. JOINT VENTURE OPERATIONS

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

	CONSOLIDATED	
	2011 $'000	2010 $'000
Current assets		
Cash	60	58
Receivables	1	3
Total current assets	61	61
Non-current assets		
Property, plant and equipment	1,275	1,298
Total non-current assets	1,275	1,298
TOTAL ASSETS	1,336	1,359
Current liabilities		
Payables	21	34
Total current liabilities	21	34
TOTAL LIABILITIES	21	34

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 2011 $'000	Cathedral Rocks Construction and Management Pty Ltd 2011 $'000	Total 2011 $'000
Income statement			
Revenue	76,501	15	76,516
Expenses	84,980	4	84,984
Profit/(loss) before share of profit from asset sale and income tax benefit/(expense)	(8,479)	11	(8,468)
Profit of joint venture from asset sale	3,863	-	3,863
Income tax benefit/(expense)	(15,653)	(4)	(15,657)
Net profit after tax	(20,269)	7	(20,262)
Balance sheet			
Current assets	-	378	378
Non-current assets	-	-	-
Total assets	-	378	378
Current liabilities	-	272	272
Non-current liabilities	-	-	-
Total liabilities	-	272	272
Net assets	-	106	106
Share of accumulated losses			
Share of accumulated losses at the beginning of the year	11,474	45	11,519
Share of (profit) loss before income tax expense	2,002	(6)	1,996
Share of accumulated losses at the end of the year	13,476	39	13,515
Movements in carrying amount of investment in joint ventures			
Carrying amount at the beginning of the year	121,774	-	121,774
Share of loss before income tax for the year	(2,002)	-	(2,002)
Transfer to investment in subsidiary	(119,772)		(119,772)
Carrying amount at the end of the year	-	-	-

Roaring 40s Renewable Energy Pty Ltd became a wholly owned subsidiary on 30 June 2011. A 50% share of the operating result for the year has been equity accounted. Roaring 40s Renewable Energy Pty Ltd has changed its name to HT Wind Operations Pty Ltd.

28. INCORPORATED JOINT VENTURES (CONTINUED)

	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
Profit/(loss) before share of profit from asset sale and income tax benefit/ (expense)	(13,141)	(15)	(13,156)
Income tax benefit/(expense)	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 loss before income tax for the year	(6,036)	-	(6,036)
Carrying amount at the end of the year	121,774	-	121,774

The investment in joint ventures is carried at cost in the parent.

	PARENT	
	2011 $'000	2010 $'000
Carrying amount at the beginning of the year	132,998	127,998
Contributions during the year	-	5,000
Transfer to investment in subsidiary	(132,998)	-
Carrying amount at the end of the year	-	132,998

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

29. DIVIDEND

	CONSOLIDATED		PARENT	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Declared and paid during the year:				
Statutory dividend	25,510	5,332	25,510	5,332
Proposed for approval (not recognised as a liability as at 30 June)				
Statutory dividend	49,008	10,204	49,008	10,204

30. BUSINESS ACQUISITION

Effective on 30 June 2011, the Corporation disaggregated its joint venture with CLP Asia Renewable Projects Limited (CLP), Roaring 40s Renewable Energy Pty Ltd (Roaring 40s). Mainland operating and development assets of the joint venture were transferred to CLP in exchange for shares in the company resulting in the Corporation attaining a 100% interest in Roaring 40s. The Corporation therefore converted its $133m investment in the joint venture into an investment in a wholly-owned subsidiary. Roaring 40s (since renamed HT Wind Operations Pty Ltd) now generates electricity solely in the Tasmanian region of the National Electricity Market.

The fair value of the net assets acquired by the Corporation was assessed on disaggregation to be $142m. The excess of this fair value over the carrying value of the Corporation's investment in the joint venture prior to the acquisition has been recognised as a fair value increment on the wind farm assets on consolidation of $50.7 million.

In addition to the fair value increment, the Corporation has recognised a net gain of $22.2m representing an equity share of the net result of the disaggregation recorded by Roaring 40s and a gain by the Corporation on the transition from equity accounting to full consolidation.

