HYDRO TASMANIA
ANNUAL REPORT 2013

your community

Hydro Tasmania

The power of natural thinking

Winnaleah District High School grades 1 to 6 students and teachers

Musselroe Wind Farm education program

As part of community engagement activities around the Musselroe Wind Farm, an education program was delivered for schools in north-east Tasmania.

Hydro Tasmania worked with all regional schools throughout the year, focusing on renewable energy in general, and wind power in particular, with content tied back to the Australian Curriculum. Site visits organised as part of the program allowed children to see things in real life that had been discussed in the classroom, helping to consolidate their learning.

More than 600 students from seven regional schools visited the Musselroe site with their teachers and carers. This was a unique opportunity as construction was still underway, with the main focus on erecting the tops of towers and lifting nacelles, hubs and blades into position using a 1200-tonne crane.

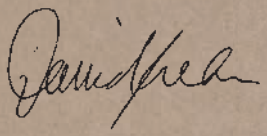
The cover photo shows student Miles Smith holding an anemometer to measure the wind speed at the Musselroe Wind Farm. This anemometer was one of the tools used throughout the education program to show students the importance of having scientific information about wind speed, direction and consistency before building a wind farm.

Cover photo: Hydro Tasmania's Community Officer Merren Wilkinson with Winnaleah District High School student Miles Smith

Directors' statement

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

In accordance with Section 55 of the *Government Business Enterprises Act 1995*, we hereby submit for your information and presentation to Parliament, the report of the Hydro-Electric Corporation for the year ended 30 June 2013. The report has been prepared in accordance with the provisions of the *Government Business Enterprises Act 1995*.



David Crean
Chairman, Hydro-Electric Corporation
October 2013

Stephen Davy
CEO, Hydro-Electric Corporation
October 2013

Hydro-Electric Corporation
ABN 48 072 377 158

Our vision

To be 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 build value for our partners and customers through **innovation** and outstanding service
- We behave with honesty and **integrity**
- We work together, **respect** each other and value our diversity
- We are **accountable** for our actions
- We are committed to creating a **sustainable** future

Contents

The year at a glance

Achievements

- Strong financial performance despite below average inflows:
  - Record profit before fair value of $238 million.
  - Third consecutive year of profits in excess of $100 million.
  - Returns to Government of $116 million, including a dividend of $51 million.
  - Maintained BBB investment grade credit rating.
  - Our mainland retailer Momentum Energy doubled its revenue from last year, earning nearly $800 million.
- Continued to pursue wind development strategy to maximise value and limit future equity requirements:
  - Sold down a 75 per cent equity share in the Musselroe Wind Farm to Shenhua Clean Energy Holdings Pty Ltd.
  - Largely completed construction of the $394 million Musselroe Wind Farm and achieved first generation.
  - Signed a strategic agreement with Shenhua to develop, build and operate 700 MW of wind farms by 2020, with a total estimated investment of $1.6 billion.
  - Began community engagement on the TasWind project on King Island.
- Capital expenditure on existing hydropower assets in Tasmania was $58 million. The main projects were Rowallan Dam wall strengthening, Tungatinah machine refurbishment and preparation for the Paloona outage. Total capital expenditure in FY2012/13, excluding construction of the Musselroe Wind Farm, was $136.8 million.
- Achieved sustained periods of 100 per cent renewable energy supply as part of the King Island Renewable Energy Integration Project.
- Expanded Entura's presence to the South African market, with a regional office established and several projects underway.

Refurbishment work at Tungatinah Power Station

- Officially opened the Entura clean energy and water institute and hosted the first courses.
- Completed the 14 social and technical studies resulting from the stakeholder engagement phase of the Mersey-Forth Water Management Review.
- Delivered the first phase of the my**sap** project to integrate and streamline Hydro Tasmania's processes.
- Maintained staff engagement at 63 per cent, well above the benchmark for Australian high-performing companies.
- More than doubled our employee volunteering target for the first year of operation of Hydro Tasmania's Community Initiative.

Challenges

- Impact on staff and business of implementation of the Tasmanian Government's energy reform package.
- Continued uncertainty about Australian Government carbon and energy policies.
- Intensive community engagement process as part of the TasWind project.
- Entura's operation in dynamic and highly competitive national and international consulting markets.
- Relatively low inflows reduced portfolio flexibility and increased drawdown of major storages.
- Achieving our safety targets. There were six lost time injuries (two staff, four contractors) during the year against a target of zero.

Awards

- Hydro Tasmania staff and programs received the following awards during FY2012/13:
  - Tasmanian Division of Engineers Australia 2012 Engineering Excellence Awards, Tasmanian Professional Engineer of the Year — Richard Herweynen, Entura.
  - Australian Water Association Young Water Professional of the Year (Tasmania) — Andy Crawford, Entura.
  - *CEO Magazine*'s award for Energy and Resources Executive of the Year — Nigel Clark, Momentum Energy.
  - Community engagement work for the Musselroe Wind Farm project was recognised with the Clean Energy Council's Community Engagement Award (presented in July 2013).
  - Australian Marketing Institute Marketing Excellence Award (Victoria) for marketing communications (business to consumer) for the Momentum Energy SmilePower campaign.
  - 2012 WorkSafe Tasmania highly commended award for the lower guide bearing access and a lifting platform at Tungatinah.
  - 2013 Hobart City Council Volunteer Recognition Awards, Highly Commended in the Volunteer Management Best Practice category.

The Hydro Tasmania TasWind team in the King Island Imperial: Pat Burke holding daughter Henrieta, Kat Burke, Tony Field, Catherine Walsh, Miles Smith and Em Burke holding Banjo Richards

King Island Renewable Energy Integration Project director Simon Gamble explains the off-grid energy system to guests at an open day

Our sustainability vision

Hydro Tasmania is Australia's leading clean energy business and believes that being committed to sustainability and acting sustainably make good business sense. Our sustainability commitment is drawn from our values and our Sustainability Code, and is used to frame business activities, policies and procedures.

Our Sustainability Code defines sustainability for the entire Hydro Tasmania group. A range of important actions have occurred during the financial year that are helping to achieve our vision, including:

- Momentum Energy has extended its offerings to customers through the development of an Energy Services division. This division offers to customers an evolving product range including energy-efficiency solutions, access to electricity usage data and lighting services.
- Entura has continued to expand its consulting services nationally and internationally, including markets in Queensland, the Northern Territory, Southeast Asia and South Africa. The Sustainability Code has continued to be embedded into the risk assessment process used in making project/client engagement decisions.
- The Entura clean energy and water institute was launched in December 2012. The institute offers a range of courses for utilities, businesses and individuals in the areas of clean energy, including hydro, wind and solar, and water management.
- A number of Hydro Tasmania and Entura employees attended the International Hydropower Association Congress in May 2013, the central theme of which was sustainability. Our attendees were involved in workshops, presentations and the trade exhibition.
- Hydro Tasmania has continued to increase our role as Australia's largest clean energy generator through the export of hydropower-generated renewable electricity into the National Electricity Market and the development of further wind generation projects. These have included developing the TasWind project to feasibility stage with a focus on community consultation, and the start of generation from the Musselroe Wind Farm.
- The success of the Community Initiative which, in its first year of operation, exceeded its target of 10 per cent of Tasmania-based staff volunteering in the community. A total of 22.8 per cent of staff (171 employees) were out and about helping grassroots organisations deliver services in Tasmania.
- A significant review of our Code of Ethics and our Code of Conduct resulted in the consolidation of these important guiding documents into our new Code of Ethical Behaviour. Implementation of the Code of Ethical Behaviour will be a focus during FY2013/14.

Measuring sustainability performance

Our long-term sustainability indicators (LSIs) continue to be integrated into our business planning and targets. The LSIs are aligned with the Sustainability Code and comprehensively reflect our longer-term (five-year) strategic priorities, as set out in the Corporate Plan. Our annual business strategy is coupled with our LSIs to ensure that we continue to track towards our longer-term targets. The alignment of divisional, team and individual work plans to our LSIs ensures a broad understanding of how every part of the Hydro Tasmania group contributes to our sustainability commitment. The LSIs are reviewed annually to ensure they remain relevant to the business.

International delegates at the International Hydropower Association's World Congress in Kuching, Malaysia in May 2013

Sustainability Code principle	Element and sustainability commitment	Long-term sustainability indicator (LSI)	Read more
Economic	**Long-term business value** We make sound commercial and investment decisions in our chosen markets to deliver long-term business value and meet shareholder expectations.	Shareholder equity	23
		Credit rating	23
		Total returns to Government	23
	Low-cost provider of supply We leverage our low-carbon generation and competitive customer focus to create value for our shareholders, the people of Tasmania.	Base operating expenses	24
		Cost-competitive supply to back retail load growth	24
Governance	**Risk/Governance processes** We make our decisions within comprehensive governance and risk management frameworks while seeking to continually improve our business processes.	Risk exposure	31
	Compliance We make ethical decisions by applying our values, sustainability principles and code of ethics, complying with relevant legislation and delivering on the commitments we make.	Compliance risk	31
Customers	**Customer satisfaction** We know our customers have a choice. We aim to be their first choice through understanding, responding and delivering sustainable solutions to our customers.	**Entura** total sales ($m)	41
		Client satisfaction rating	41
		Customer mix	41
		Momentum Energy total retail electricity sales (TWh)	41
		Churn rates	41
		Customer mix	41
	Products and services We are innovative and creative in developing new products and services in response to the needs of our customers and in order to retain our competitive edge in the marketplace.	Client perception score on **Entura's** and **Momentum Energy's** ability to offer smart and innovative products and services	42
		Remote Area Power Supply (RAPS) business model firmly established	42
Infrastructure and resources	**Asset safety and reliability** We manage our infrastructure optimally for present and future reliability and with the highest standards of safety.	Asset performance, safety and compliance obligations as detailed in the ten-year asset management plan (AMP)	51
		New generation asset completion	51
	Resource use We manage our resources optimally for present and future reliability.	Business value	51
		Water rights	51
Environment	**Ecosystems and heritage** We aim to minimise our impact on the environment and seek opportunities to enhance environmental and cultural values.	Environmental conditions in Hydro Tasmania operational areas	57
	Carbon status As climate change has significant implications for our business, we are committed to being part of a sustainable solution.	Emissions intensity	57

Sustainability Code principle	Element and sustainability commitment	Long-term sustainability indicator (LSI)	Read more
Community	**Community engagement** We aim to have regular, open and transparent dialogue with our community.	Stakeholder satisfaction rating Level of community awareness	65 65
	Community capability We aim to make a genuine difference in the communities in which we operate.	Staff participation in the Community Initiative	65
	Suppliers and partners We work with our customers, stakeholders, suppliers and partners to contribute to a sustainable future.	Key suppliers' alignment with Hydro Tasmania's sustainability principles	65
Our People	**Attraction, capability and retention** We will continue to: • offer opportunities for our employees to grow and develop • reward, recognise and value employee contributions • listen to and engage with our employees and maintain sound employment relations • ensure a diverse and equitable workplace.	Staff engagement score Percentage of development plans implemented	75 75
	Safety, health and wellbeing We provide a safe and healthy working environment.	Lost time injuries Safety Reporting Index Participation in Healthy Hydro program	75 75 75

Introduction

Previous page and this page: Musselroe Wind Farm in north-east Tasmania

Statement of Corporate Intent

Hydro Tasmania operates under the *Government Business Enterprises (GBE) Act 1995* and the *Hydro-Electric Corporation Act 1995.* The GBE Act sets out a requirement for Hydro Tasmania to write a 'Statement of Corporate Intent' each year, which is included in both the Corporate Plan (a document that details our strategy to the Tasmanian Government) and the Annual Report. The Statement of Corporate Intent provides a summary of our strategy for our ultimate owners, the people of Tasmania.

Hydro Tasmania is the trading name of the Hydro-Electric Corporation, an integrated energy business owned by the State of Tasmania. The Honourable Bryan Green MP, Minister for Energy and Resources, has portfolio responsibility for Hydro Tasmania.

Our business

Hydro Tasmania's vision is to be Australia's leading clean energy business, inspiring pride and building value for our owners, our customers and our people. This vision is reflected in our operation as an integrated energy business across the national electricity and gas markets, to enhance the value of the business and returns to the State of Tasmania.

Hydro Tasmania's strategy has been developed to achieve the purpose and objectives set out for the business in the GBE Act and our Ministerial Charter. Our principal purpose, as defined in the Ministerial Charter, is to 'efficiently generate, trade and sell electricity in the National Electricity Market (NEM)'. Our principal objectives, set out in Section 2 of the Ministerial Charter, are to perform our functions and exercise our powers to:

- be a successful business by operating in accordance with sound commercial practice and as efficiently as possible
- achieve a sustainable 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.

These objectives are consistent with the requirements of Section 7 of the GBE Act.

Figure 1: Hydro Tasmania's business structure at 1 July 2013

The Hydro Tasmania group employs 1146 people in three businesses with offices in Hobart, Melbourne, Brisbane, New Delhi and Cape Town. Three distinct entities operate as part of the Hydro Tasmania group, building on nearly 100 years of experience in the electricity industry — Hydro Tasmania, Momentum Energy and Entura. Each business operates as a critical component in an integrated value chain, and each plays an important role in delivering the group's core business and strategy to enhance value and mitigate strategic risks, ensuring Hydro Tasmania can deliver strong financial returns to Government to support the State Budget.

Hydro Tasmania's retail business Momentum Energy is based in Melbourne and sells electricity to customers in Victoria, South Australia, the Australian Capital Territory, Queensland and New South Wales. Momentum Energy specialises in serving industrial and business customers and tailors products to suit their specific needs. Momentum also provides electricity to residential customers at a smaller scale. Momentum provides retail services to customers on the Bass Strait islands[1] but is prohibited from doing so on mainland Tasmania.

Our consulting business Entura provides engineering, scientific and management services to water and energy clients nationally and internationally. Entura also provides engineering, water and environmental management and compliance services to support Hydro Tasmania's delivery of operational and capital programs associated with its generation infrastructure and developments. Entura has offices at Cambridge in Tasmania, along with regional offices in Melbourne, Brisbane, New Delhi, India and Cape Town, South Africa, and project offices in Darwin and Sydney.

On 1 June 2013, as a result of the Tasmanian Electricity Supply Industry (TESI) reforms, Aurora Energy's wholesale and generation assets (Aurora Energy Tamar Valley – AETV) were transferred to Hydro Tasmania. This included the Tamar Valley Power Station (TVPS) and mainland gas and electricity contracts. The transfer of these assets has substantially broadened the scope and activities of Hydro Tasmania.

Our business activities now encompass generating electricity (from hydropower, wind and gas), trading in the wholesale electricity and gas markets and in environmental energy products, selling retail electricity and gas in mainland states through our retail business Momentum Energy, and providing consulting services through our consulting business Entura.

[1] Hydro Tasmania has a Community Service Obligation (CSO), funded by the State of Tasmania under Part 9 of the GBE Act, to provide concessional arrangements to customers on the Bass Strait islands.

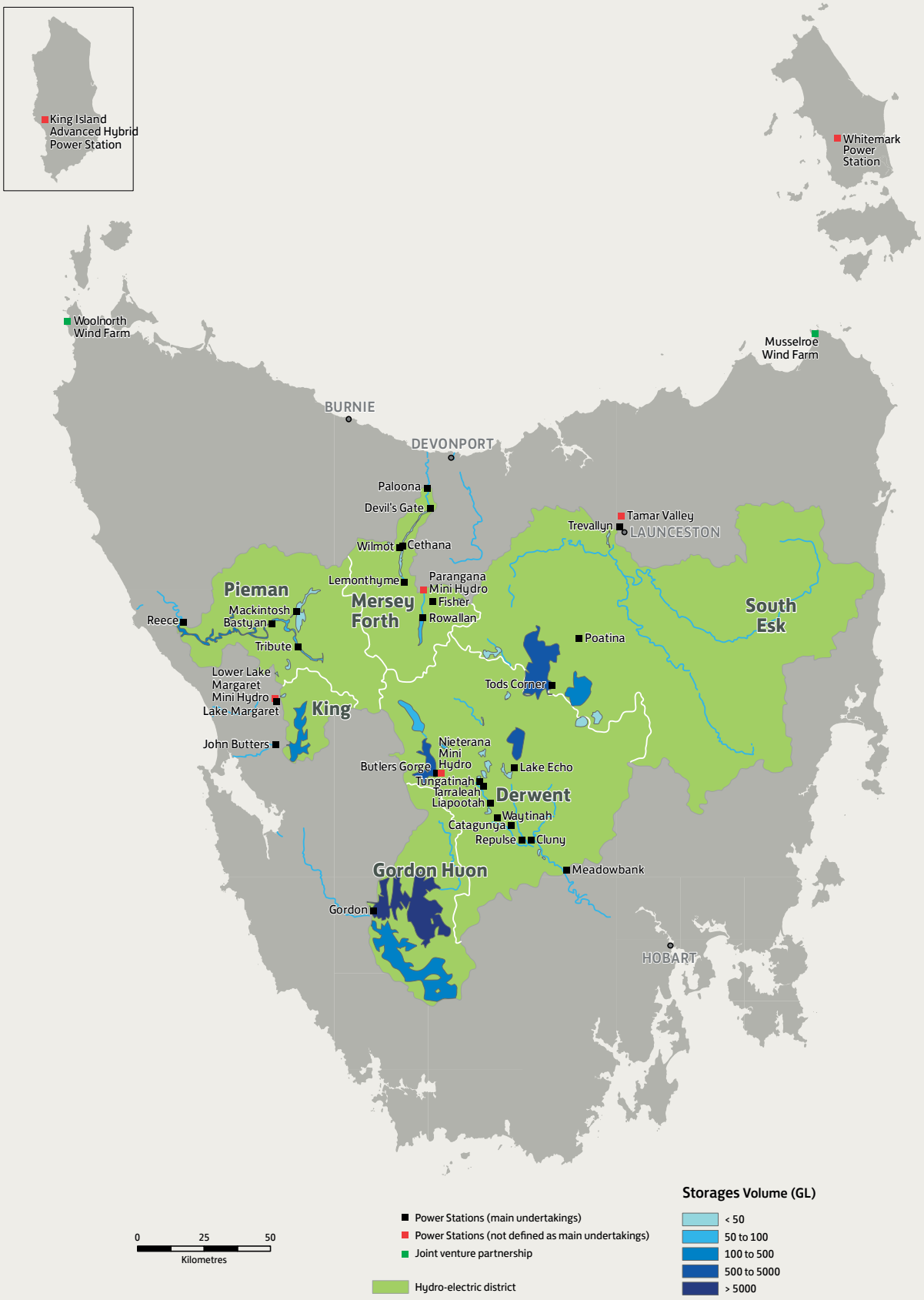


Figure 2: Hydro Tasmania's Tasmanian operations

Our operations

Hydro Tasmania is Australia's leading renewable energy business and Australia's largest water manager. We have six large catchments covering 35 per cent of Tasmania's land area. We own and operate 30 hydropower stations in these catchments and are responsible for managing 53 lakes and water bodies and 67 rivers and creeks consistent with our various obligations, including the Special Water Licence (granted under the *Water Management Act 1999*) and Hydro Tasmania's Ministerial Charter. A total of 27 of the 30 power stations, and their associated dams, canals and infrastructure, have been given a special status under the *Hydro-Electric Corporation Act 1995* and are considered to be our 'main undertakings', as shown in Figure 2.