30. BUSINESS ACQUISITION (CONTINUED)

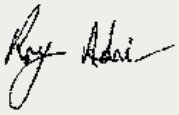
Names of business acquired	Principal activity	Date of acquisition	Proportion of shares acquired	Cost of acquisition $'000
HT Wind Operations Pty Ltd (formerly Roaring 40s Renewable Energy Pty Ltd)	Electricity generation	30 June 2011	100%	-

	Book value $'000	Fair value adjustment $'000	Fair value on acquisition $'000
Net assets acquired			
Current assets			
Cash and cash equivalents	5,152	-	5,152
Receivables	16,831	-	16,831
Investments	5,487	-	5,487
Prepayments	1,230	-	1,230
Inventories	2,143	-	2,143
	30,843	-	30,843
Non-current assets			
Property, plant and equipment	220,832	50,674	271,506
Financial assets	9,054	-	9,054
	229,886	50,674	280,560
Current liabilities			
Payables	6,085	-	6,085
Interest-bearing liabilities	7,047	-	7,047
Provisions	78	-	78
Financial liabilities	5,055	-	5,055
	18,265	-	18,265
Non-current liabilities			
Interest-bearing liabilities	147,276	-	147,276
Deferred tax liability	3,862	-	3,862
	151,138		151,138
Net assets	91,326	50,674	142,000

	CONSOLIDATED 2011 $'000
Net cash flow on acquisition	
Consideration paid in cash	-
Cash and cash equivalent balances acquired	10,639
Net cash flow on acquisition	10,639

SUPERANNUATION DECLARATION

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



R. Adair

Chief Executive Officer

11 August 2011

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 2011 and the financial position at 30 June 2011 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 Chief Financial Officer of the Corporation:

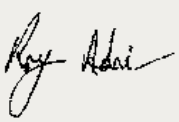
a) the financial records of the Corporation for the year ended 30 June 2011 have been properly maintained in accordance with Section 51 of the *Government Business Enterprises Act 1995*;

b) the financial statements and notes for the year ended 30 June 2011 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 2011 give a true and fair view.

Signed in accordance with a resolution of the directors:

Dr D.M. Crean
Chairman
11 August 2011



R. Adair
Chief Executive Officer
11 August 2011

Auditor's Independence Declaration

Tasmanian Audit Office

STRIVE | LEAD | EXCEL | TO MAKE A DIFFERENCE

11 August 2011

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 2011, 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

Independent Audit Report

INDEPENDENT AUDITOR'S REPORT

To Members of the Parliament of Tasmania

HYDRO-ELECTRIC CORPORATION

Financial Report for the Year Ended 30 June 2011

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 2011, the statements of comprehensive income, changes in equity and cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the statement by the directors of the consolidated entity comprising the Corporation and the entities it controlled at the year's end or from time to time during the financial year.

Auditor's Opinion

In my opinion:

a) the 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 2011, 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).

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 director's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate to the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

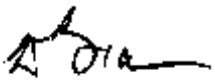
I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

In conducting my audit, I have complied with the independence requirements of Australian Auditing Standards and other relevant ethical requirements. The *Audit Act 2008* further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General, and
- mandating the Auditor-General as auditor of State Entities but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Tasmanian Audit Office are not compromised in their role by the possibility of losing clients or income.

My independence declaration was provided to the directors on the same date as this audit opinion and is included in the Directors' report.



TASMANIAN AUDIT OFFICE

H M Blake
AUDITOR-GENERAL
HOBART
11 August 2011

summaries, glossary and index

IHA sustainability protocol 2006 scoring criteria

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

sustainability performance summary 2010-2011

Table 23: Sustainability performance summary 2010-2011

Principle	Element	Attributes	Total 2011 score	Trend from previous year	Key issues that influenced score
Governance	Governance	Performance			Performance
		Vision, values, ethical standards, strategies and business principles.	4.00		This year developed a new vision through workshops with employees. There is consistent discussion about values in our business activities. Code of Ethics in place – under review. Business strategy reviewed annually by executives and discussed in teams.
		Incorporation of key sustainability objectives in vision, values, ethical standards, strategies and business principles.	4.00	–	There is significant incorporation of the Sustainability Code into business policies and practices and it guides our strategic planning.
		Meeting legislative and regulatory requirements and other commitments.	3.00	–	No fines or non-monetary sanctions in 2010-2011. 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			Process
		Policy implementation, including management systems, monitoring for effectiveness and review.	2.50	–	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	–	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	–	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			3.6	–	
Economic performance	Long-term business value	Performance			Performance
		Growth in business value.	4.00	–	Improved business value in 2011 financial year by: • strong profit performance, prudent debt management and cost cutting measures have improved net assets. • building financial strength and flexibility and improving returns to shareholders. Operating expenses per GWh generated improved significantly
		Shareholder expectations in terms of returns to Government.	5.00	↑	Declared dividend of $49 m – a significant increase on the previous year. Hydro Tasmania instructed by the Treasurer that the rate of dividend for 2010-2011 is to be 70 per cent, a reflection of our ability to provide stable and valuable returns to Government.
		Process			Process
		Long-term business planning.	4.00	–	Continued to execute and refine strategy to focus on financial strength, 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 shareholders • increases the value of the business to the shareholders over the long term	5.00	–	Robust processes. Hydro Tasmania complies with all GBE Act requirements in regard to shareholder 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 interests of our stakeholders.
	sub-score		4.5	↑	
	Growth and customers	Performance			Performance
		Understanding and meeting customer requirements.	4.00	–	New brand implemented September 2010; developed long-term retail backing strategy; Momentum launched new product (SmilePower); Entura implemented new client feedback process.
		Understanding short and likely long-term demand for services.	4.00	–	Monthly contracted load forecast provides data for retail. Embedded market research and customer relationship management provides continual assessment of short and long-term service requirements. Entura undertakes monthly market research.