Hydro Tasmania owns and operates the Tamar Valley Power Station at Bell Bay in the State's north. The power station consists of a 205 MW base load combined cycle gas turbine plant, 180 MW of open cycle gas turbine peaking plant and associated infrastructure. Hydro Tasmania is able to optimise the generation of electricity between its hydropower and gas assets to enhance the security of supply of electricity within Tasmania.

Hydro Tasmania has a strategic alliance with Chinese energy company Shenhua Group. Hydro Tasmania owns a 25 per cent share in a joint venture with Shenhua Clean Energy Holdings, owned by Shenhua Group and its subsidiary Guohua Energy Investment Corporation. The joint venture owns the Studland Bay and Bluff Point Wind Farms (140 MW) at Woolnorth in north-west Tasmania, and in February 2013 assumed ownership of the 168 MW Musselroe Wind Farm in north-east Tasmania. Hydro Tasmania provides services to assist in the operation and maintenance of the wind farms for the joint venture.

In addition, 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 (one at Currie on King Island and one at Whitemark on Flinders Island) and associated electricity distribution networks. Hydro Tasmania is currently constructing a new Remote Area Power System (RAPS) on King Island, targeted for completion in December 2013. The project showcases the integration of renewable and enabling technologies with conventional fuel sources to deliver low-cost, low-emission energy to consumers in remote locations.

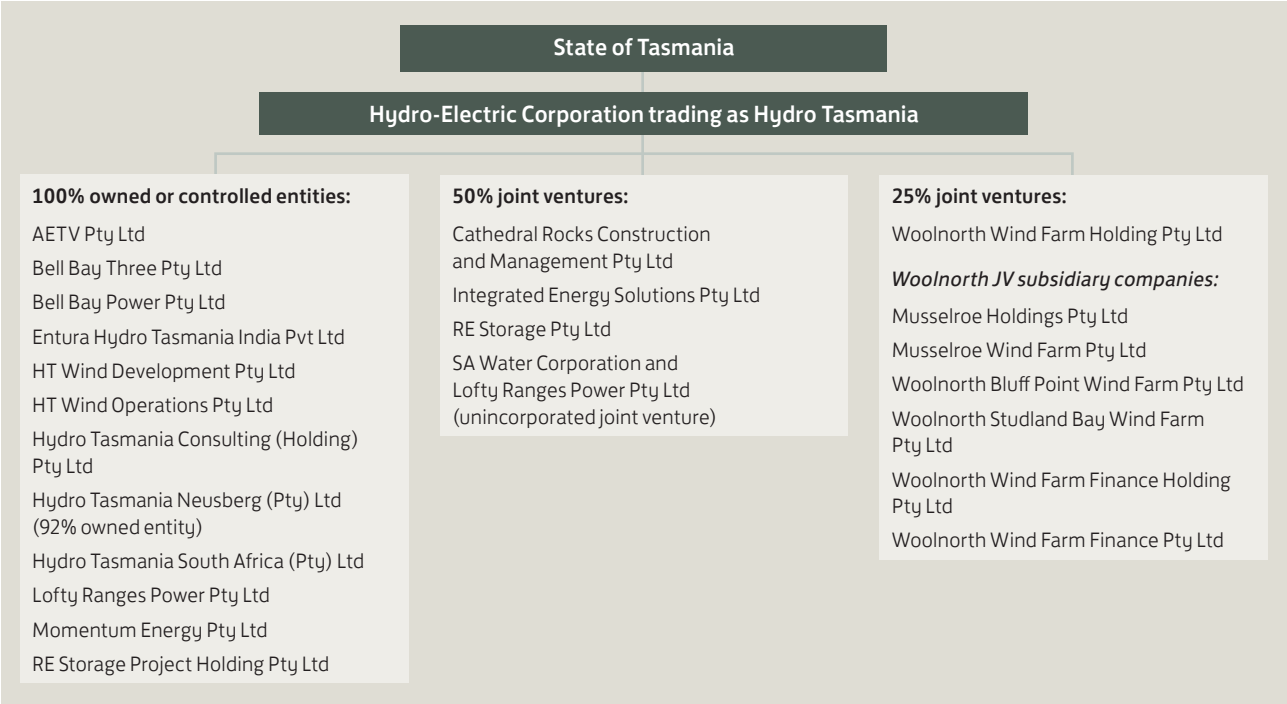


Figure 3: Hydro Tasmania's ownership structure

Hydro Tasmania
The power of natural thinking

Generating and trading wholesale electricity, gas and environmental energy products.

Generating electricity from hydro, gas and wind to provide energy and environmental products to back retail sales.

momentum energy

Retailing electricity, gas and energy services products to residential customers, small and medium businesses and commercial and industrial customers in the national electricity and gas markets.

Providing Hydro Tasmania with access to end users of electricity and diversifying revenue sources.

entura Hydro Tasmania | The power of natural thinking

Providing expert power engineering, renewable energy, water and environmental solutions in Australia and across the Pacific, Asia and African regions.

Supporting the business through providing services for asset maintenance and new developments.

Our operating environment

Hydro Tasmania is currently experiencing a period of unprecedented financial success, supported by the carbon price introduced on 1 July 2012. In FY2012/13 our profit before fair value of $238 million more than doubles our record result of $100 million in the past two financial years. We achieved our goal of BBB financial strength in 2012, three years ahead of plan, and the sales target of 15 TWh was achieved this year, also ahead of plan.

Our retail business Momentum Energy continues to prosper. It is meeting profitability targets on a steady growth trajectory, a considerable achievement in a tough NEM environment. This success has enabled the delivery of substantially increased returns to the State of Tasmania.

Our success has been supported by the introduction of the price on carbon but it is also sustained by our strategy to maximise Hydro Tasmania's competitive advantage as Australia's largest clean energy business, considerable efforts to minimise costs to remain a low-cost producer of electricity, and reductions in capital expenditure while maintaining an appropriate risk position for our Tasmanian hydro assets.

Despite our recent success, the outlook for Hydro Tasmania over the next several years is challenging. There have been significant changes in Hydro Tasmania's operating environment over the past year which will impact on future profitability. The key factors affecting Hydro Tasmania are:

- the uncertainty of carbon price forecasts and the future legislative framework
- the Tasmanian electricity supply industry reforms, including the transfer of the AETV assets and wholesale pricing regulation
- a reduction in NEM-wide demand for electricity and a subdued demand growth outlook, driven by increases in energy efficiency and domestic solar energy generation, and the impact of global demand and the high Australian dollar on key industries.
- Entura operates in the highly dynamic national and international consulting markets. Currently the national consulting market is experiencing a decline in demand which is impacting on the Entura business, increasing the need to diversify its income across geographical and industry markets.

Our strategic direction: an integrated energy business

To achieve our vision, the corporate strategy is focused on strengthening the business through consolidating our position as an integrated energy business in the national electricity and gas markets. This mitigates the strategic risks the business is exposed to, strengthens our core position in the market and improves financial strength to increase the quantum and stability of returns to Government. Our BBB financial strength rating continues to reflect an appropriate level of balance sheet strength to enable the business to compete effectively in the market, and we will seek to maintain BBB financial strength as a strategic imperative.

Hydro Tasmania's strategy has evolved over the past year to adapt to the changed operating environment and the outcomes of the Tasmanian energy industry reform process. While this evolution has taken place in response to external factors, it is also a natural extension of the evolution of the business since entry into the NEM. The connection of Basslink in 2006 placed Hydro Tasmania squarely in the NEM and fundamentally changed our risk profile.

Momentum Energy plays a crucial role in achieving our strategic targets. Our strategy requires mainland retail growth to a more diversified customer base and an alternative path to market for electricity generated from Hydro Tasmania's existing generation assets. We will continue to pursue profitable and sustainable growth in retail electricity sales to support the achievement of our strategy. Through Momentum and our operations in the national electricity and gas markets, we are creating value for all Tasmanians. While Tasmania will always be our main focus, diversifying our revenue sources interstate reduces our risk exposure. Momentum is therefore a key risk mitigant for Hydro Tasmania, helping to maintain stable dividend and tax payments that the Government can rely on.

As Momentum's retail sales continue to grow interstate, we will look to economically source Large-scale Generation Certificates (LGCs) to satisfy our obligations under the Large-scale Renewable Energy Target. Hydro Tasmania has a significant history in wind development. Wind development not only allows us to satisfy Momentum's LGC requirements, but also creates opportunities for our expertise in this area to be utilised. We will continue to pursue economic wind developments for these reasons. The proposed TasWind project on King Island provides an exciting opportunity to develop further wind generation and secure the required LGCs.

Entura is a key part of Hydro Tasmania. Entura provides technical expertise and skills for the ongoing maintenance, upgrade and operation of our hydropower assets and wind farm developments. As a stand-alone business targeting growth in new markets, it also contributes to our overall profitability. Entura provides employment for around 300 professionally skilled people, exporting their skills around Australia and overseas.

Hydro Tasmania also continues to pursue the emerging opportunities in RAPS. We see this as an excellent opportunity for using our expertise in renewable technologies and alleviating one of the world's great challenges — energy poverty. The technological advancements we are making to develop RAPS (for example on King Island) will cement our role as Australia's leading clean energy business.

The success of our business is underpinned by our people, effective management of our water resource and generation assets, and the systems and processes in place to support the operation of our business. We are committed to making improvements in each of these areas.

Key Performance Indicators

Key Performance Indicators for the business for the next year are set out in Table 1. The financial forecasts for Hydro Tasmania are characterised by high expectations for profitability in immediate years while the fixed carbon price remains in place. The financial forecasts also reflect the prescribed dividend payout ratio of 70 per cent of underlying profit after tax. Together with other returns to Government this will assist in delivering maximum returns to the State of Tasmania over the forecast period, making a substantial contribution to the State Budget.

Directors' Statement of Corporate Intent and Agreement of Shareholding Ministers

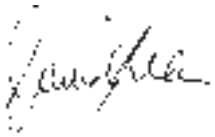
Table 1: Key Performance Indicators and targets for FY2013/14

Key Performance Indicators	Target FY2013/14
Financial indicators	
Profit before fair value	$223m
Non-financial indicators	
Lost time injury	0
Employee engagement score[1]	High performing benchmark
Stakeholder performance rating	80 per cent of stakeholders rate performance as good or better
Returns to Government	
Ordinary dividend	$116m
Total other returns to Government	$147m
Total returns to Government	**$263m**

[1] As measured by the staff survey conducted by Right Management. The survey measures how engaged employees are across the Hydro Tasmania group and identifies strengths and areas for improvement.

In signing this Statement of Corporate Intent, the Board of Hydro Tasmania commits to the targets proposed for FY2013/14 on a best endeavours basis, subject to Section 24 of the GBE Act. The Board of Hydro Tasmania agrees to provide the Shareholding Ministers with information on progress against the targets included in this Statement of Corporate Intent, as required under the Reporting Guidelines.

This Statement of Corporate Intent has been agreed between:



David Crean
Chairman
Hydro Tasmania

On behalf of the Board

Original signed by

Lara Giddings MP
Treasurer

Bryan Green MP
Minister for Energy

Chairman's review

The 2012–13 financial year will go down as one of the most eventful and significant in our long history.

As the business prepares to recognise and celebrate its centenary in 2014, we recorded our most profitable year — a year in which the true value of the State's investment in renewable energy was realised following the introduction of a carbon price from 1 July 2012.

Notable events and milestones through the year included:

- generating under a carbon pricing scheme that has seen a rise in the average wholesale price in the National Electricity Market (NEM)
- participating in the implementation of the outcomes of the Tasmanian Government's electricity reform process
- continued growth of Momentum Energy, our retail business
- pursuing opportunities to export Tasmanian expertise through our consulting business, Entura
- the construction of the Musselroe Wind Farm
- completing the sell-down of 75 per cent of our Tasmanian wind farms.

Financial

Hydro Tasmania delivered an operating profit before fair value adjustments of $238 million, the largest in our history and more than double the previous record set last year. This will see an expected return to the Tasmanian Government during the coming year of $263 million, including a dividend of $116 million. This represents more than 10 per cent of the Tasmanian Government's non-Commonwealth revenue. During FY2012/13, the business returned $125 million to Government, including a dividend of $51 million.

Over the next two years Hydro Tasmania expects to return more than $450 million to the State. However, the outlook after that is challenging as a result of a range of factors, including a subdued wholesale market for electricity driven, in part, by reducing overall customer demand and uncertainty around future carbon pricing in Australia.

Operating cash flows rose during the year to $262 million, largely due to the impact of a price on carbon as the business reaped the benefit of carefully conserving hydro storages in the previous year to take advantage of the carbon uplift in FY2012/13. As a result of increased generation, storages fell from 53.6 per cent of full energy at 1 July 2012 to 32.8 per cent at 1 July 2013. Subsequent above average winter rains have seen storages increase to 45 per cent by 1 September 2013.

It is estimated that around $140 million of the operating profit before fair value adjustments results can be attributed to the carbon price ($70 million) and increased generation during the year. This planned strategy also saw record exports across Basslink with a net export of 2040 GWh, the highest since the link commenced operation in 2006.

Electricity reform

The Tasmanian Government's electricity supply industry reform was a key factor for the business during the year with the outcome of specific policy decisions, combined with a reduction in NEM-wide demand for electricity and a subdued demand growth outlook, expected to impact on our future profitability. The two key decisions were:

- the transfer to Hydro Tasmania on 1 June 2013 of the Tamar Valley Power Station (TVPS), together with gas contracts, from the state-owned retail and distribution business Aurora Energy. The big challenge for Hydro Tasmania is to maximise the efficient use of the TVPS and the associated gas contracts while achieving efficiencies through running the asset as part of the Tasmanian hydro and wind portfolio.
- wholesale regulation in relation to non-contestable customers ready for new entrants to the Tasmanian retail market. Hydro Tasmania will be required to sell a defined suite of contracts in Tasmania at a regulated price. This will see prices calculated by a transparent, rules-based method that effectively links the prices of all Tasmanian regulated wholesale products to Victorian market prices.

Momentum Energy

Our retail arm continues to go from strength to strength. Since it was purchased in 2009, Momentum's retail volume has increased ten-fold and this year it recorded a profit of more than $17 million. It is now a well-established and respected entity in a highly competitive marketplace, retailing in Victoria, New South Wales, South Australia, the Australian Capital Territory and Queensland employing 250 people throughout Australia, including an outbound sales call centre in Tasmania with a staff of 27.

Entura

Our consulting arm continues to make inroads in the international market, exporting Tasmanian expertise throughout Asia and, in the last year, as part of a successful consortium to build a 10 MW run-of-river hydro project on the Orange River in South Africa.

Emerging opportunities in southern Africa have seen the establishment of a small office in Cape Town, South Africa. Entura already has an office in New Delhi in India and is looking to establish a Southeast Asian office during FY2013/14.

Wind energy

Work on the $394 million, 168 MW Musselroe Wind Farm in north-east Tasmania was largely completed during the year. The project employed around 200 people, the majority of them from Tasmania, with over $60 million spent on work and services with Tasmanian businesses. It also was warmly welcomed and supported by the local community and Hydro Tasmania was recognised nationally for its community engagement around the project, receiving an award from the Clean Energy Council of Australia in July 2013.

Hydro Tasmania completed the 75 per cent sell-down of the wind farm in February 2013. This followed a similar sell-down of the Woolnorth Wind Farm in north-west Tasmania, formalised in February 2012. The business made the strategic decision to reduce ownership of the wind farms while taking a significant

proportion of the energy off-take and renewable energy certificates. We maintain a 25 per cent ownership through a joint venture with Shenhua Clean Energy Holdings, which owns the remainder.

We continue to investigate opportunities for wind development in Tasmania and mainland Australia and a feasibility study is underway into a 600 MW wind farm on King Island. TasWind, as the project is known, also involves a high-voltage underwater cable across Bass Strait to connect the wind farm to the NEM. An extensive consultation process was undertaken during the first six months of 2013 to inform the King Island community about the proposal and encourage debate, culminating in a community survey in which 59 per cent of respondents on the island indicated support for the project to go to feasibility. The project will not proceed to development without the ongoing support of the King Island community.

Conclusion

Hydro Tasmania has come a long way since disaggregation in 1998.

We are a far more commercial and diversified business, committed to our primary role as the power generator to the Tasmanian community, growing our opportunities interstate and internationally while returning the benefits to our ultimate owners — the people of Tasmania.

We are Australia's largest renewable energy business and Australia's largest manager of water, supporting the local economy while helping to build a clean energy future in Australia and internationally. We have a dedicated workforce of around 1100 highly skilled people who are committed to the organisation and all that it represents. And we have a hard-working Board that diligently oversees the commercial and prudential aspects of the business.

I would like to thank everyone involved for their contribution to a very successful year, including former CEO, Roy Adair, who left the business on 30 June 2013.

"A year in which the true value of the State's investment in renewable energy was realised"

CEO's report

Hydro Tasmania had another successful year in a challenging operating environment.

It was a year in which wind developments took centre stage as the 168 MW Musselroe Wind Farm was largely completed. At the same time the business led the way in community engagement best practice across the industry as we sought local feedback and support as part of our proposal to develop a 600 MW wind farm on King Island.

Internally, we focused on building and testing a business-wide upgrade of our outdated information technology systems, and we worked closely with the Tasmanian Government on implementing its reform of the State's electricity sector.

Crucial to the success of the business during this financial year was the outstanding effort of our people across all parts of the Hydro Tasmania group. Their significant contribution drove the business to achieve most of our strategic and financial targets for the year and laid the groundwork for meeting the challenges ahead.

Performance

Overall group revenue exceeded $1.5 billion thanks to a combination of maximising the benefits of the carbon price and a doubling of sales by our retail business Momentum Energy.

Capital expenditure, excluding Musselroe, was $136.8 million, a significant increase on last year, and the result of expenditure on our power station modernisation program and the ongoing implementation of our new IT system. We spent $58 million on capital works on hydro-generation assets; the Rowallan Dam upgrade, the ongoing refurbishment of Tungatinah and improvements at Meadowbank Dam are key achievements. A comprehensive capital program is in place for FY2013/14 as part of our rolling ten-year asset management plan.

As a result of external factors such as legislative changes and a softer outlook for energy demand, the value of our total assets at the end of FY2012/13 dropped to $5.1 billion. However, the BBB credit rating achieved last year was maintained. Hydro Tasmania's debt at 30 June 2013 was $866 million. Excluding debt associated with Aurora Energy's gas operations, which was transferred to Hydro Tasmania on 1 June 2013, this amounted to a core debt of $661 million, which is the lowest debt level since the business entered the NEM in 2005.

Community

We continued our focus on improving the way we communicate with our stakeholders and the Tasmanian community in particular.

Open and transparent consultation was a key focus of the TasWind project on King Island this year. TasWind was formally announced in November 2012.

Hydro Tasmania undertook extensive consultation with the King Island community over a six-month period because we wanted to ensure the community was well informed about what was being proposed prior to being asked to support a feasibility study for the project. Following a survey of the community in June 2013 that showed majority support, a staged feasibility process is now under way with the business committing to measuring community support once again after the feasibility study.

Another notable success during the year was our Community Initiative. This program has only been going for a year but already is making its mark.

A program highlight has been the success of the employee volunteering program which saw more than 20 per cent of our staff in Tasmania helping grassroots organisations deliver services across the community. These included providing professional expertise to not-for-profit organisations, mentoring people experiencing disadvantage, assisting in the Bushfire Recovery program, working as volunteer fire-fighters and ambulance officers and helping Housing Tasmania tenants reduce their electricity bills.

This work was highly commended at the 2013 Hobart City Council Volunteer Recognition Awards.

Environment

As part of our ongoing commitment to a sustainable environment, we completed a unique and innovative program to rehabilitate a degraded environment at one of our water assets. Lagoon of Islands was dammed in 1964 to provide water for downstream irrigators. After further construction in the area in the 1980s, it soon became apparent the storage had significant and ongoing water quality problems.

A number of remedial actions failed to provide a real solution, so the business undertook a major project to decommission the dam and rehabilitate the lagoon to its natural state. Decommissioning was completed in April 2013 with the removal of the dam infrastructure and the implementation of a native vegetation replanting program. Recent monitoring has shown the restoration is working and water quality is improving.

Another significant milestone during the year was achieved by the King Island Renewable Energy Integration Project (KIREIP) in June 2013. Diesel generators were turned off and the King Island grid ran on 100 per cent renewable energy for sustained periods. The ultimate aim of the project is to reduce the cost of providing power on the island but the technology also has potential application internationally in the area of remote and off-grid renewable energy supply.

People

Our people continue to demonstrate a high level of professionalism and diligence in all that they do. Despite the challenges of the year, staff engagement remains very high and above the benchmark for high-performing organisations.

One area of concern is that six lost time injuries were recorded during the year. This constitutes a significant challenge to the business if we are to build the type of culture at Hydro Tasmania that reflects our commitment to making safety our top priority. The business will continue to focus on improving safety performance in the coming year.

Centenary 2014

In conclusion it is timely to note that as we prepare ourselves for another challenging year, we will be celebrating the centenary of Tasmanian Government hydro development in October 2014. This will be an opportunity to recognise the people who have built the business over the last 100 years and the strong connection between our story and that of the State's development and the Tasmanian community itself. It will also be an opportunity to look to the future and the opportunities that lie ahead for Tasmania, the nation's renewable energy powerhouse.

We have begun planning a number of events and initiatives to recognise this connection and to provide the many Tasmanians who are part of the Hydro, either through employment or family, with an opportunity to tell their story and recognise this important milestone in Tasmania's history.

Stephen Davy was appointed Acting CEO of Hydro Tasmania on 1 July 2013, following the departure of Roy Adair. Mr Davy was appointed CEO on 5 September 2013.

"We continued our focus on improving the way we communicate with our stakeholders and the Tasmanian community in particular"

Independent assurance statement

AA1000
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000-1

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To the Board and Management of Hydro Tasmania:

Hydro Tasmania commissioned Net Balance Management Group Pty Ltd (Net Balance) to provide independent assurance over the sustainability content of the 2013 Annual Report (the Report). The Report presents Hydro Tasmania's sustainability performance over the period 1 July 2012 to 30 June 2013. Hydro Tasmania was responsible for the preparation of the Report and this statement presents our opinion as independent assurance providers. Net Balance's responsibility in performing its assurance activities is to the Board and Management of Hydro Tasmania in accordance with the terms of reference agreed with them. Other stakeholders should perform their own due diligence before taking any action as a result of this statement.

Assurance Standard and Objectives

The assurance engagement was undertaken in accordance with AccountAbility's AA1000 (2008) Assurance Standard (AA1000AS). This standard allows for the evaluation of whether an organisation is responsible for its management, performance and reporting on sustainability issues.

This was undertaken by evaluating the organisation's adherence to the AA1000 AccountAbility Principles (2008) of:

Inclusivity: How does the organisation include stakeholders in developing and achieving an accountable and strategic response to corporate responsibility and sustainability?

Materiality: How does the organisation include in its reporting the material (most important) information required by its stakeholders to make informed judgements, decisions and actions?

Responsiveness: How does the organisation respond to stakeholder concerns, policies and relevant standards and adequately communicate these in its reporting?

Assurance of the accuracy and quality of selected sustainability performance information was guided by the Australian Standard on Assurance Engagements ASAE3000 Assurance Engagements other than Audits or Review of Historical Financial Information (ASAE3000) issued by the Australian Auditing and Assurance Standards Board.

Assurance Type, Level, Scope and Limitations

Net Balance provided Type 2 moderate level of assurance in accordance with the AA1000AS. The review of adherence to the Principles was undertaken using the criteria outlined in the AA1000 Assurance Principles Standard (2008), while assessment of the accuracy and quality of selected sustainability performance information was guided by the ASAE3000. A third-party level check of the Report against the Global Reporting Initiative (GRI) G3.1 Guidelines was also provided. The material issues that were the focus of this engagement and the criteria used during the assurance process included:

Table 2: Performance information selected for assurance (2013 data only)

Topic	Assessment criteria	Report reference
Health, safety and wellbeing	GRI Indicators LA7, LA8. Australian Standard AS 1885.	Annual report p. 75, 79 and GRI Table
Employee attraction & retention	GRI Indicators: LA1, LA2, LA15, EU14.	Annual report p. 75, 76 and GRI Table
Environmental performance	GRI Indicator: EN14, EU6.	Annual report p. 52, 54 and GRI Table
Scope 1 & Scope 2 greenhouse gas emissions	GRI Indicators: EN3, EN4, EN16, National Greenhouse and Energy Reporting (Measurement) Determination 2008 (as amended)	Annual report p. 62 and GRI Table
Customer satisfaction	AA1000 Principles of Inclusivity and Responsiveness	Annual report p. 41, 47
Community investment & engagement	GRI Indicator: EC1, SO1.	Annual report p. 66, 68
Compliance	GRI Indicators: SO8, EN28.	GRI Table[1]

[1] Available on our website.

The assurance scope excluded the following:

- The scope of work did not involve assurance of financial data, other than that relating to environmental, social or broader economic performance where applicable.
- The Hydro Tasmania head office in Hobart, the Entura head office in Cambridge and the Momentum Energy head office in Melbourne were visited as part of this assurance engagement with any non-head office data being reviewed remotely.

Assurance Methodology

The assurance engagement was undertaken from July to September 2013, and involved:

- Interviews with management personnel including the Hydro Tasmania acting CEO, the Entura MD, the Momentum MD and managers responsible for oversight of strategic planning, safety, human resources, environment, community, customer and sustainability performance.
- A review of the materiality process and stakeholder engagement activities undertaken by Hydro Tasmania during the reporting period and how this informs the sustainability strategies, policies, objectives, management systems, reporting procedures and performance of the organisation.
- Interviews with key personnel responsible for collating and writing various parts of the Report to substantiate the reliability of selected claims.
- A review of the content for any significant omissions and anomalies, particularly in relation to claims as well as trends in data.
- Testing of a limited sample of selected data points and statements and the systems and processes that support the information reported.
- A Global Reporting Initiative (GRI) G3.1 application level assessment.

Our Independence

Net Balance was not responsible for preparing any part of the Report. Net Balance had no other involvement with Hydro Tasmania on any other engagement during the reporting period. Net Balance confirms that we are not aware of any other issue that could impair our objectivity in relation to this assurance engagement. A copy of our Independence Policy is available at http://www.netbalance.com/services/assurance.

Our Competency

The Hydro Tasmania assurance engagement was carried out by an experienced team of professionals led by a Lead Sustainability Assurance Practitioner (Lead CSAP), accredited by AccountAbility in the UK. The project included personnel with expertise in environmental, social and economic performance measurement across a range of industry sectors. Net Balance is a global leader in the use of AccountAbility's AA1000AS, having undertaken over 200 assurance engagements in Australia in the past six years. The project team also has demonstrated experience in the application of the ASAE3000.

Findings and Conclusions

Adherence to AA1000 Principles

Inclusivity:

Hydro Tasmania was found to have a wide variety of well-established mechanisms that assist the business to engage with its stakeholders. During the assurance engagement, Net Balance focused its review of stakeholder engagement practices in the areas of customers, the community and employees. In the area of customers, it was found that both Entura and Momentum had established systems in place to proactively engage with their customers. Both businesses actively undertake customer engagement and satisfaction surveys to assess their performance and delivery of services. With regard to the community, a review of Hydro Tasmania's approach to public safety found that the business is engaging with a wide variety of stakeholders on asset safety and crisis management. With regard to employee engagement, the business ran a number of staff workshops to drive engagement and to allow for strategic input into the business.

Materiality:

Hydro Tasmania has a well-established and documented process in place to help the business identify its material sustainability issues for reporting. This process was improved this year through the incorporation of additional sources of stakeholder feedback in the areas of government engagement, customer surveys, risk management plans, and staff strategy workshop results. These improvements have led to a more comprehensive review of stakeholder based materiality. The material issues prioritised through this process were found to be clearly linked to the business' long term sustainability indicators and targets. The report was found to disclose performance information that was reflective of the outcomes of the materiality assessment.

Responsiveness:

Net Balance tested Hydro Tasmania's responsiveness to the management of the selected material sustainability issues through a series of interviews with management, the review of management systems and supporting documentation.

It was noted that the business responded to the recommendations from the previous assurance engagement. This response included the consideration of additional stakeholder feedback sources in the materiality process. It was also noted that Entura had continued to improve the application of formalised assessments of external business partners against the Sustainability Code.

The business was found to be actively managing and responding to issues that included industry reform, the impacts of the carbon price and renewable energy targets, energy affordability, community engagement on large scale projects, infrastructure safety and workplace agreement negotiations. The assurance process identified that the business was engaged on both the challenges and opportunities associated with each of these issues. It was also found that there were formal approaches in place to help the business to respond in each of these areas.

Reliability of Performance Information

Based on the scope of the assurance process, the following was observed with regard to performance information:

- The findings of the assurance engagement provide confidence in the systems and processes used for managing and reporting sustainability performance information included in the scope of this assurance engagement.
- The level of accuracy of sustainability performance information was found to be acceptable.
- Data trails selected were identifiable and traceable, and the personnel responsible were able to reliably demonstrate the origin and interpretation of data.
- The GRI application level check found that the reporting was classified as A+ in accordance with the GRI 3.1.

Based on our assurance procedures, nothing has come to our attention that causes us to conclude that the selected sustainability performance information has not been prepared, in all material respects, in accordance with the criteria as presented in Table 2.

The Way Forward

Overall, it is Net Balance's opinion that nothing came to our attention to indicate that the Report was not a fair representation of Hydro Tasmania's environmental, social and economic performance during the reporting period. To ensure Hydro Tasmania continues to improve, Net Balance has identified the following recommendations for the AA1000AS component of the assurance engagement. These and other areas are discussed in more detail in Net Balance's report to Hydro Tasmania's Board and Management.

A summary of these recommendations include:

- Further improvement in the materiality assessment process to incorporate customer and supplier feedback. Tailoring the materiality assessment to better reflect issues in each part of Hydro Tasmania's, Entura's and Momentum's value chain is also recommended.
- Further alignment of existing stakeholder engagement practices to assist with the identification of material sustainability risks and opportunities.
- Development of clear and documented criteria for reporting and the disclosure of sustainability performance indicators.
- Consideration of how the new Global Reporting Initiative G4 guidelines apply to reporting practices and performance indicators.