Principle	Element	Attributes	Total 2011 score	Trend from previous year	Key issues that influenced score
Economic performance	Growth and customers	Identification and development of new solutions to meet changing market demands.	4.00	↑	SmilePower launched. Retail backing strategy developed.
		Commitment to product stewardship and sustainable pricing.	4.00	–	Water pricing and policy is established. Entura benchmarks its rates against market data. Holistic view of pricing across wholesale and retail is responsive to current market conditions.
		Compliance with appropriate ethical marketing and selling standards, legislative requirements and other relevant commitments.	4.00	–	New insider trading protocol; developing a conflict of interest register. Legal review and sign-off for products in place (e.g. SmilePower).
		Commitment to research and development, including implementation of new and emerging technologies.	4.00	–	R&D program is researching RAPs technology and solar. Investigating co-gen and solar hot water technologies.
		Process			Process
		Process for understanding market conditions and influences.	4.00	–	Changes to IBRM will track emerging and strategic risks. Scenario planning uses the strategic decision-making framework.
		Process for managing customer relationship life cycle.	4.00	↑	New products as retention tools to manage the client life cycle. Customer management framework developed in Entura. Developed specific strategy for Tasmanian major industrial customers.
		Strategic research and development processes, including new and emerging technologies.	4.00	–	Implemented a gated process for R&D which is aligned to the business investment process.
	sub-score		4.0	↑	
SCORE			4.3	↑	
Assets and resource use	Asset safety and reliability	Performance			Performance
		Dam, power station and associated infrastructure safety performance.	4.00	–	Development of 10-year Asset Management Plan led to a re-focus on condition monitoring, risk assessments and efficiency gains to offset increased risk associated with deferral of some major capital expenditure. Continued focus on addressing identified risks, including primary protection asset program of work. The dam portfolio has been assessed against the ANCOLD criteria for public safety. Detailed design and planning for improvement works at Binney Dam, Bradys Spillway and Rowallan Dam.
		Assets (generators and turbines) and hydrological resource: level of present reliability and likely future reliability.	4.00	–	Modernisation for Tungatinah Power Station started; more work on Poatina. Completed year's program for primary protection assets, electrical protection and transformers.
		Process			Process
		Dam, power station and associated infrastructure safety program and plan.	4.50	–	This year improved risk assessment for small dams and flood response plan. The dam surveillance program operates in accordance with the relevant ANCOLD guidelines and industry practice and incorporates continual improvement.
		Asset management strategies and systems to ensure present and future reliability of turbines, generators and associated infrastructure.	4.00	–	A holistic asset management framework with clearly defined outcomes (for people, customers, assets and processes) focuses all asset management activities to deliver the strategic objectives. The new 10-year Asset Management Plan defines a comprehensive approach to risk and asset management to deliver prudent risk position. Capital allocated to implement operational risk management programs for refurbishment of major plant delivery assets (i.e. turbines, alternators, controls, electrical and mechanical protection systems).
		Hydrological management strategies and systems to ensure present and future reliability of the resource.	4.00	–	Storage Operating Rules to manage generation and approriate water levels. Participated in the 'Climate Futures' and 'Sustainable Yields' studies. These have provided valuable information on the potential impact of climate change on system yield.
		Emergency preparedness program to deal with unplanned asset failures and severe hydrological conditions.	4.00	–	Review of flood management protocols which were found to be robust and well executed. Continue to provide water level and flow data to the Bureau of Meteorology for use in their flood warning models. Functional test of the Dam Safety Emergency Plan carried out this year with a simulated flood event down the Derwent River dams. Emergency response exercises were undertaken at power stations.
	sub-score		4.1	–	