On behalf of the assurance team
30 September 2013

Kirsten Simpson

Associate Director & Lead CSAP (AccountAbility UK)

Net Balance, Melbourne

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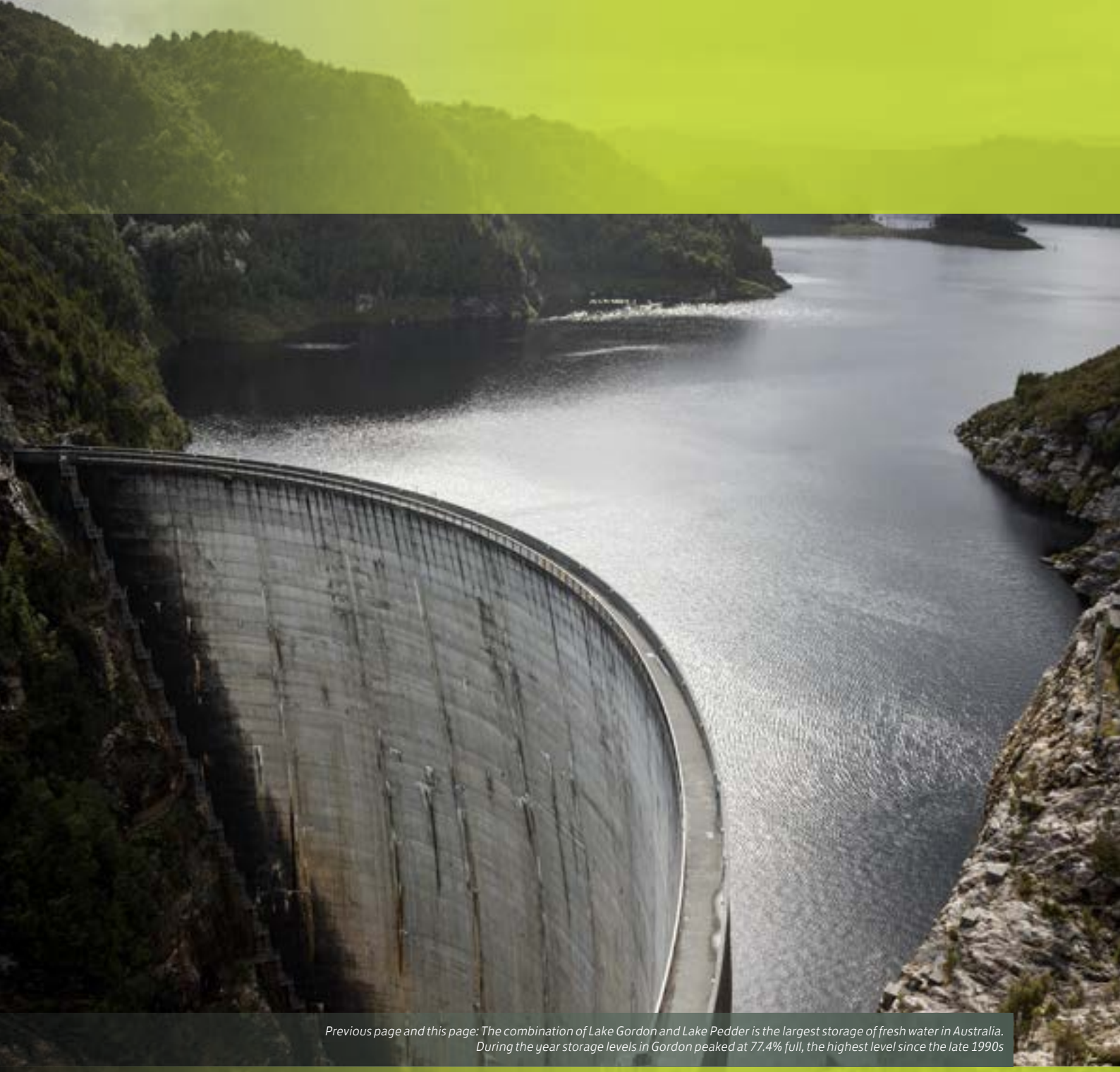
Economic



Previous page and this page: The combination of Lake Gordon and Lake Pedder is the largest storage of fresh water in Australia. During the year storage levels in Gordon peaked at 77.4% full, the highest level since the late 1990s

Implications of the price of carbon

The introduction of a price on carbon on 1 July 2012 has allowed Hydro Tasmania to realise the benefits of past investment in renewable energy.

Hydro Tasmania is the lowest carbon intensity electricity generation and retail business in the NEM. This provides a unique competitive advantage that we are using to attract and retain customers. Through Momentum Energy, Hydro Tasmania uses this advantage to return value to the business over the longer term.

Ahead of the introduction of a carbon price, our strategy was to build up our storages to enable us to take full advantage of the fixed-price carbon period. This has provided us with the opportunity to maximise value during the fixed-price period while prudently managing our water resources.

We are now generating from the additional water stored and receiving the carbon price uplift, with storages expected to return to normal levels over the next few years. Our strategy was always cognisant that the fixed carbon price would be available for a finite period.

Since the introduction of a price on carbon, Hydro Tasmania has exported 2040 GWh of energy across Basslink.

Of the $238 million profit for FY2012/13, $140 million is attributable to the combination of the carbon price and increased generation during the fixed carbon price period.

Long-term Sustainability Indicators (LSI)

Sustainability code principle	Indicator	Target FY2016/17	Performance in FY2012/13	Expectations/plans for the future
Long-term business value We make sound commercial and investment decisions in our chosen markets, to deliver long-term business value and meet shareholder expectations.	Shareholder equity	Grow shareholder equity to target by 2017 from $2.01b in 2011.	Shareholder equity as at 30 June 2013 was $1.81b. Positive earnings in FY2012/13 were offset by impairments of the AETV assets (transferred to Hydro Tasmania on 1 June 2013) and Hydro Tasmania's generation assets, and the receipt of $205m of AETV-related debt, resulting in a reduction in net equity.	Hydro Tasmania is able to achieve this target dependent upon the outcome of the capital structure review of Tasmanian Government-owned energy businesses that is scheduled to occur in FY2013/14.
	Credit rating	Maintain BBB financial strength.	Achieved BBB financial strength in FY2012/13[1], three years ahead of target.	Hydro Tasmania's financial strategy remains focused on the goal of maintaining BBB financial strength in order to be a sustainable business and to provide strong and reliable returns to Government. The achievement of this target is also dependent upon the outcome of the capital structure review of Tasmanian Government-owned energy businesses that is scheduled to occur in FY2013/14.
	Total returns to Government	Deliver targeted returns to Government over FY2012/13–FY2016/17.	Returns to Government for FY2012/13 were $125.6m.	Forecast returns to Government have fallen as the energy and carbon price outlooks have softened. However Hydro Tasmania still expects to make a significant contribution to the Tasmanian Government over FY2012/13–FY2016/17. Momentum Energy will drive Hydro Tasmania's profitability in the later years of this period. Projected returns to Government for FY2013/14 are $263m.

[1] As assessed by Tasmanian Public Finance Corporation (TASCORP).

Sustainability code principle	Indicator	Target FY2016/17	Performance in FY2012/13	Expectations/plans for the future
Low cost provider of supply We leverage our low-carbon generation and competitive customer focus to create value for our shareholders, the people of Tasmania.	Base operating expenses	Reduce base operating expenses to budget target[2].	Base operating expenses for FY2012/13 were $125.4m, which equates to $119.4m in real terms or $11.60 per megawatt hour of generation.	Progressing as expected with the aim to reduce operating expenses in real terms.
	Cost-competitive supply to back retail load growth	Ensure cost-competitive supply to back sales growth.	In FY2012/13 sales growth was backed using wholesale financial products and options. Together with existing generation capacity this enabled us to meet our sales targets.	In order to facilitate continued profitable retail growth, Hydro Tasmania must secure access to cost-competitive sources of electricity and LGCs through a combination of wholesale financial contracts and access to physical generation. While not yet profitable, AETV further diversifies Hydro Tasmania's fuel sources and generation technology, and provides us with access to gas generation output in a mainland NEM region.

[2] Base operating expenses is all Hydro Tasmania group operating expenses excluding AETV-related expenses, transmission charges, NEM and Basslink expenses, operating costs of Entura, Momentum Energy and Bass Strait islands, and the provision of services to wind investments.

Hydro Tasmania's economic outlook over coming years is one of great contrast. The FY2012/13 and FY2013/14 financial years will see Hydro Tasmania enjoy unprecedented financial success, supported by the fixed carbon price. However the outlook for later years is particularly challenging, with current levels of profitability not expected to last.

The nature of Hydro Tasmania's business means that there will be fluctuations in profitability driven primarily by exposure to the risks inherent in the small Tasmanian market, uncertain rainfall, changes in government policy and the risks associated with being a merchant participant in the National Electricity Market (NEM).

Hydro Tasmania's strategy is designed to minimise the impact of these sources of volatility on our financial performance and returns to Government. Hydro Tasmania has undertaken substantial efforts to increase the profitability and sustainability of the business in recent years to improve its resilience to changes in the operating environment, including diversifying revenue streams, reducing exposure to the wholesale market through growth in retail sales and seeking to systematically reduce our operating cost base.

The foundation of Hydro Tasmania is the generation and trading of wholesale electricity and environmental energy products. We also retail electricity and gas to small and medium businesses and commercial industrial customers in the NEM. Hydro, gas and wind generation provide energy to back wholesale and retail sales, and retail activity provides a diversified source of revenue outside Tasmania.

Financial results

Hydro Tasmania's natural competitive advantage in a carbon-constrained economy, combined with our well-executed strategy, has provided the opportunity to achieve a considerable uplift in returns for our ultimate owners—the people of Tasmania—in FY2012/13 and FY2013/14.

Hydro Tasmania delivered a record operating profit before fair value and impairment charges of $238 million in FY2012/13, more than double the previous record, and the third consecutive year in which we have generated an operating profit in excess of $100 million. Supported by the fixed carbon price, FY2013/14 is expected to produce a similar result with a forecast profit of $223.3 million, and forecast returns to the State Budget of $264.5 million[2].

Total returns to Government for FY2012/13 totalled $125.6 million, an increase of $9.7 million from FY2011/12. Included in the total returns to Government was a dividend payment of $50.7 million.

During FY2012/13, Hydro Tasmania continued construction of the Musselroe Wind Farm. Part of the way through construction, in February 2013, Hydro Tasmania completed a transaction to project finance the project, and sell it to the Woolnorth Wind Farm joint venture, while continuing to act as engineering, procurement and construction (EPC) contractor for the project. The total value of the EPC contract is approximately $350 million. Hydro Tasmania retains a 25 per cent interest in the Musselroe Wind Farm though the Woolnorth joint venture.

Operating cash flows rose significantly in FY2012/13, more than doubling to $262 million (from $107 million in FY2011/12). As with the net profit, this was predominantly driven by an increase in power prices resulting from the fixed carbon price, and increased generation. Capital expenditures in FY2012/13, excluding Musselroe construction, were $136.8 million, 90 per cent higher than in FY2011/12 ($71.6 million, excluding Musselroe), as a result of increased expenditure on power station modernisation and ongoing expenditure on implementation of financial and operating information technology systems. As a result of the large increase in operating cash flows, free cash flows for the business increased significantly in FY2012/13, rising to $120 million from a negative result in FY2011/12.

As a result of an impairment of Hydro Tasmania's generation assets—due mostly to amendments to the Clean Energy Legislation, and a softer outlook for energy demand—total assets at the end of FY2012/13 were $5.1 billion, down from $5.8 billion in FY2011/12.

The BBB credit rating achieved last year was maintained in FY2012/13, supported by strong cash flows and prudent debt management, which reduced core debt to $661 million at 30 June 2013, excluding debt acquired with AETV, the lowest level of debt since Hydro Tasmania entered the NEM.

With the transfer of the AETV gas operations to Hydro Tasmania on 1 June 2013 we are now responsible for the management of gas supply to gas-fired power stations at Tamar Valley and Bairnsdale (Victoria).

Table 3: Financial results

Year ending 30 June:	2009 $m	2010 $m	2011 $m	2012 $m	2013 $m
Profit before fair value, impairment and tax	38.1	72.9	100.0	103.4	237.7
Profit/(loss) before tax	417.9	332.1	216.4	17.8[a]	(248.5)[a]
Cash flow from operating activities	43.8	178.0	160.8	107.3	261.5
Net debt	904	863	964[b]	857	866
Weighted average cost of debt	6.62%	6.98%	7.18%	7.08%	6.88%
Capital expenditure	81.2	95.5	64.3	186.1	164.0
Other expansion and acquisitions	17.8	34.5	0	114.4	0
Total assets	5213	5129	5507	5805	5123

[a] Profit before tax in 2012 and 2013 have been adversely impacted by movements in the fair value of energy derivatives, and in 2013, by the impairment of generation assets. For further information refer to note 3 to the financial report.

[b] 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.

Table 4: Cash returns to Government

	2009 $ m	2010 $ m	2011 $ m	2012 $m	2013 $m
Government guarantee fee	4.5	4.9	6.6	8.7	8.6
Income tax equivalent	0	0	16.2	54.8	52.8
Ordinary dividend	0	5.3	25.5	49.0	50.7
Special dividend	0	0	0	0	0
Rates equivalent	2.8	3.01	3.3	3.5	3.6
Total returns	7.3	13.3	51.7	116.0[1]	115.7

[1] Excluding stamp duty of $9.9 million.

[2] Dividend and tax payments relate to the previous year's results.

Mal Bransden, Tony Cliffo and Marcus Greenwood in the Tamar Valley Power Station control room

In addition, Hydro Tasmania manages gas supply to a number of wholesale customers in both Tasmania and Victoria and trades gas in the Victorian Declared Wholesale Gas Market. Hydro Tasmania is actively exploring a range of opportunities to maximise the value of the gas portfolio transferred from AETV. We will be establishing a gas retailing business within Momentum Energy to provide additional options for selling gas to customers on the mainland.

The outlook for Hydro Tasmania appears challenging. Subdued demand growth forecasts are likely to result in relatively flat energy price projections. In addition, the outlook for carbon pricing has moderated significantly following the Australian Government's removal of the carbon price floor for FY2015/16 and FY2016/17, and ongoing uncertainty regarding the status of the fixed carbon price in FY2014/15. Hydro Tasmania's forecast financial performance will also be affected by changes to wholesale pricing regulation and the transfer of the AETV assets, stemming from the Tasmanian Electricity Supply Industry reforms.

Electricity prices

Despite a lack of growth in wholesale electricity prices, end prices to electricity customers across the NEM have risen in recent years as a result of increasing network costs, high wholesale energy cost allowances in regulated tariffs, the impact of the price on carbon, and, to a lesser extent, the renewable energy target. In an effort to drive efficiencies in the retail sector that may act to reduce further price increases, the Tasmanian Government is transitioning to full retail competition for all households and small businesses. As part of the reforms, the price Hydro Tasmania receives from Tasmanian small customers will also be linked to Victorian market prices. Based on current market prices, this change is forecast to significantly reduce the price that we receive on this portion of our load.

We continue to focus on operating the business with the lowest sustainable cost base. This will position Hydro Tasmania to compete effectively in the market, assist in mitigating the financial stresses of the challenging outlook and further assist in achieving the Government's objective for the lowest sustainable electricity bills for Tasmanians.

Wind generation and development

Musselroe Wind Farm

During FY2012/13, the joint venture between Hydro Tasmania and leading Chinese renewable energy business Shenhua Clean Energy Holdings Pty Ltd (SCE) was extended to include the $394 million Musselroe Wind Farm in north-east Tasmania. The joint venture extended the existing arrangements between Hydro Tasmania and SCE that involve the joint ownership of the Woolnorth wind farms (Bluff Point and Studland Bay) in north-west Tasmania.

SCE has taken a 75 per cent share in the 168 MW Musselroe Wind Farm and Hydro Tasmania retains the remaining 25 per cent share. SCE paid $89 million for the share. The Share Subscription and Sale Deed was signed by the Hydro Tasmania CEO and witnessed by the Tasmanian Premier in Beijing on 12 September 2012. The transaction reached financial close on 5 February 2013.

Hydro Tasmania was acknowledged by industry peers for the community engagement aspect of the Musselroe project, winning the Clean Energy Council's Community Engagement Award in July 2013 (read more on page 71).

The Musselroe Wind Farm began generating into the Tasmanian grid at the end of April 2013. It continues to provide economic benefit to the north-east of the State through job creation and flow-on effects to local communities.

TasWind

Hydro Tasmania is also assessing TasWind, a concept for a wind farm in suitable areas of King Island and a high-voltage underwater cable across Bass Strait to connect the wind farm to the NEM. A pre-feasibility study of the TasWind concept during 2012 and 2013 included intensive community engagement culminating in a community survey to measure support for proceeding to feasibility in June 2013. Fifty-nine per cent of respondents indicated support for a feasibility study on the TasWind project.

Signing ceremony in Hobart to establish joint ownership, management and operation of the Musselroe Wind Farm between Hydro Tasmania and Shenhua Clean Energy Holdings

Hydro Tasmania's Board unanimously decided that the feasibility study should proceed, but in a careful manner that is sensitive to the concerns of the community. From our consultation process we understand that the principal concern of the community is the visual impact of the wind farm, closely followed by noise and health impact concerns. Consequently, the first stage of the feasibility process will focus on these specific areas rather than on a broad front of activities.

Bluff Point and Studland Bay Wind Farms

The Bluff Point and Studland Bay Wind Farms continue to provide positive benefits to Tasmania and the environment by producing (in 2012) 459 GWh of renewable energy, enough to supply electricity to 65 000 average households and abating approximately 600 000 tonnes of carbon dioxide. For the period 2010–2012 the wind farms have produced 1378 GWh of energy, displacing 1.8 million tonnes of carbon dioxide (that would have been produced by other forms of electricity generation).

Other opportunities

In April 2013 Hydro Tasmania and the Shenhua Group signed a strategic cooperation agreement that will guide the two businesses as they work on plans to develop, build and operate 700 MW of wind farms (in addition to the Musselroe and Woolnorth Wind Farms) in Australia by 2020, with a total estimated investment of $1.6 billion.

This strategic agreement builds upon the excellent relationship that has developed between Hydro Tasmania and Shenhua over the past few years, with respect to Australian wind farm development.

Hydro Tasmania continues to independently investigate and assess wind farm development opportunities across Australia.

Governance

*Previous page and this page: my**sap** will provide consistent and reliable data, reduce duplication of effort and manual data work and provide more time for analysis to support decision-making*

mysap

Improving systems, processes and efficiency across the Hydro Tasmania Group

The need to improve Hydro Tasmania's core business processes was identified in 2010 when existing information technology systems were found to be outdated. The unacceptable level of risk posed by the outdated systems and the challenges for meeting strategic objectives prompted us to implement an Enterprise Resource Planning system using SAP software. The business drivers for the change were to mitigate operational and compliance risks associated with fragmented business processes and systems. The change will establish consistent systems, processes and skills to support Hydro Tasmania's vision for the future.

The new SAP system and processes are known throughout the Hydro Tasmania group as 'my**sap**' and apply to the business areas of finance, human resources, payroll, procurement and supply chain, assets, projects, governance, risk and compliance. Benefits from the application of my**sap** are expected to flow from system and process efficiencies and reduced and avoided costs from integration across the Hydro Tasmania group. Building and testing my**sap** began in the 2012/13 financial year and the first stage was released on 1 July 2013 on time and on budget. The complete my**sap** is expected to be implemented by early 2014.

Long-term Sustainability Indicators (LSI)

Sustainability code principle	Indicator	Target FY2016/17	Performance in FY2012/13	Expectations/plans for the future
Risk/Governance processes We make our decisions within comprehensive governance and risk management frameworks while seeking to continually improve our business processes.	Risk exposure	Operational and strategic risks are assessed against the business's risk management frameworks and reviewed on a regular basis.	Hydro Tasmania's risk register has been continually updated during FY2012/13 in alignment with the Integrated Business Risk Management (IBRM) framework. Risk register reports have been presented to Hydro Tasmania's Executive Leadership Team on several occasions and to each Business Risk Committee meeting. Furthermore, Hydro Tasmania's risk appetite statement has been developed.	A review of the IBRM framework is being undertaken and is expected to be implemented by the end of 2013.
Compliance We make ethical decisions by applying our values, sustainability principles and code of ethics, complying with relevant legislation and delivering on our commitments.	Compliance risk	Compliance risk minimised in accordance with our compliance standard which outlines Hydro Tasmania's compliance program.	Recommendations arising from a review of our compliance regulatory framework have been mapped into a management-approved action plan with periodic progress reports to the Audit Committee. Completed actions are helping to further embed compliance across the business. We are preparing to transition to our new compliance software system as part of our broader business-wide process improvement project (my**sap**).	The new compliance framework will be completed in the second half of 2013, and we will commence operation of our new compliance software system to enable fuller embedding of compliance across our business.

Hydro Tasmania's corporate governance is strongly supported by our Sustainability Code, Code of Ethics, policy framework, Assurance Policy, and by the Guidelines for Tasmanian Government Businesses Corporate Governance Principles, issued under the GBE Act.

Electricity industry reforms

The Tasmanian Government initiated a reform of the Tasmanian electricity supply industry following the 2012 review of the industry by the Tasmanian Electricity Supply Industry Expert Panel. This reform will have a material impact on Hydro Tasmania's business.

The key aims of the Government's reforms are to introduce choice in electricity retailing for all customers and to simplify and increase the efficiency of the portfolio of electricity businesses owned by the Government. The four policy objectives that underpin the electricity reform package are:

1. lowest sustainable electricity bills
2. long-term safe, secure and reliable supplies of electricity
3. maximise the value of Tasmania's low carbon advantage and the brand benefits of clean Tasmanian electricity
4. financially viable State-owned electricity businesses that run efficiently and effectively and maximise the overall economic benefit to Tasmania.

Hydro Tasmania is supportive of these policy objectives and over the reporting year we have been working closely with the Government to help facilitate the implementation of the reforms.

The electricity reforms have broad-ranging implications for the Hydro Tasmania business. The following key features of the reform package will have direct impacts on Hydro Tasmania:

- the introduction of full retail competition
- independent regulation of Hydro Tasmania's wholesale contract market activities by the Tasmanian Economic Regulator
- the transfer of Aurora Energy Tamar Valley Pty Ltd (including the TVPS) and Aurora's mainland gas and electricity business to Hydro Tasmania on 1 June 2013.

Wholesale contract market price regulation and full retail competition

The introduction of wholesale price regulation and full retail competition will require Hydro Tasmania to offer contracts to retailers under a regulated framework. This framework will also allow opportunities for unregulated bilateral contracting should parties choose. The wholesale regulation framework and methodology has been developed by the Department of Treasury and Finance in conjunction with external expert consultants and appropriate input from Hydro Tasmania.

Shareholder engagement

Appropriate and positive shareholder engagement remains vital to the successful operation of the Hydro Tasmania business. Over FY2012/13 substantial interaction has focused on the energy reform process (see previous page).

The State Government's focus on governance arrangements has also continued from FY2011/12. Hydro Tasmania's Ministerial Charter has been updated to ensure consistency with the Government's *Principles for Strengthening the Oversight and Governance of Government Businesses* and reflects changes as a result of the Tasmanian energy reforms.

Hydro Tasmania's Helen Locher, Principal Consultant Sustainability, at the International Hydropower Association's World Congress in May 2013

Technology and systems

The workforce of the Hydro Tasmania group is increasingly mobile and collaborative and benefits from increased use of cloud services and the devices that access them, such as iPads and smart phones. Alongside this greater flexibility and potentially lower cost are risks around placing significant amounts of business-sensitive information in the hands of an external third party. We are addressing these risks through development of a framework for security and usability based on Australian Government and other best-practice frameworks. As scenarios arise that require cloud services or mobile devices they will be reviewed relative to the framework, including factors such as work-life balance.

The my**sap** project addresses systems in the core corporate environment, however there is a separate critical operational technology infrastructure for power station control, data gathering, historical data management, power and gas trading as well as other operational functions. These systems which can affect and monitor the real world are needed not only for good decision-making but are also core to the production of electricity. A major review is currently underway to develop a strategy to ensure the systems continue to operate in an efficient and cost-effective manner.

Enhancing our compliance framework

In 2012, Hydro Tasmania sought an external review of our compliance framework. The review, which concluded in October 2012, identified that the framework was generally consistent with the Australian Standard, but also identified opportunities to improve the framework such as the development of business unit compliance plans and internal forums.

As a result of the review, we have developed an action plan which is currently being implemented. Part of the action plan is integrating compliance processes with Hydro Tasmania's new end-to-end system (my**sap**). Existing compliance data have been prepared and migrated to the new system to ensure more robust processes, for example incident and breach reporting processes. The aim of this work is to increase alignment between risk and compliance, improve internal processes and reduce duplication where possible. It also helps further embed compliance across the business.

Welcoming employees of the Tamar Valley Power Station to Hydro Tasmania

Transfer of wholesale and generation assets

A key part of the Tasmanian Government's energy reform process, the transfer of Aurora Energy's wholesale and generation assets, has represented a significant undertaking for our business.

The process has required extensive legal, regulatory, human resources, technical and organisational effort. On 1 June 2013 that effort was rewarded with the smooth transfer of the majority of the assets including the TVPS and its employees. Some additional assets will be transferred in the new financial year.

The TVPS employs 32 people who live and work across the Tamar Valley region of northern Tasmania, and who are now part of the broader Hydro Tasmania workforce.

We continue to work on integration of the TVPS and associated assets with the existing business in order to ensure we are able to realise the potential benefits of the transfer from an overall portfolio perspective. One option being explored is the sale of gas to retail customers in Victoria through Momentum Energy.

Upon the transfer of the TVPS and associated assets, Hydro Tasmania recorded a $335 million impairment. Hydro Tasmania has also assumed a debt position of $205 million as a result of the transfer. The Government has committed to reviewing capital structure in FY2013/14 to assess the sustainability of Hydro Tasmania's balance sheet. This may result in an equity injection to retire a portion of debt.

The Board

The Hydro Tasmania Board. Standing: Tessa Jakszewicz, Grant Every-Burns. Seated: Stan Kalinko, David Crean, Janine Healey and Saul Eslake. Absent: Roy Adair

David Crean – Director

David Crean was appointed a director of the Hydro-Electric Corporation on 12 July 2004 and Chair on 27 September 2004. Dr Crean was Treasurer of the State of Tasmania from August 1998 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 to 1998 he held Shadow Portfolios of State Development, Public Sector Management, Finance and Treasury. Prior to 1993 he was in private medical practice for 10 years. He holds Bachelor of Medicine and Bachelor of Surgery degrees from Monash University.

Roy Adair – Director

Roy Adair was appointed as CEO, and to the Board, of Hydro Tasmania on 21 June 2010. Mr Adair left Hydro Tasmania on 30 June 2013. Prior to his appointment he had been Chief Executive of Senoko Power, Singapore's largest electricity generator and retailer for six years and led the transformation of that business. A graduate economist and qualified accountant, he has extensive international experience in running electricity businesses in merchant risk environments. A former Director with Coopers & Lybrand, he was actively involved in the liberalisation of the United Kingdom electricity supply industry from where he joined PowerGen, one of the two major British generators. He held a number of senior management positions with PowerGen, including Managing Director of PowerGen Renewables, and became Chief Executive of Yallourn Energy in 1996 following the successful acquisition of this Australian energy company by the PowerGen-led consortium.

Saul Eslake – Director

Saul Eslake was appointed to the Hydro Tasmania Board on 19 March 2008. Mr Eslake is the Chief Economist at the Bank of America Merrill Lynch Australia. Prior to taking up this role he was a Program Director at the Grattan Institute. He was previously Chief Economist of Australia & New Zealand Banking Group (ANZ) for 14 years to July 2009. Mr Eslake is a member of the Australian Government's National Housing Supply Council. Mr Eslake was formerly the Chair of the Tasmanian Arts Advisory Board. He holds an Honours degree in Economics from the University of Tasmania, a Graduate Diploma in Applied Finance and Investment, and has completed the Senior Executive Program at the Columbia University Graduate School of Business in New York. Mr Eslake is a Senior Fellow of the Financial Services Institute of Australia and a member of the Australian Institute of Company Directors.

Grant Every-Burns – Director

Grant Every-Burns was appointed to the Board of Hydro Tasmania on 27 August 2012. Mr Every-Burns brings more than 40 years of experience in the operation and maintenance of large power generation facilities. From 1996 to 2011 he was Chief Executive and Managing Director of Macquarie Generation, the nation's largest producer of electricity in that period. He has previously held directorships of the National Safety Council of Australia and the Energy Association of Australia. Mr Every-Burns holds an Honours degree in Electrical Engineering and is a fellow of the Australian Institute of Company Directors.

Janine Healey – Director

Ms Healey was appointed to the Board on 9 September 2002. Currently a Chartered Accountant with Ruddicks (Launceston, Tasmania), Ms Healey has wide-ranging commercial experience, particularly in the areas of commercial taxation advice, business structures, planning and cash flow management. Ms Healey has a strong history of community and commercial involvement in Tasmania which includes serving as the President of the Launceston Chamber of Commerce, State Divisional Council of the Australian Institute of Company Directors, Treasurer of Harvest Launceston, University of Tasmania Council Audit and Finance Committee (including a term as Chair), Director of the Female Factory Historic Site in Hobart and Director and Chair of the Audit Committee of the Port of Launceston Pty Ltd. Janine was appointed as a Board member of the Tasmanian Electronic Commerce Centre Pty Ltd (a joint venture between the Government of Tasmania and the University of Tasmania) during December 2006 (resigned July 2012). She is a Chartered Tax Advisor, a member of the Australian Institute of Company Directors and a Fellow of the Institute of Chartered Accountants.

Tessa Jakszewicz – Director

Tessa Jakszewicz was appointed to the Board of Hydro Tasmania on 27 August 2012. Ms Jakszewicz is CEO of Landcare Australia Limited, an organisation which promotes the care of our natural environment by community groups. In this capacity she plays a lead role in promoting the Landcare brand and developing corporate partnerships. Prior to this she was Deputy CEO at the Antarctic Climate and Ecosystems Cooperative Research Centre and previously a General Manager at Telstra. Ms Jakszewicz has a Master of Business Administration from Macquarie University, a Master of Science from the University of Bath and a Bachelor of Science with Honours from the University of Sheffield. She is a fellow of the Australian Institute of Company Directors and brings to Hydro Tasmania wide-ranging commercial experience predominantly in general management, marketing and business development roles.

Stan Kalinko – Director

Stan Kalinko was appointed to the Board on 25 June 2007. He has been a director of companies for many years, and, since his retirement from law on 30 June 2007, his main occupation has been as a director serving on the Boards of FSA Group Limited (a public listed company), Indigenous Community Volunteers Limited, Seisia Enterprises Pty Ltd and the Central Synagogue. Mr Kalinko practised law for more than 30 years and was a merchant banker for 6 years. He has a Bachelor of Commerce, a Bachelor of Laws and a Higher Diploma in Tax. Mr Kalinko is an accredited mediator and a fellow of the Australian Institute of Company Directors.

Table 5: Board committee membership at 30 June 2013

Audit committee	Business Risk committee	Corporate Governance committee	Sustainability committee	Human Resources & Remuneration committee
Janine Healey*	David Crean*	David Crean*	Stan Kalinko*	Stan Kalinko*
David Crean	Roy Adair	Roy Adair	Roy Adair	David Crean
Saul Eslake	Saul Eslake	Stan Kalinko	Tessa Jakszewicz	Janine Healey
Vacant	Janine Healey Grant Every-Burns	Tessa Jakszewicz		Roy Adair

* Committee Chair.

Table 6: Directors' attendance at Board and committee meetings during FY2012/13

	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
David Crean	13	13	6	4*	3	3	1	1			5	3*
Saul Eslake	13	12*	6	6	3	3						
Janine Healey	13	12*	6	6	3	3					5	4*
Stan Kalinko	13	12*					1	1	2	2	5	4*
Roy Adair	13	10*			3	3	1	1	2	2	5	3*
Tessa Jakszewicz	10	10					1	1	2	2		
Grant Every-Burns	10	10			3	3						

Notes:
A = Maximum number of meetings the director could have attended
B = Number of meetings attended
* Leave of absence granted

Executives

The Hydro Tasmania Executive Leadership Team. From left: Lance Balcombe, Alan Evans, Stephen Bendeich, Tammy Chu, Evangelista Albertini, Miles Smith, Kate Gillies, Stephen Davy, Nigel Clark and Andrew Catchpole

Business Development

Director, Miles Smith

The Business Development team is responsible for investigating emerging business opportunities in line with Hydro Tasmania's strategy. It is also responsible for delivering projects that realise these opportunities and managing investments. It facilitates the research and development program that investigates both renewable technologies and methods to improve the use of Hydro Tasmania's water resources. It collaborates with teams across the business to build cross-functional teams containing people with the best experience and expertise to deliver specific projects.

Commercial

Chief Commercial Officer, Stephen Davy

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

Stephen Davy was appointed Acting CEO of Hydro Tasmania on 1 July 2013 and appointed CEO on 5 September. Appointment to the position of Chief Commercial Officer is pending.

Corporate Services

Director, Andrew Catchpole

The Corporate Services team supports the delivery of energy and consulting products and services and promotes Hydro Tasmania's 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.

Entura

Managing Director, Tammy Chu

Entura is Hydro Tasmania's international consulting business. 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. Entura's areas of expertise include renewable energy, power engineering, hydropower, water infrastructure and water and environmental management and planning.

Finance and Risk

Chief Financial Officer, Lance Balcombe

The Finance and Risk team 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. The Finance and Risk team is also responsible for the organisation's management and financial reporting.

Legal Regulation and Compliance

General Counsel, Stephen Bendeich

The Legal Regulation and Compliance team provides legal, market regulatory and compliance 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 manages dealings with regulators. The team is also responsible for overseeing Hydro Tasmania's compliance processes.

Momentum Energy

Managing Director, Nigel Clark

Momentum Energy is Hydro Tasmania's retail energy business operating on mainland Australia. It is responsible for successfully gaining, retaining, billing and collecting from its retail customer base, covering electricity, gas and energy services. Responsibilities include end-to-end retailing services including product development, branding and marketing of Momentum Energy in target markets to achieve profitable growth and support of the overall group objectives.

Strategic Planning and Policy

Head, Kate Gillies

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

Technical and Operations

Chief Technical and Operations Officer, Evangelista Albertini

The Technical and Operations team is responsible for the operation and management of Tasmania's generating asset portfolio to create production opportunities and ensure its long-term sustainability. Our goal is to deliver reliable electricity supply to customers through sustainable, innovative and commercially responsible asset management. The core functions of the team are to maintain, refurbish and operate the generating assets to optimise whole-of-life costs and performance while managing risk.

The team also manages stakeholder technical relations with network service providers, regulators and the Australian Energy Market Operator to ensure Hydro Tasmania is able to deliver product to the market.

Lance Balcombe (centre), Hydro Tasmania's Chief Financial Officer, during a site inspection at Poatina Power Station

Public Interest Disclosures

Under the *Public Interest Disclosures Act 2002* (the Act), Hydro Tasmania is required to report on any disclosures about improper conduct by its public officers or Hydro Tasmania. In accordance with the requirements of section 86 of the Act, Hydro Tasmania advises that:

(a) Hydro Tasmania's procedures under the Act are available on the Hydro Tasmania website at www.hydro.com.au

(b) no disclosures of public interest were made to Hydro Tasmania during the year

(c) no public interest disclosures were investigated by Hydro Tasmania during the year

(d) no disclosed matters were referred to Hydro Tasmania during the year by the Ombudsman

(e) no disclosed matters were referred during the year by Hydro Tasmania to the Ombudsman to investigate

(f) no investigations of disclosed matters were taken over by the Ombudsman from Hydro Tasmania during the year

(g) there were no disclosed matters that Hydro Tasmania decided not to investigate during the year

(h) there were no disclosed matters that were substantiated on investigation as there were no disclosed matters

(i) the Ombudsman made no recommendations under the Act that relate to Hydro Tasmania.