Principle	Element	Attributes	Total 2011 score	Trend from previous year	Key issues that influenced score
Assets and resource use	Resource use	Performance			Performance
		Practicable, efficient use of the assets (turbines and generators).	4.00	–	Modernisation for Tungatinah Power Station started; more work on Poatina. Completed year's program for primary protection assets, electrical protection and transformers.
		Practicable, efficient use of the hydrological resource in the context of the whole system.	4.00	–	Storages at 45.9% at 1 July 2011 and were within preferred operating levels all year.
		Minimising the use of material and the production of waste.	4.00	↑	Waste sent to landfill has dropped 13% compared to 2009-2010.
		Process			Process
		Asset management strategies and systems to ensure efficient operation of turbines, generators and associated infrastructure in the context of the whole system.	4.00	–	Asset management process extended to cover outage planning and delivery to market risk management (i.e. market ancillary services, transmission constraints and outage, market rule change) and has stronger and improved direct interconnection with business processes in the market strategy and trading functions.
		Hydrological management strategies and systems to ensure efficient use of the resource in the context of the whole system.	4.50	–	Completed a review of storage management guidelines. Updated Arthurs Lake MoU with Inland Fisheries Service for water levels to accommodate potential requirements of the Midlands Irrigation Scheme. Discussions are ongoing wth the Tasmanian Irrigation Development Board regarding water availability and conditions of supply for the various proposed irrigation schemes. Trials held for new ways to communicate with key stakeholders in selected catchments about significant outages that affect downstream flows from power stations or water levels. The cloud seeding program continues but not over the King catchment.
		Strategies and systems to ensure efficient use of material and minimisation of waste.	4.00	↑	One company is contracted for our waste service and we are now better able to track waste. Compost collections bins in kitchens at Hobart office help reduce organic material sent to landfill. Hazardous substances are managed through the environment and sustainability management system.
	sub score		4.1		
SCORE			4.1		
Employees	4a. Attraction, capability, and retention	Performance			Performance
		Workforce size and skill levels.	3.5	–	Challenges in meeting skills for specific disciplines and regions (e.g. Momentum and Entura – Brisbane). Organisational refinement focused on building internal capability. Need for a process to apply skill development and managerial capability – some progress made. Leadership/talent management strategy under way.
		Workforce social and gender balance.	3.5	↑	Female appointments to Entura Managing Director and Head of Strategic Planning – increased presence at executive level. Board members – 50% female (3 members). Executive level – 17.6% females, 82.4% males – improved gender balance.
		Level of employee satisfaction.	4.5	–	58% – remains in the top quartile of the Australian benchmark.
		Employee turnover and continuity.	3.5	↑	Organisation refinement has focused on internal recruitment and promotion. External recruitment generally in new markets only.
		Process			Process
		Workforce planning and recruitment programs.	3.5	↑	Workforce planning EPA commitments delivered process. Pilot test under way.
		Training and development programs.	3.5	–	Training and development strategy underway. GenTech and graduate programs well embedded across business. Safety training improved. Training records/administration have been centralised. Focus now on how capability and transformation work can be launched across the business.
	sub-score		3.7		