Customers

Previous page: A class at the Entura clean energy and water institute
This page: Gregg Barker conducting dam safety training at the institute's training facility at Cambridge

Entura clean energy and water institute

The Entura clean energy and water institute was launched in December 2012.

The institute formalises and expands the capability development and training services delivered by Entura for 20 years.

It offers courses in clean energy—hydro, wind and solar—and water management.

What sets the institute apart is the practical nature of training, tailored to meet the needs of individual clients.

The institute is headquartered in Hobart, but services can be provided on site at the workplaces of businesses in other countries, in the field using Hydro Tasmania's strong asset base to provide real-world experience, or through use of webex and other online technologies.

The institute targets national and international clients in markets including Australia, Asia, the Pacific and southern Africa. Courses are delivered by technical experts within the Entura and Hydro Tasmania business, and by strategic partners in the venture including the Asian Institute of Technology.
After six months of operation the institute had delivered 500 training days to participants from Pakistan, Cambodia, Laos and Vietnam.

The institute is accredited as a registered training organisation.

Long-term Sustainability Indicators (LSI)

Sustainability code principle	Indicator	Target FY2016/17	Performance in FY2012/13[1]	Expectations/plans for the future
Customer satisfaction We know our customers have a choice. We aim to be the first choice through understanding, responding and delivering sustainable solutions to our customers.	**Entura:** Total sales ($m)	Percentage increase in sales per year.	A percentage increase in sales was not achieved due to contracted market conditions.	The sales target for FY2013/14 has been revised to maintain sales performance due to market projections that industry revenue will fall by approximately 2.4% in the next financial year[2].
	Entura: Client satisfaction rating	Achieve a net promoter score[3] within the top quartile of professional services businesses.	The target was achieved for the year.	We will maintain the high promoter scores in the top quartile and continue to review and improve in response to changing client requirements.
	Entura: Customer mix	Achieve a balanced customer mix in our regions.	The international and Tasmanian market performed well which helped to balance the changed market conditions in the national market.	Entura will continue to work towards achieving a balanced customer mix through market growth and expansion as appropriate and based on market conditions.
	Momentum: Total retail electricity sales (TWh)	Become a material player in the retail market.	Momentum Energy exceeded its new sales targets for the year and remains on track to achieve its long-term profitability and volumetric growth objectives.	Momentum Energy remains on track to achieve planned long-term volumetric and profitability targets.
	Momentum: Churn rates	Market-leading churn rates for target market segments.	Momentum Energy's retention rates were better than industry market averages.	To continue to improve retention performance and remain a market leader.
	Momentum: Customer mix	Establish a mix of customers that supports profitable and sustainable growth.	Momentum Energy exceeded the planned progress towards its target customer mix in the year.	Achievement of target customer mix across the national market.

[1] Momentum operates in one of the world's most competitive energy markets and must maintain a high level of caution over the release of competitive information.

[2] IBIS World, July 2013.

[3] The net promoter score is a customer loyalty metric. A positive score is considered good. A score of over 50 is considered excellent.

Sustainability code principle	Indicator	Target FY2016/17	Performance in FY2012/13	Expectations/plans for the future
Products and services We are innovative and creative in developing new products and services in response to the needs of our customers and in order to retain our competitive edge in the marketplace.	Client perception score on Entura's and Momentum's ability to offer smart and innovative products and services	Entura is recognised by its clients as providing smart and innovative service and product provision. Momentum is recognised as a leading NEM energy services provider in the business market.	Entura achieved the target for smart and innovative service provision. Momentum Energy continued to develop its energy services offering for the business market.	Entura implemented a number of tools to promote learning and development within the business. Product reviews are also underway for key product areas. Momentum Energy remains on track to achieve long-term energy services objectives.
	RAPS business model firmly established	Successful monetisation of RAPS opportunities.	Following early success with the implementation of a RAPS pilot on King Island, Hydro Tasmania has submitted an expression of interest to the Australian Renewable Energy Agency to secure grant funding that would underpin the implementation of up to six RAPS projects in Australia by the end of 2017, if desired.	We are engaging with the mining and utility sector to construct a project pipeline that would enable achievement of this measure. Commercial models are in development to enable us to capitalise on the products developed through the King Island project under current capital-constrained conditions.

The Hydro Tasmania group aims to grow business by focusing on client satisfaction, developing innovative, fit-for-purpose products and expanding into developing markets. We are committed to understanding, being responsive to and delivering sustainable solutions to our customers.

We strive for innovation in development of new products and services in response to the needs of our customers and in order to retain our competitive edge in the marketplace.

Growth and increasing the national customer base

Momentum Energy's competitive pricing

The retail market continues to be highly competitive, particularly in Victoria which is regarded as the most competitive electricity retail market in the world. Despite these challenging market conditions, Momentum Energy has significantly increased its customer base while maintaining customer attrition below the industry average. This result is a testament to Momentum's combination of sophisticated clean energy products, superior customer service and targeted customer acquisition and retention.

A challenging economic environment combined with higher network charges, the proliferation of distributed generation and introduction of energy efficiency initiatives has caused a decline in electricity consumption across the NEM in recent years. The decline in consumption has increased margin pressure in the retail segment. Against this backdrop Momentum has tabled a record profit of $17.2 million[3] and is actively expanding products and services to capture more of the energy value chain and diversify revenue streams.

[3] Earnings before interest and taxes.

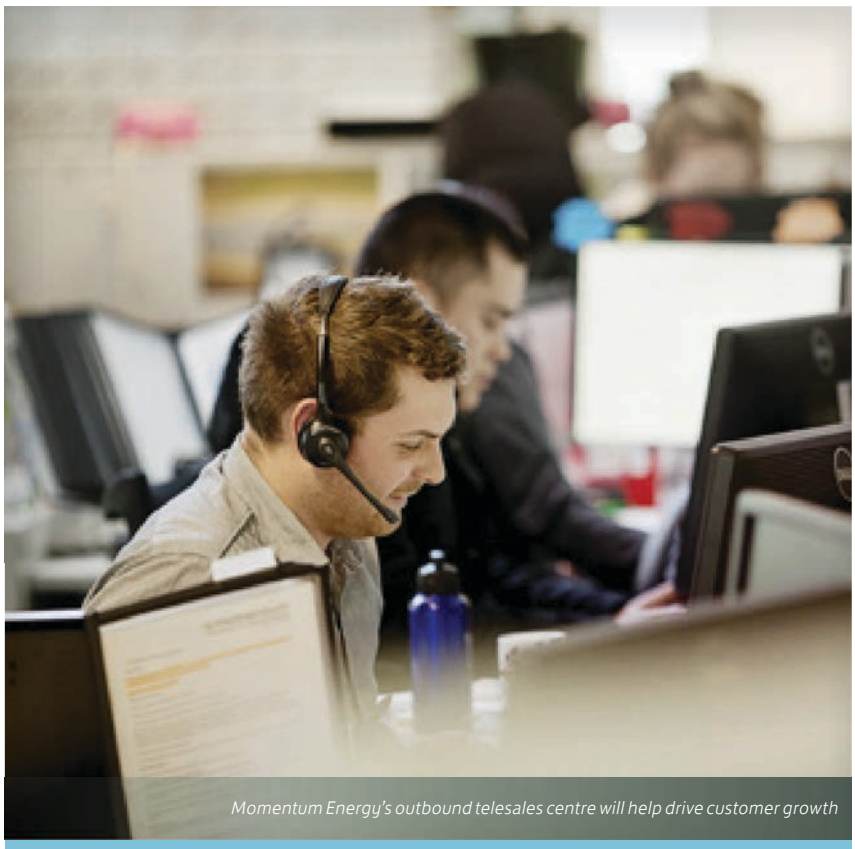
Momentum's brand growth and communications

Momentum's brand awareness continues to grow in the markets in which it operates. Sponsorship of the Geelong Cats, Adelaide Crows, St George Illawarra Dragons, Victoria Racing Club and cyclist Matt Goss provides value-for-money brand promotion, sales campaign opportunity to a large fan base and creates a personal connection with consumers by aligning the brand with their interests. Regional sponsorships have facilitated the brand's geographic expansion to New South Wales and South Australia.

Momentum has developed online sign-up and is actively managing and monitoring consumer sentiment via social media. Traditional and digital media campaigns provide further opportunity to communicate Momentum's value proposition. Digital media is an important development area for all retailers as a lower cost-to-acquire channel. Social media provides a platform for communities to discuss products and brands, which amplifies both positive and negative sentiment. Companies can either actively engage in the online discourse or abstain. Momentum has chosen to actively manage its online communities providing service response and unique content with the aim of becoming a thought leader for the energy sector.

In FY2012/13 Momentum Energy took over retail functions for the Bass Strait islands. Momentum supports the King and Flinders Islands communities through sponsorship of health, energy and sporting activities. Additional geographic growth was supported by the opening of a new call centre in Hobart dedicated to outbound sales telemarketing. This centre has provided 27 new jobs in Tasmania and delivered strong sales results in its first year of operation.

The success of Momentum Energy's marketing in FY2012/13 is reflected in steady increase in inbound sales and improvements in brand value benchmarking.



Momentum Energy's outbound telesales centre will help drive customer growth

Creating jobs in Tasmania

Momentum Energy is operating a new call centre in Hobart, creating 27 new jobs for Tasmanians.

The outbound telesales centre will help promote Tasmania's strong renewable energy brand across Australia and help drive Momentum Energy's sales growth interstate.

The centre is expected to grow Momentum Energy's customer base by more than 60 000 over the next three years. This growth will result in increased returns from Momentum to its parent company Hydro Tasmania and, in turn, increased returns to Government.

Momentum's national growth is an important part of Hydro Tasmania's future strategy.

Products and markets

Momentum's renewable or clean energy products

Momentum Energy's clean energy product SmilePower now makes up 100 per cent of its small market sales. The product was launched in 2011 and is a key contributor to Momentum's customer value proposition. Research conducted in late 2012 suggests customers value renewable energy products but price remains a key decision-driver. Momentum will continue to develop services and products that differentiate the brand without resorting to discounting strategies that erode margin.

Momentum's product range expanded in FY2012/13 to include energy services for small businesses and large commercial and industrial businesses. The smart meter rollout mandated by the Victorian Government is continuing. Nearly all of Momentum's small market customers will have smart meters by the end of the next financial year. The introduction of flexible pricing in Victoria will enable small market customers to take advantage of smart meters by actively changing their usage patterns to reduce costs. Delivering technology that enables customers to manage and control their energy consumption and costs is necessary for customers to take full advantage of the Smart Grid and maintain satisfaction.

Momentum Energy Services

As business and consumers change the way they use energy, Momentum Energy needs to adapt to provide specialist energy services that allow a deeper, longer-term relationship with the customer and a diversified revenue stream. Momentum has adopted an ambitious target of positioning itself as the foremost provider of specialist energy services in the country for business customers with an emphasis on small-to-medium enterprises (SMEs).

The Energy Services team is focused on building Momentum's residential and commercial and industrial (C&I) presence, tailoring solutions to deliver the outcomes most valued by these market segments. The aim is to deliver real, measurable improvements at every point of engagement, from acquisition to retention and beyond.

Staff at Momentum Energy's outbound sales centre at Cambridge, Hobart

Four key market needs were identified: reduce energy costs; provide greater information to help customers manage and control their energy; meet the needs of the underserviced market of large sites with multiple tenants (known as embedded networks); and provide options to help customers fund capital upgrades by allowing them to offset saving on their energy bill with monthly repayments for the capital investment.

In the twelve months since inception, the Momentum Energy Services team has developed several products that provide a stronger value proposition for new and existing customers including:

- energy efficiency retrofits such as lighting upgrades including LED lighting retrofits for small businesses
- installation of solar photovoltaic panels
- provision of data in an easy-to-use energy portal that facilitates customer service online and helps increase customer knowledge of how they are consuming energy
- provision of bulk electricity to large site owners with multiple tenants. Sites such as apartment blocks, shopping centres and retirement homes can form an embedded network, establishing a revenue stream for the site owner and a discounted rate for tenants.

The Energy Services team will continue to develop an intimate knowledge of the different customer markets and their key energy needs, their issues and where the opportunities lie for ongoing improvement.

Case study: Returned Services League

Momentum's new Energy Services team has secured savings of nearly $12 000 per annum for the Victorian Returned Services League.

The Victorian RSL has close to 50 gaming venues across Victoria, ranging from SME to larger C&I in terms of energy usage volume. After a thorough investigation, the Energy Services team helped upgrade on-site lighting and reduce energy spending. The team continues to perform proactive site assessments to identify further potential efficiencies, and has managed to secure three energy-efficient lighting retrofit projects. The success of the team's work with the RSL has already inspired at least one new large customer to switch their energy supply to Momentum.

The bypass canal for the Neusberg mini-hydro project in South Africa. Neusberg Mountain can be seen in the background

Entura's national and international markets

The consulting engineering market in Australia experienced market contraction throughout FY2012/13 as energy and water reforms across a number of states were undertaken and growth in the mining industry slowed with flow-on effects to other sectors such as ports and marine. The tightened market conditions have led to reductions in client spending and an increase in competition. There are forecasts that the Australian market will continue to shrink by an annualised 0.4 per cent[4] per annum across the industry with some segments experiencing greater revenue contraction. However, opportunities in the international market remain favourable. Key markets in Asia and southern Africa are performing well based on the energy and water developments planned for these markets.

Entura expanded its presence in South Africa through the Neusberg small hydropower project, part of the South Africa Renewable Energy Independent Power Producer Program (REIPPP) designed to promote renewable energy development. The Neusberg project is the first run-of-river mini-hydropower station under the REIPPP and plays an important role in Entura's market entry strategy in Africa. Our goals in Neusberg are to establish Hydro Tasmania and Entura as leaders in small hydro in southern Africa, to build our credibility in the region and to pave the way for potential future projects.

Entura's role encompasses the whole lifecycle of the project from design through construction and ongoing support for the operation and maintenance after completion in January 2015.

Hydro Tasmania also plays a significant role in the Neusberg project as developer and 25 per cent equity participant in the project company Kakamas Hydro Electric Power (Pty) Ltd, together with Hydro 1 SA (Pty) Ltd, Old Mutual, and a community trust funded by the Industrial Development Corporation.

Entura is undertaking several other consulting projects in southern Africa, including the identification of opportunities to install mini-hydro hydropower systems on existing water supply infrastructure in Durban, and a water optimisation study for the Ncondezi group in Mozambique. Entura is also delivering feasibility studies for a number of small hydropower projects on water reticulation infrastructure.

To better support Entura's entry to the southern Africa market, it has established an office in Cape Town for personnel involved in these projects and as a base for our further operations in the region.

Entura's India office expanded its market coverage to deliver feasibility studies for hydropower developments in Nepal, and the detailed design for the Nam Song hydropower project in Laos.

Entura is delivering key projects to increase energy capacity in Papua New Guinea from renewable energy sources. Projects include supporting the Asian Development Bank in providing advisory services for a town electrification investment program. Entura also undertook hydropower studies, upgrades and modernisation work and station management.

The work undertaken over the last two years to expand Entura's market presence to manage market volatility has helped reduce the impact of the contracted national market conditions on business performance.

The business continued to provide power engineering services to clients across Australia.

[4] IBIS World, July 2013.

Sarawak hydropower projects

A public campaign by non-government organisations critical of Entura's work in the Malaysian state of Sarawak continued during the year. The main concerns expressed surrounded claims of corruption within government administration and human rights abuses associated with the implementation of the SCORE program (Sarawak Corridor of Renewable Energy).

Hydro Tasmania and Entura responded to misinformation regarding the extent and role of the business' involvement in Sarawak.

Hydro Tasmania and Entura are not key players in the SCORE program. Entura currently has four staff seconded to Sarawak for the publicly-owned Sarawak Energy Berhad (SEB) to help build local skills and capability.

Entura provides technical consulting services to SEB. Consulting work has included training, dam safety, technical pre-feasibility and feasibility studies, and undertaking technical due diligence investigations. Entura focuses on providing support and advice to SEB staff gained from the experience in developing and operating renewable energy assets.

Future consulting opportunities in Sarawak will be assessed on a case-by-case basis.

A live feed of the King Island power system, providing a real-time overview of renewable energy use

Reducing reliance on costly diesel fuel

Hydro Tasmania reached a major milestone for the King Island Renewable Energy Integration Project (KIREIP) in June 2013, turning off diesel generators and relying on renewable energy for sustained periods.

KIREIP aims to reduce diesel consumption for power generation on King Island by more than 65 per cent and provide the ability to generate all of the island's power needs using renewable energy when conditions allow. This will significantly reduce the cost of providing power on King Island.

Achieving 100 per cent renewable energy penetration in large off-grid systems is very difficult given the need to maintain reliability and security of power supply under highly variable wind and solar conditions. We expect that zero diesel operation will now occur for extended periods overnight when customer demand is lowest, and in daylight hours under high wind conditions. Later in 2013 we expect to enhance performance further through the use of customer load control and energy storage. This will help maintain a stable power system in the absence of diesel generation even during the inevitable lulls in wind or solar conditions.

KIREIP is a demonstration project that has potential application internationally for remote and off-grid renewable energy supply. Although there are remote area power systems in some parts of the world that are capable of supplying the energy needs of single homes or small villages, this is the first remote system on this scale capable of supplying the power needs of an entire community, including industrial customers and an extensive distribution network, solely through wind and solar energy. Diesel fuel remains the single largest expense in these remote systems and using renewable energy makes good economic sense.

Customer relationships

Momentum's customer growth, satisfaction and relationships

Momentum Energy met all growth targets for FY2012/13. It remains on track to achieve its long-term profitability and volumetric growth objectives.

Momentum has benefited from price deregulation in the competitive market in Victoria. Recent signals regarding potential price deregulation in South Australia, New South Wales and Queensland suggest that further opportunities for profitable and sustainable geographic expansion will open up for Momentum in these markets.

The increased prevalence of borderless digital media and sales channels is an important contributor to Momentum's national growth and brand presence. These digital channels and investments in other systems will increasingly facilitate its online customer interface and will help it maintain a competitive cost base and retain satisfied customers.

Momentum targets above-average customer satisfaction and referral. Outcomes are actively monitored through annual net promoter scoring (NPS) and satisfaction metrics after customer service calls. The energy retail sector does not enjoy high levels of customer satisfaction. The industry has an average score of negative 53. By comparison, a survey conducted in November 2012 found that Momentum Energy's NPS was 0, ranking second for our industry.

Post-call customer satisfaction is tracked monthly as a 'pulse check' and currently sits above 98 per cent.

A significant development in the residential market has been the cessation of doorknocking activities by the majority of retailers, including all three major retailers. Momentum welcomes this development as a significant step forward for the ethics and reputation of the industry. Momentum has never doorknocked residential customers so this development will not adversely impact its mature sales channels.

David Wilson conducting sustainable hydropower development training in Laos for various government agencies

Entura's customer satisfaction and relationships

In FY2012/13 Entura built on significant improvements in client satisfaction made during the previous two years and maintained or increased satisfaction in aspects of service provision that are important to our clients. The improved results are attributable to the account management framework the business has in place along with continued customer surveys and communicating feedback. For example, client satisfaction ratings increased for responsiveness (up 5 per cent), quality (up 2 per cent), trust and commitment (up 4 per cent), and service (up 9 per cent).

The net promoter score for the business was above the target of +10 and indicates good performance in achieving customer loyalty.

Major industrial customers in Tasmania

Hydro Tasmania's four large industrial electricity users consume approximately 55 per cent of Tasmania's total electricity demand. These are Pacific Aluminium, TEMCO, Nyrstar and Norske Skog.

These industrial customers endured a difficult year. The combination of a high exchange rate and low commodity prices created a challenging operating environment. Fortunately our customers were able to continue producing at or near capacity.

Infrastructure and resources

Previous page: A unique close-up view of a Kaplan turbine
This page: The old turbine being removed from Paloona Power Station. The new turbines significantly reduce the risk of oil spill

Managing oil risk

Hydro Tasmania has implemented an oil management plan to minimise the risk of oil loss from our infrastructure and any impacts in the event of a spill.

The plan includes a program to maintain and upgrade infrastructure and equipment containing oil, such as switch yard bunds, heat exchangers, transformers and turbines.

Among our generating assets are four Kaplan turbines located at Meadowbank, Paloona, Cluny and Repulse Power Stations, the design and operation of which makes trapping spilt oil difficult. The 40-year-old turbines are undergoing a major refurbishment and we are taking advantage of this opportunity to upgrade them to an innovative oil-less design which will significantly reduce the risk of oil spill.

The first project in this program has begun at Paloona after two years of equipment design, testing and site works preparation. Planning and site preparation are underway at Meadowbank.

We have made a number of additional significant oil management improvements, including upgrading localised bunding around large oil containing assets such as transformers, upgrading site-specific equipment to support oil spill response, and replacing aged or inadequate oil pipe supports, valves or fittings to reduce failure risk. Site-specific oil spill response plans are now in place for all our hydro power stations.

Long-term sustainability indicators

Sustainability code principle	Indicator	Target FY2016/17	Performance in FY2012/13	Expectations/plans for the future
Asset safety and reliability We manage our infrastructure optimally for present and future reliability and with the highest standards of safety.	Asset performance, safety and compliance obligations as detailed in the ten-year asset management plan (AMP)	Executive Board-approved AMP within budget and delivering on its risk objectives.	Hydro Tasmania continues to successfully implement our AMP. Works delivery teams for both capital and maintenance work programs continue to pursue efficiencies and cost savings. Dam safety works for Rowallan were completed on schedule. Refurbishment at Tungatinah and Kaplan stations on track.	To continue delivering the AMP which includes key risk mitigation works that directly address asset performance and safety and compliance issues. The AMP is reviewed annually and risk prioritisation and emergent risks considered as part of this process, with an update provided to the Board. Scott's Peak and Edgar Dams have been identified as priorities for the coming year, and design solutions for dam strengthening are being developed. Any works required will be incorporated into the AMP in line with evaluated risk position.
	New generation asset completion	Build new generation assets, if required, to back sales.	Construction of Musselroe Wind Farm has largely been completed.	There are no planned new generation projects for FY2013/14.
Resource use We manage our resources optimally for present and future reliability.	Business value	Business value optimised through prudent management of water resources.	System yield of 7653 GWh. Record revenue achieved with hydro generation of 10 627 GWh as Hydro Tasmania maximised the value from its discretionary storage in the carbon priced environment. System storage decreased from 53.6% to 32.8%.	Hydro Tasmania plans to maximise the long-term value of water in storage, at acceptable risk. The gas generation assets now integrated into the overall portfolio are able to assist with risk management.
	Water rights	Existing water rights optimised through achievement of objectives of Strategic Water Resources Management Plan (SWRMP).	SWRMP and catchment operations plans implemented.	Objectives of the SWRMP achieved through completion of the agreed actions within the plan (two-year program).

Asset safety and reliability

Hydro Tasmania manages its large asset base through a rolling ten-year asset management plan (AMP). The third iteration of this plan was approved in March 2013. The plan continues to target investment to sustain a prudent risk position and to avoid leaving an unsustainable legacy. Since approval of the first plan in December 2010 the business has resolved 26 per cent of the identified asset issues. As a result, high-risk asset issues have been reduced by 80 per cent, while medium risks were reduced by 10 per cent. In FY2012/13 all planned major work was completed. Key achievements were:

- completion of spillway strengthening and bypass valve upgrade at Rowallan Dam (see page 54 for more detail)
- major refurbishment of the Tungatinah 1 turbine
- replacement of the Meadowbank riparian valve and re-painting of the crest gate.

In addition, major refurbishment of Tungatinah 2 turbine is in progress and on track to be completed by November 2013. Preparations for the shutdown of the Kaplan turbine at Paloona Power Station were completed. The station outage started in June 2013, and the station is scheduled to return to service in April 2014. This is the first of four major Kaplan turbine refurbishments defined in the AMP as part of a strategy to significantly reduce environmental risk from a potential oil spill (read more on page 50).

Dam safety

Hydro Tasmania ensures public safety of Australia's largest portfolio of 204 dams with a comprehensive asset management framework based on the Australian National Committee on Large Dams (ANCOLD) guidelines. The framework combines regular inspections, collection and analysis of monitoring data, engineering assessments, a maintenance program and targeted investment.

Our Dam Safety Emergency Plan provides a robust framework for managing an event that could threaten the safety of one or more of our dams. This plan is reviewed and updated regularly and exercises are held to ensure staff are familiar with current practice. Regular training in dam surveillance and incident management ensures our personnel have the requisite skills.

Notable works in FY2012/13 included:

- successful completion of the first phase of work to strengthen Rowallan Dam, with construction of new spillway training walls, and enhancements to dam dewatering capability
- enhanced foundation drainage system and improved monitoring for Clark Dam
- completion of detailed geotechnical investigations and stability analysis for Scotts Peak Dam in the lead-up to future dam-strengthening works
- collaboration with Central Coast Council and West Coast Council to improve response planning, communications and coordination for potential floods in the Forth and Pieman River catchments
- enhanced in-house training of engineering and operational staff in dam safety surveillance incorporating a review and formalisation of the course syllabus and transfer of all theory components to online content and assessment.

Capital works

The programs of work characterised by 'refurbishment' and 'upgrade' represent a substantial portion of the investment in the existing hydro-generating portfolio.

These programs aim to maintain key assets at an acceptable level of risk through refurbishment or replacement of selected components to improve asset condition and performance. Simultaneously, this creates the opportunity to realise the benefits of modern technology in the form of improvements in operational efficiency and effectiveness.

These programs underpin Hydro Tasmania's growth strategy by ensuring that the existing hydro-generating portfolio serves the needs of the business's Commercial team to have access to available, reliable and efficient generation.

In FY2012/13, we spent just over $58 million on capital works on the existing Tasmanian hydro-generation assets.

Dam monitoring and risk assessments

New instrumentation was successfully installed for Pine, Clark, Pine Tier and Liapootah Dams. In addition, five geotechnical investigations increased our understanding of failure modes and risks in order to refine the maintenance program for our dams.

Primary protection assets

The primary protection portfolio of assets is critical to the ongoing safe operation of our generators and stations, as it provides protection against the loss of control of the full hydraulic energy of the water normally directed towards the turbines to generate electricity. Primary protection assets include turbine relief valves, turbine main inlet valves, penstock hilltop valves and primary protection gates. The functions these assets perform are central to our ability to safely isolate and take our machines out of service for maintenance.

Close to 50 per cent of the primary protection gates and valves portfolio has been refurbished and replaced, including main inlet valve and hilltop valve control upgrades and turbine relief valve refurbishments at Wayatinah and Liapootah. This work has addressed many issues related to poor condition and has dramatically improved performance and reliability.

Major electrical works

Routine monitoring of the condition of transformers at Poatina Power Station revealed electrical faults in one transformer and potential faults in four of the other five transformers. We repaired the faulty transformer, sourced a spare which will be installed in the second half of 2013, and instigated a fast-track process to manufacture, supply and install four new transformers.

We also undertook replacement of transformers at Butlers Gorge and Poatina Power Stations, upgrades of electrical protection at Catagunya, Gordon and Reece Power Stations and replacement of circuit breakers at Gordon, Catagunya and Tarraleah Power Stations.

Refurbishment of four machines at Tarraleah Power Station

Tarraleah is a key station because of its role in moving water from the upper reaches of the Derwent River through turbines at Liapootah, Wayatinah, Catagunya, Repulse, Cluny and Meadowbank. The six turbines at Tarraleah are more than 50 years old and posed a high risk of cracking of the turbine shafts. Refurbishment focused on three components for each machine—the turbine shaft, spears and exciter. Work on two of four machines has been successfully completed to schedule and budget and without a single medically treated injury. These works will enable the Tarraleah station to operate efficiently and reliably for at least another 16 years.

Lake Pedder viewed from Twelve Trees Hill

Storage levels and inflows

Hydro Tasmania's Ministerial Charter requires us to manage our water storages prudently. This means complying with the conditions of our water licence, complying with a range of third-party agreements and operating sustainably. It also means ensuring storages are managed to maintain the long-run energy capability of the system. Hydro Tasmania follows prudent water management guidelines designed to avoid the risks associated with low storage volumes, as far as possible. These guidelines are incorporated into the development of Hydro Tasmania's storage management strategy.

Storage level and energy in storage

At 1 July 2012, aggregate Hydro Tasmania storages stood at 53.6 per cent full of energy and were 32.8 per cent full of energy at 1 July 2013. The energy value of inflows (i.e. yield) was 7653 GWh for the period, slightly down on the same period last year.

Basslink reliability and capacity

Basslink provides Tasmania with the opportunity to avoid spill during high inflow periods and to maximise revenue by supporting Hydro Tasmania's interstate energy sales.

In FY2012/13 there were exports of 2293 GWh and imports of 251 GWh, a net export amount of 2040 GWh[5].

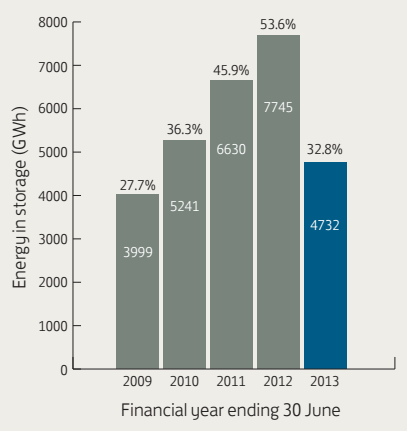
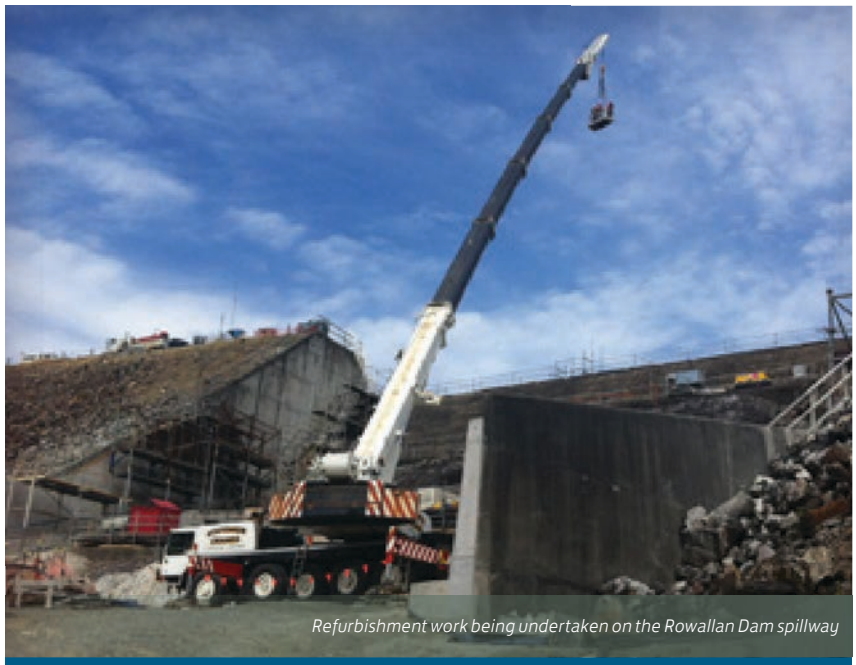


Figure 4: Energy in storage

[5] Based on operational market data measured at the receiving end.



Refurbishment work being undertaken on the Rowallan Dam spillway

Major upgrade of Rowallan Dam

Hydro Tasmania manages a large asset base including 204 dams and hundreds of kilometres of man-made waterways to direct water to storages and power stations.

These assets have been built over nearly a century of hydropower development.

As the assets age we continue to monitor them for efficiency and safety and we invest to ensure they remain fit-for-purpose and provide ongoing service for the foreseeable future.

Rowallan Dam is a 43-metre high earth and rock-fill dam on the Mersey River in Tasmania's north, and was commissioned in 1968. Its condition and performance were reviewed in 2011 as part of a planned program of risk assessment across our entire asset base.

The review found the dam's performance was consistent with expectations for a dam of its design, construction and age. However, improved understanding of the dam's risks meant Hydro Tasmania is now able to reduce risks that were unforeseen in 1968.

Tasmanian company Hazell Bros undertook the first stage of a project to upgrade the 44-year old dam to modern-day standards.

The Hazell Bros contract upgraded the existing concrete spillway, and built new concrete walls inside the existing spillway walls, while retaining the existing walls in position. The new walls are anchored into the bedrock beneath the dam using a series of post-tensioned steel anchors on both sides of the spillway. This work was completed in June 2013.

The second stage of the project will improve the flood capacity of the dam and is scheduled to take place during the 2014/2015 summer.

Environment

Previous page and this page: Wedge-tailed eagles in flight. Hydro Tasmania maintains active bird monitoring programs at its wind farms across the state

Bird behaviour on wind farm sites

Eagles actively avoid the wind turbines and alter their behaviour…

Hydro Tasmania conducted major field studies on behalf of Woolnorth Wind Farm Holdings at the Bluff Point and Studland Bay Wind Farms in 2012. These included continued development of a remote sensing monitoring system for surveying eagles, studies into the use of the wind farms by bats and a genetics study of wedge-tailed eagles. Results are available on the Hydro Tasmania website in the *Annual Environment Performance Report* for the wind farms. Also available on our website are four scientific publications documenting the results of bird and bat studies at these wind farms.

One of the key findings of the studies was that only about 20 per cent of bird species that are present on our wind farms are involved in collisions. The only species that are prone to collision risk are those that are present in the rotor-swept area (the region that the turbines blades sweep through).

Other species are extremely unlikely to be involved in collisions. A similar pattern was found for bats. The extensive eagle studies conducted found that eagles actively avoid the wind turbines and alter their behaviour depending on the operational status of the turbines and weather conditions.