Principle	Element	Attributes	Total 2011 score	Trend from previous year	Key issues that influenced score
Employees	Safety, health, and well-being	Performance			Performance
		Levels of employee safety, health and well being.	4.5	↑	Developed and rolled out *Safe work practices* handbook – approximately 90% rollout through Australian sites. Healthy Hydro 80% participation. Fatigue bands measure sleep to assess fatigue for stress management. Absenteeism rate is lower.
		Process			Performance
		Employee safety, health and well being program.	4.0	↑	Risk profiling in train throughout all Australian sites. Preparing HydroSafe management systems to align with OHSAS 18001. Safety Improvement Plan continues to address priority safety issues, including those relating to health and well-being.
	sub-score		4.3	↑	
SCORE			4.0	↑	
External stakeholders	Community engagement and support	Performance			Performance
		Level of stakeholder satisfaction and support.	4.0	–	80% of surveyed stakeholders rated our performance as good or excellent. Survey attracted a 25% response rate (20 respondents).
		Process			Process
		Process for stakeholder engagement.	2.5	–	Continued improvement, but insufficent material progress to increase score. Stakeholder engagement principles agreed and key stakeholders identified. Approach to engagement still lacks consistency and lacks an ongoing feedback mechanism.
	sub-score		3.3	–	
	Suppliers and partners	Performance			Performance
		Level of sustainability performance of partners, suppliers and service providers.	4.0	–	Supplier sustainability self-assessment completed with 12 key suppliers. Score of 76% against a target of 75%.
		Relationships with major partners, suppliers and service providers.	4.0	–	Completed supplier satisfaction survey – entire supplier base included. Score of 81% satisfaction with Hydro Tasmania given by returns from representative sample of 192 suppliers.
		Process			Process
		Goods and services specification/evaluation/ selection process, including consideration of sustainability issues.	4.0	–	Standard process in place for tender evaluation, including sustainability considerations.
		Dispute resolution process.	4.0	–	No significant disputes. Suppliers again commented in satisfaction survey that disputes with Hydro Tasmania were not a significant issue.
	sub-score		4.0		
SCORE			3.6		
Environment and heritage	Ecosystems and heritage	Performance			Performance
		Achievement of objectives for environmental health, including implementation of practicable opportunities to enhance environmental values .	3.5	–	Cataract Gorge environmental flow review completed and an increased flow agreed.
		Agreement and support from regulators and other stakeholders.	4.0	–	Gordon River ramp-down rule trials completed and a new rule is under consideration. Heritage management plan negotiations with Transend over Tarraleah/ Tungatinah redevelopments. Difficulties in progressing Aboriginal risk assessment survey work, due to the current legislative environment.
		Practicable influence on the behaviour of other resource users.	4.0	–	Continued collaboration with NRM organisations, Inland Fisheries Service, government departments and community associations. Land and water pathogen hygiene training course developed by Hydro Tasmania is being used by other agencies and organisations within the management program. Collaboration in the establishment of a cross agency project for the World Heritage Area. Joint agreement with stakeholders for rehabilitation at Lake Meadowbank. Rehabilitation of Sandbanks Tier under discussion with environment agencies.
		Requirements/targets for protection and conservation of historic and indigenous heritage values.	4.0	–	Preparation of a framework and guidelines for managing heritage values of Hydro Tasmania's asset types.

Principle	Element	Attributes	Total 2011 score	Trend from previous year	Key issues that influenced score
Ecosystems and heritage	Ecosystems and heritage	Process			Process
		Strategies and systems to measure environmental health, understand environmental values and identify stakeholder concerns.	4.0	↑	Improved data management on internal intranet for water environment information. Monitoring lakes and rivers in the Mersey-Forth catchment. Incident management system improvements.
		Program and plans to establish and achieve environmental objectives.	4.0	–	Six programs in place to achieve environmental objectives: water, land, cultural heritage, sustainability, climate change and energy and greenhouse gas. Waste management program improvements including SF6 management processes implemented, battery recycling, organic waste composting and paper reduction.
		Planning consistent with relevant legislation and international standards.	4.0	–	Hydro Tasmania's ESMS ISO 14001 certification maintained and now incorporates all Australian offices for Entura.
	sub-score		3.9		
	Carbon status	Performance			Performance
		Tonnes of CO_2 equivalent	4.0	–	0.0047 tonnes.
		Success in meeting objectives of plans to reduce GHG emissions and enhance GHG sinks.	3.0	–	Target 11 700 tonnes; result: 43 750 tonnes due to pump station back on line. Vehicle fleet emission down 11%; energy use decreased 11.5%; 2% increase in emissions from generation on Bass Strait islands.
		Process			Performance
		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	–	The management of GHG data is efficiently undertaken throughout the business and verified. Hydro Tasmania is now pursuing emissions reductions through energy efficiency improvement targets.
	sub-score		3.7	–	
SCORE			3.8	–	
OVERALL SCORE			3.9	↑	

Scores are decided on a 0-5 scale adapted from the International Hydropower Association Sustainability Protocol 2006. Criteria are explained on page 149.
Scores are averages of sub-scores. Overall score is an average of principles' scores.

generation statistical summary

As at June 30		2007	2008	2009	2010	2011
Mainland Tasmania						
Power stations						
Hydro	No.	28	28	28	30[1]	30[2]
Thermal	No.	2	1	1	0	0
Wind	No.	0	0	0	0	2[3]
Total no. of power stations	**No.**	**30**	**29**	**29**	**30**	**32**
Installed capacity						
Hydro	MW	2 270	2 270	2 270	2 281	2 281
Thermal – gas	MW	345	240	240	0	0
Wind	MW	0	0	0	0	140
Total installed capacity	**MW**	**2 615**	**2 510**	**2 510**	**2 281**	**2 421**
Energy generated[4]						
Hydro	GWh	8 128	7 100	7 203	8 167	9 273
Thermal – gas – Bell Bay 1-2[5]	GWh	899	1 169	608	0	0
Thermal – gas – Bell Bay 3[6]	GWh	37	0	0	0	0
Wind	GWh	0	0	0	0	0
Total energy generated	**GWh**	**9 064**	**8 269**	**7 811**	**8 167**	**9 273**
Generation peak load	MW	2395	2290	2248	2131	2093
Generation load factor[7]	%	43	41	40	44	51
Bass Strait islands						
King Island:						
Diesel	MWh	10 600	10 297	10 221	10 480	11 232
Wind	MWh	5 319	5 949	5 516	4 724	5 139
Flinders Island diesel	MWh	4 220	4 201	4 404	4 340	4 232
Total Bass Strait islands	**MWh**	**20 139**	**20 447**	**20 141**	**19 544**	**20 603**

Notes:

1 Upper Lake Margaret Power Station recommenced generation in October 2009; Lower Lake Margaret Power Station commenced generation in June 2010.

2 The number of hydropower 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.

3 Woolnorth Bluff Point Wind Farm and Woolnorth Studland Bay Wind Farm transferred to Hydro Tasmania on 30 June 2011.

4 Mainland Tasmania energy generated is calculated as the net energy measured at the market and distribution connection points.

5 Bell Bay 1 and 2 were shut down on 1 April 2009.

6 Three gas tubines (Bell Bay 3) were sold by Hydro Tasmania.

7 Calculated as average MW divided by peak MW. Average MW calculated from total energy generated divided by number of hours in a year.

financial statistical summary

Five Year Profile – Statement of Comprehensive Income

	Year Ending 30 June				
	2007 $'000's	2008 $'000's	2009 $'000's	2010 $'000's	2011 $'000's
Income					
Sales of goods and services	482,676	456,818	610,838	717,246	804,181
Other income	8,905	13,190	14,899	9,687	8,591
TOTAL INCOME	**491,581**	**470,008**	**625,737**	**726,933**	**812,772**
Less Expenses					
Labour	84,868	88,574	88,822	100,763	104,660
Direct operating expenses	157,720	199,648	262,518	319,018	374,930
Depreciation and amortisation of non-current assets	69,014	68,043	73,766	77,681	79,873
Impairment of non-current assets	(153,799)	(157,879)	(186,925)	-	-
Finance costs	90,695	95,663	86,684	80,337	80,481
Fair value movements	59,800	(124,309)	(185,638)	(259,194)	(116,389)
Other operating expenses	69,790	76,083	68,619	76,248	78,812
TOTAL EXPENSES	**378,088**	**245,823**	**207,846**	**394,853**	**596,367**
NET PROFIT/(LOSS) BEFORE TAX	**113,493**	**224,185**	**417,891**	**332,080**	**216,405**

Five Year Profile – Balance Sheet

	Year ending 30 June				
	2007 $'000s	2008 $'000s	2009 $'000s	2010 $'000s	2011 $'000s
Assets					
Cash and cash equivalents	51,615	93,302	30,562	3,038	13,199
Investments	88,365	108,464	122,826	121,790	-
Receivables	153,153	59,997	154,356	82,657	114,253
Property, plant and equipment	3,520,541	4,056,372	4,146,346	4,161,631	4,414,220
Financial and other assets	435,816	527,472	758,809	759,886	964,922
TOTAL ASSETS	**4,249,490**	**4,845,607**	**5,212,899**	**5,129,002**	**5,506,594**
Liabilities					
Payables	121,591	67,333	171,576	69,935	81,260
Provisions	334,645	323,593	365,579	363,461	371,154
Interest bearing liabilities	1,192,200	971,374	941,235	872,864	983,366
Tax liabilities	482,380	559,033	677,681	749,099	804,684
Financial liabilities	1,160,484	1,527,834	1,391,346	1,191,713	1,252,677
TOTAL LIABILITIES	**3,291,300**	**3,449,167**	**3,547,417**	**3,247,072**	**3,493,141**
NET ASSETS	**958,190**	**1,396,440**	**1,665,482**	**1,881,930**	**2,013,453**
EQUITY	**958,190**	**1,396,440**	**1,665,482**	**1,881,930**	**2,013,453**

Five Year Profile – Capital Works

	Year ending 30 June				
	2007 $'000s	2008 $'000s	2009 $'000s	2010 $'000s	2011 $'000s
Expenditure					
Generation assets	39,761	34,974	69,662	78,423	48,049
Bass Strait islands	1,028	2,394	982	860	1,144
Communications	2,691	2,343	-	7	-
Land and buildings	2,563	1,152	1,977	973	823
Fleet	2,247	2,455	1,807	2,784	1,938
Information systems	4,930	2,260	4,591	10,299	9,279
Renewable developments	-	-	-	-	-
Other assets	952	9,284	2,228	2,187	3,105
TOTAL CAPITAL EXPENDITURE	**54,172**	**54,862**	**81,247**	**95,533**	**64,338**

employee profile

Note: The following employee data is based on headcount and includes Hydro Tasmania, Entura and the Manager for India, but excludes staff in the India office who are not included in the Hydro Tasmania payroll system. The data also excludes Momentum employees as we did not have full year data available for this group. The total workforce by headcount as at 30 June is 914 employees.

Total workforce by employment type

	2007	2008	2009	2010	2011	2011 Per cent
Full-time	735	732	755	752	697	88%
Part-time	57	57	75	73	74	9%
Casual	25	30	30	19	20	3%
Total	**817**	**819**	**860**	**844**	**791**	**100%**

Workforce by employment type and gender

	Female	Male
Full-time	122	575
Part-time	57	17
Casual	4	16
Total	**183**	**608**

Total workforce by region

	2007	2008	2009	2010	2011
TAS	789	778	799	779	723
Other States	25	37	58	62	58
Overseas	3	4	3	3	10
Total	**817**	**819**	**860**	**844**	**791**

Workforce by region and gender 2011

	Female	Male
TAS	166	557
Other States	16	42
Overseas	1	9
Total	**183**	**608**

Employment contract 2011

	Count	Per cent	Female	Male
Regular	667	84%	160	507
Temporary	124	16%	23	101
Total	**791**	**100%**	**183**	**608**

New hires 2011 by region, age and gender

Age < 30	FEMALE	MALE
TAS	2	20
Other States	1	1
Overseas	1	0
Total	**3**	**21**
Rate	**0.4%**	**2.7%**

Age 30 – 50	FEMALE	MALE
TAS	5	8
Other States	2	4
Overseas	1	2
Total	**8**	**14**
Rate	**1.0%**	**1.8%**

Age > 50	FEMALE	MALE
TAS	1	1
Other States	0	1
Overseas	0	0
Total	**1**	**2**
Rate	**0.1%**	**0.3%**

New hires 2011 leaving by region, age and gender*

Age < 30	FEMALE	MALE
TAS	0	5
Other States	0	0
Overseas	0	0
Total	**0**	**5**
Rate	**0.0%**	**0.6%**

30 – 50	FEMALE	MALE
TAS	0	1
Other States	0	1
Overseas	1	0
Total	**1**	**2**
Rate	**0.1%**	**0.3%**

* New hires leaving over 50 = 0

Total workforce turnover by age

Age	2007	2008	2009	2010	2011
24 and under	27	9	13	18	7
25-34	37	20	21	17	27
35-44	38	40	25	23	26
45-54	22	31	22	20	19
55+	29	29	10	29	23
Total	**153**	**129**	**91**	**107**	**102**

Total workforce turnover by gender

Gender	2007	2008	2009	2010	2011
Female	38	25	18	30	25
Male	115	104	73	77	77
Total	**153**	**129**	**91**	**107**	**102**

Total workforce turnover by region

Region	2007	2008	2009	2010	2011
TAS	145	120	89	94	87
Other States	8	9	2	12	14
Overseas	0	0	0	1	1
Total	**153**	**129**	**91**	**107**	**102**

Total workforce by length of service

	2007	2008	2009	2010	2011
Less than 12 months	68	119	125	83	42
1 yr but less than 3 yrs	168	135	158	198	160
3 yrs but less than 5 yrs	130	136	127	106	121
5 yrs but less than 10 yrs	184	193	221	246	235
10 yrs but less than 15 yrs	64	58	67	66	93
15 yrs but less than 20 yrs	61	54	43	36	23
20+ yrs	142	124	119	109	117
Total	**817**	**819**	**860**	**844**	**791**

Employees leaving in 2011 by age and average tenure

Age group	Average length of tenure
<30	2.05 yrs
30-50	4.77 yrs
>50	14.89 yrs

glossary

AEMO	Australian Energy Market Operator
ANCOLD	Australian National Committee on Large Dams
ASR	alkali silicate reaction – a rare reaction of concrete aggregate
Basslink	An undersea HVDC cable between Tasmania and Victoria
CEO	Chief Executive Officer
CO_2-e	Carbon dioxide equivalent
CPRS	Carbon Pollution Reduction Scheme
CSO	Community service obligation
cumecs	Cubic metres per second – measures water flow
DPIPWE	Department of Primary Industries, Parks, Water and Environment
DSM	Demand-side management
DSEP	Dam Safety Emergency Plan
EBITDA	Earnings before interest, tax, depreciation, amortisation
ELT	Executive Leadership Team
EPA	Enterprise Partnership Agreement – Hydro Tasmania's employee bargaining agreement under the *Fair Work Act 2009*
EPR	Expert Panel Review into the Tasmanian electricity industry
esaa	Energy Supply Association of Australia
ESMS	Environment and sustainability management system
ETS	Emissions trading scheme
FTE	Full-time equivalent (employee)
GBE	Government Business Enterprise
GEDO	Greenhouse and Energy Data Officer (Commonwealth)
GHG	Greenhouse gas
GW	Gigawatt
GWh	Gigawatt hours – a consumption of 1 GW for 1 hour
GRI	Global Report Initiative
HR	Human resources
ICN	Industry Capability Network
IBRM	Integrated business risk management
IHA	International Hydropower Association
IT	Information technology
KIREIP	King Island Renewable Energy Integration Project
KPI	Key performance indicator
LTIFR	Lost time injury frequency rate
LTI	Lost time injury
MAST	Marine and Safety Tasmania
MW	Megawatts
MWh	Megawatt hours – a consumption of 1 MW for 1 hour
NEM	National Electricity Market
NGAC	New South Wales Greenhouse Gas Abatement Certificate
NGERS	National Greenhouse and Energy Reporting System (Commonwealth)
NSP	Network service provider
OHS	Occupational health and safety
PCB	Polychlorinated biphenyls
R&D	Research and development
RAPS	Remote area power supply
REC	Renewable Energy Certificate
RET	Renewable Energy Target
RSAT	Rapid Basin-Wide Hydropower Sustainability Assessment Tool
SPS	System protection scheme
tCO_2-e	Tonnes of carbon dioxide equivalent
TWh	Terawatt hours
UTAS	University of Tasmania
VRB	Vanadium redox battery
WHA	World Heritage Area

energy measurements

kW – kilowatt	One kW = 1000 watts. A watt is the rate at which electrical energy is produced or used
MW – megawatt	One MW = 1000 kilowatts or one million watts
kWh – kilowatt hour	The standard unit of energy, equivalent to production or consumption at the rate of one kilowatt for one hour
MWh – megawatt hour	One MWh = 1000 kilowatt hours
GW – gigawatt	One GW = 1000 megawatts or one million kilowatts
GWh – gigawatt hour	One GWh = 1 million kilowatt hours, or 1000 megawatt hours
TW – terawatt	One TW = 1000 gigawatts or one million megawatts
TWh – terawatt hour	One TWh = 1000 gigawatt hours, or one million megawatt hours
kV – kilovolt	One kV – 1000 volts. A volt is the unit of potential or electrical pressure
km – kilometre	
m^3 – cubic metre	
$m – million	

measuring water storage levels

Hydro Tasmania's hydropower system is fully integrated and flexible in terms of producing energy. We measure the water storage system in terms of the amount of electricity we could generate from the water stored, or put another way, the amount of energy in storage.

We narrate the storage level as 'x% full in energy terms' or '% full of energy'. Usually this applies to the system as a whole, but sometimes we refer to the level of particular lakes.

The figure is relative to, but is not the same as, the actual level of water in the storage.

Our preferred operating zone is a storage system level between 30 and 50 per cent full in energy. The lower amount, 30 per cent, represents an insurance amount that can be used to generate electricity during some years of drought. The higher level, 50 per cent, represents a reasonable buffer that can be used to give us flexibility in our trading operations.

Generally, when identifying the level of individual lakes, these figures mean that significantly less than 30 per cent full of energy means the lake will look low, and at 50 per cent full of energy, the lake is likely to be nearer full.

We publish water storage data on our website under 'energy in storage', and 'lake levels' which are reported as metres below full.

index (excluding the financial statements)

feedback form

Hydro Tasmania
The power of natural thinking

Your view on our:

	Annual Report 2011			
Reporting quality	Excellent ☐	Good ☐	Fair ☐	Poor ☐
Performance	Excellent ☐	Good ☐	Fair ☐	Poor ☐

If you ticked 'Good' or 'Excellent', what did we do best?

If you ticked 'Fair' or 'Poor', where do we need to improve most?

Was there any additional information you expected to receive in the annual report? Do you have any questions to be addressed in next year's report? Please specify.

Any other comments/suggestions?

Please send your comments to:

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