Long-term sustainability indicators

Sustainability code principle	Indicator	Target FY2016/17	Performance in FY2012/13	Expectations/plans for the future
Ecosystems and heritage We aim to minimise our impact on the environment and seek opportunities to enhance environmental and cultural values.	Environmental conditions in Hydro Tasmania operational areas	Maintain and, where possible, enhance the environmental values in land and water environments that are under our management.	Development and implementation of the environmental plan for Hydro Tasmania. Removal of dam wall at Lagoon of Islands and completion of rehabilitation work. Completion of the 14 social and technical studies associated with the Mersey-Forth Water Management Review. Further integration of our health, safety and environment (HSE) documentation. Development of a strategic framework for biodiversity management. Completion of Aboriginal heritage action plan providing prioritised work program for next three years.	Continue to improve the environmental conditions in our land and water ecosystems consistent with the environmental plan. Key expectations include: • monitor the restoration of Lagoon of Islands • finalise Mersey-Forth Water Management Review and begin the Anthony Pieman Water Management Review • environmental management at Musselroe Wind Farm during operational phase • implement HSE management processes within Hydro Tasmania's new my**sap** system.
Carbon status As climate change has significant implications for our business we are committed to being part of a sustainable solution.	Emissions intensity	To generate electricity with the lowest emissions intensity compared to other integrated generators in the NEM.	Hydro Tasmania's emissions intensity (0.0089 tCO_2e/MWh), is among the lowest in the NEM and well below the NEM average emissions intensity of 0.8 tCO_2e/MWh.	We expect our emissions intensity to be higher than in previous years due to the transfer of Tamar Valley Power Station to Hydro Tasmania in June 2013.

Hydro Tasmania is committed to a sustainable environment and the provision of a clean and healthy environment for current and future generations. We continue to maintain a leading position as an environmentally responsible and low carbon intensity business.

During FY2012/13 there were no significant environmental or heritage incidents. Key environmental outcomes include the removal of the dam wall and commencement of rehabilitation at Lagoon of Islands, completion of the 14 Mersey-Forth Water Management Review technical and social studies, monitoring of water quality and biodiversity in our lakes and rivers, and the implementation of an oil management plan.

We collaborated with the Aboriginal community to manage Aboriginal heritage values at our wind farms and lake environments. An Aboriginal heritage action plan was completed to prioritise the management of Aboriginal heritage values over the next three years.

In FY2012/13 we adopted recreational management principles to guide the planning, development and management of recreation opportunities on our land and water bodies. One of the outcomes of the principles was improved public access to our waterways to undertake recreational activities.

Managing the aquatic environment

Lakes and rivers program

Hydro Tasmania is committed to the sustainable management of our water to maintain healthy ecosystems in our lakes and rivers. To achieve this, we systematically monitor water quality and ecological health. The frequency of sampling in each waterway and choice of parameters are determined either by assessing ecological and business risks, or as prescribed in our Special Water Licence agreement.

In FY2012/13, we monitored baseline water quality in seven lakes in the Derwent hydropower system (Meadowbank, Cluny, Repulse, Catagunya, Wayatinah and King William Lakes and Lake St Clair). We also continued monitoring water quality at Arthurs Lake, Woods Lake, Lake Pieman, Lake Newton and Great Lake from last year. As in previous years, we monitored water quality and/or ecological health in five rivers (Dee, Derwent, Ouse, Shannon and Mersey) during FY2012/13.

Water quality was mostly good in our lakes and rivers in FY2012/13. No issues requiring further investigation were encountered during the lakes and rivers monitoring program.

Great Lake is a biodiversity hotspot, home to 15 recorded threatened species. Therefore, the impacts of water management in Great Lake on these species is a core issue for Hydro Tasmania. Two species of threatened native fish, *Paragalaxias eleotroides* and *Paragalaxias dissimilis*, are known to spawn in Great Lake in spring and early summer. In the first half of 2012, the operating rules for Great Lake were changed to prevent our use of Great Lake from impacting on the spawning success of these species. A three-year study incorporating fortnightly surveys of spawning sites during the spawning season, water quality monitoring, and habitat mapping will assess the effectiveness of the new rule. Data collected over FY2012/13 will be analysed to allow refinement of the rule prior to the start of the spawning season in spring/summer of 2013/14.

River environment in Tasmania

Fish migration strategy

In Tasmania, it has long been recognised that hydro-electric power generation has an adverse impact on fish migration. Infrastructure blocks the passage of fish migrating from estuaries into the catchments and poses a significant barrier to downstream migrating fish.

Hydro Tasmania's strategy aims to facilitate migration of freshwater native fish species where possible. We focus on facilitating eel migration as a priority, as global eel stocks are in decline.

Our fish migration strategy incorporates a multi-faceted approach and includes:

- maintaining and improving the current translocation of elvers from existing sites
- increasing fish migration and the transfer of fish to new sites
- reducing mortality of downstream migrating fish
- facilitating downstream migration from Hydro Tasmania lakes, where feasible
- researching knowledge gaps in eel biology, life history and resource sustainability
- collaborating in the development of sustainable eel management initiatives in Tasmania.

In FY2012/13, Hydro Tasmania continued to contribute to the Inland Fisheries Service (IFS) program to translocate elvers and lampreys from Meadowbank Dam in the Derwent River and the Trevallyn Tailrace in the Tamar River to a number of lakes throughout Tasmania.

In collaboration with the IFS a translocation trial was undertaken at Reece Dam on the Pieman River and resulted in over 750 kilograms of juvenile galaxiids being captured and translocated to upstream lakes. Additional translocation sites at Wilmot, Paloona and Parangana Dams were also investigated as part of the Mersey-Forth Water Management Review.

A new research project aims to address eel mortality at Trevallyn Tailrace. The project will investigate whether light prevents the movement of eels through the intake at the Trevallyn Power Station by acting as a behavioural deterrent. A three-stage in situ trial has been initiated. Stage 1, currently underway, aims to establish the number of eels being entrained in the Trevallyn Power Station. Should eel entrainment at the power station be high, Stage 2 will install a high-intensity light array at the intake and evaluate its effectiveness at deterring eels from entering the intake. Results of the trial will provide guidance as to whether it is feasible and beneficial to invest further funds to install a permanent intake deterrent system (Stage 3).

Managing environmental impacts

Contractor Graham Harrex conducting rehabilitation work at Lagoon of Islands in central Tasmania

Lagoon of Islands rehabilitation

Originally a unique ecosystem characterised by floating islands of vegetation, Lagoon of Islands was flooded in 1964 to provide water to downstream irrigators along the Ouse River.

The demand for water increased rapidly and in 1984 Ripple Canal was constructed to divert more water into the lagoon. Ultimately this development proved to be unsustainable, with significant and ongoing water quality problems.

Hydro Tasmania explored and implemented a number of remedial actions to improve water quality and ecosystem health over 10 years but none provided a long-term solution. With irrigation needs now met from Great Lake, Lagoon of Islands has not been used for its intended purpose for a number of years. In response to the continually deteriorating ecosystem, Hydro Tasmania established an ambitious project to decommission the dam and rehabilitate the lagoon to a natural, healthy and self-sustaining state.

In April 2013, the 320-metre long, six-metre high earth wall dam and associated infrastructure were removed and the area replanted with native vegetation. Comprehensive monitoring of water quality, vegetation, invertebrates, weeds and algae will track the progress of the lagoon's recovery. A similar wetland in the central highlands of Tasmania, Companion Lagoon, will be used as a control site to guide rehabilitation targets for the vegetation community.

Environmental systems and services

In FY2012/13 Hydro Tasmania completed a project to integrate our safety and environmental management systems into a health, safety and environment (HSE) management system. This key strategic initiative has been pursued to improve HSE risk management and simplify and align our systems with accepted best practice. An integrated HSE management system benefits the business by improving the clarity and efficiency of risk management processes, and providing a consistent approach to managing health, safety and environmental risks. Designed around a continual improvement framework, the HSE system will adapt to meet emerging business needs, supporting best practice environmental management. The system was successfully rolled out in September 2012 including the publication of a system manual and an environmental handbook.

Operating under the new HSE system, Hydro Tasmania was certified against the *OHSAS 18001 Occupational Health and Safety Management Systems* standard in December 2012 and re-certified against the *ISO 14001 Environmental Management System* standard in February 2013. In FY2013/14 Hydro Tasmania will continue to optimise the HSE processes and integrate further with business processes across the value chain. The HSE program will focus on process improvement, embedding compliance, training and auditing to ensure that the HSE management system delivers value to the organisation.

A significant part of our FY2013/14 plan involves implementing HSE management processes within Hydro Tasmania's new my**sap** system. These include incident, audit, risk and compliance management processes that are planned to be rolled out in October 2013. The new system will improve our business efficiency and how we manage our safety and environmental risks by replacing a number of unsupported and disparate systems.

Further improvement of HSE management in FY2013/14 will include roll-out of the integrated system within Momentum Energy and implementing our HSE processes at the Tamar Valley Power Station.

Mersey-Forth Water Management Review

Hydro Tasmania's review of its water and land activities in the Mersey-Forth catchments is nearing completion. The Mersey-Forth Water Management Review (MFWMR) assessed current water and land management activities against the community's social, cultural and environmental expectations. The review was initiated in 2011 and comprises four main stages: information review; stakeholder consultation; social and technical studies; and program development and implementation.

Stakeholders identified catchment-wide issues that became the focus for 14 social and technical studies. The studies were commissioned in June 2012 and undertaken in collaboration with key external stakeholders.

Five of the studies have resulted in State-wide improvement of Hydro Tasmania processes through:

- provision of updated information on water level, flow and rainfall data on the Hydro Tasmania website
- improved processes regarding releases of water for recreational activities
- establishment of a process to assess and replace safety and operational signs in the catchments
- preparation of a prioritised action plan to address Aboriginal heritage issues across the Hydro Tasmania system
- provision of hygiene training to Hydro Tasmania staff and recreational groups to prevent the spread of aquatic pests and pathogens into waterways of Tasmania. A new washdown trailer is now available for Hydro Tasmania staff and contractors.

Three studies resulted in increased collaboration and cooperation with stakeholders to address catchment-related issues:

- maintain and improve recreational management
- erosion management at Lake Barrington
- water quality management in the Mersey River.

Four studies have resulted in on-site improvements by:

- supporting update of Central Coast Council's *Lower Forth Flood Response and Recovery Plan* leading to improved flood mitigation plans
- rehabilitating land disturbed during construction of Lake Mackenzie Dam and associated infrastructure
- refining operational management of Lake Gairdner which has the potential to improve public recreation in summer months
- identifying the need to facilitate fish migration at Lake Paloona.

Two studies indicated no cause for stakeholder concern. No issues of concern were found in studies into acid drainage and downstream flow in the Wilmot River.

Hydro Tasmania's Simon Gartenstein testing water quality as part of a study for the Mersey-Forth Water Management Review

The final stage of the MFWMR (program development and implementation) will be completed late 2013.

For more information on the MFWMR including the social and technical studies, reports and newsletters, visit the Hydro Tasmania website at www.hydro.com.au/MFWMR/.

Basslink monitoring program

The Basslink monitoring program has been a major component of our water licence commitments since 2001 and is now largely complete. It has been a challenging but successful program that has delivered positive outcomes for the environment.

The program has enormously increased our understanding of the physical and biological processes in the river systems monitored.

Two mitigation measures have been implemented for the Gordon River since Basslink commissioning in 2006: a minimum environmental flow; and a ramp-down rule. Components of the macro-invertebrate community have responded to the provision of more usable habitat as a result of maintaining the minimum environmental flow.

The ramp-down rule was put in place to reduce the intensity of seepage erosion. The original rule was not as effective as expected so we have worked with the Department of Primary Industries, Parks, Water and Environment and the Gordon River Scientific Reference Committee to revise it. The revised rule, put in place in April 2012, stipulates the rate for reducing discharge from the power station whenever the riverbanks are saturated, as the risk of seepage erosion occurs under those conditions. This new rule is believed to be more effective in limiting seepage erosion and provides operational flexibility.

Targeted monitoring is continuing until 2014 to ensure that the environmental flow and the revised ramp-down rule remain effective under various operating regimes.

For more information about the Basslink monitoring program, including all monitoring and review reports, visit our website: www.hydro.com.au/environment/basslink-studies.

Aboriginal heritage

An Aboriginal heritage survey was undertaken at Lake Mackenzie as part of the Mersey-Forth Water Management Review

Lake Meadowbank Aboriginal heritage

During the year Hydro Tasmania liaised with a private land owner and invited the Aboriginal community to visit an art site that has been submerged for 50 years at Lake Meadowbank. When Lake Meadowbank was flooded in the late 1960s a cave with previously recorded hand stencils was inundated. Some limited information about the cave is available from a journal article written in the 1950s describing the paintings. Hydro Tasmania has been advised that there are fewer than ten known sites in Tasmania with Aboriginal hand stencil artwork.

In early April the lake was lowered by approximately six metres for a period of eight weeks to allow refurbishment of the dam crest gates. Lowering the lake by this amount exposed the cave site. Members of the Tasmanian Aboriginal Centre (TAC) inspected the cave and raised no issues. We have collaborated with the TAC throughout the refurbishment process.

Mersey-Forth Water Management Review Aboriginal heritage study

An Aboriginal heritage study was completed as part of the Mersey-Forth Water Management Review. The project aimed to work collaboratively with the Aboriginal community to better understand Aboriginal heritage values and investigate management requirements on Hydro Tasmania-owned and managed land and water in the Mersey-Forth catchment.

We worked with key Aboriginal stakeholders to produce a report on Aboriginal heritage values in the catchment. The report provided a good understanding of known Aboriginal values and areas where there are gaps in knowledge. The Aboriginal community raised issues that are captured in a prioritised action plan, which has broader application across the Hydro Tasmania system. The report will be used internally by Hydro Tasmania for planning and managing activities on our land.

An Aboriginal heritage survey of Lake Mackenzie, undertaken in conjunction with a technical rehabilitation study, is a key input to a project to rehabilitate land at Lake Mackenzie. The survey ensures that rehabilitation works will not impact on Aboriginal heritage values.

The Aboriginal community has asked that these reports remain confidential in accordance with established policies.

There will be ongoing collaboration with the Aboriginal community in identifying issues for resolution through delivery of the prioritised action plan.

Hydro Tasmania's emissions

Hydro Tasmania complies with legislative requirements such as the *National Greenhouse and Energy Reporting Act 2007* and the *Energy Efficiency Opportunities Act 2006*.

In alignment with our sustainability commitments and the Australian Government's Energy Efficiency Opportunities scheme, we actively work to ensure energy efficiency within the business. Over the past two years, we assessed more than 40 per cent of our total energy consumption for opportunities to improve energy efficiency. We assessed eight sites and ran workshops with site staff to identify ways to reduce energy consumption and optimise energy production. A total of 47 energy improvement opportunities have been identified and we are working on implementing these ideas, starting with those projects identified as having the most potential to be viable, enhance reliability and result in returns to the business through increased efficiency. We will continue to assess our sites for opportunities to improve our energy efficiency in the future.

The measurement of emissions intensity (Figure 5) enables us to track the emissions associated with our business operations and the energy we generate. Our emissions intensity is measured as tonnes of carbon dioxide equivalent per megawatt-hour (tCO_2e/MWh).

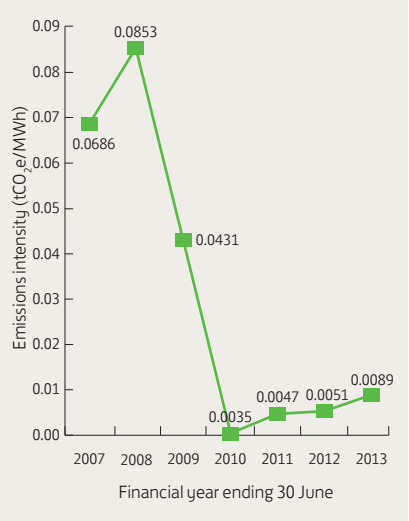


Figure 5: Hydro Tasmania's emissions intensity 2007–2013

Hydro Tasmania's emissions intensity (0.0089 tCO_2e/MWh), as shown in Figure 5, is among the lowest in the NEM and well below the NEM average emissions intensity of 0.8 tCO_2e/MWh[6]. This is because of our predominantly renewable energy portfolio.

The significant reduction during 2008–2009 is due to the closure of our only gas-fired power station at Bell Bay in April 2009. The slight increase in emissions intensity and overall emissions (Figures 5 and 6) in 2012–2013 is mainly due to the transfer of TVPS in June 2013. The emissions intensity of 0.0089 tCO_2e/MWh includes TVPS emissions for the month of June 2013 only.

This financial year we have also included Bass Strait islands emissions in our emission profile. Hydro Tasmania took over operation of two diesel power stations, one each on King and Flinders Islands in July 2012. Previously Bass Strait islands power station operation and distribution services were sub-contracted to Aurora Energy.

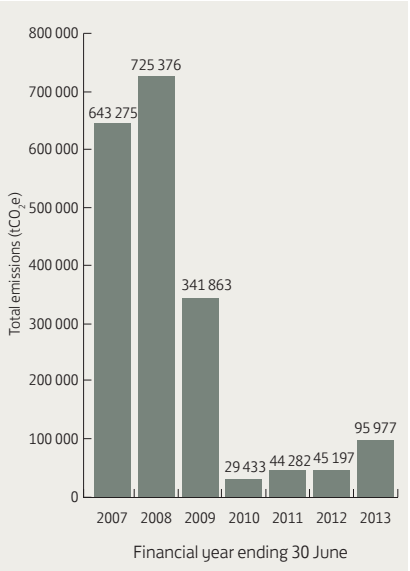
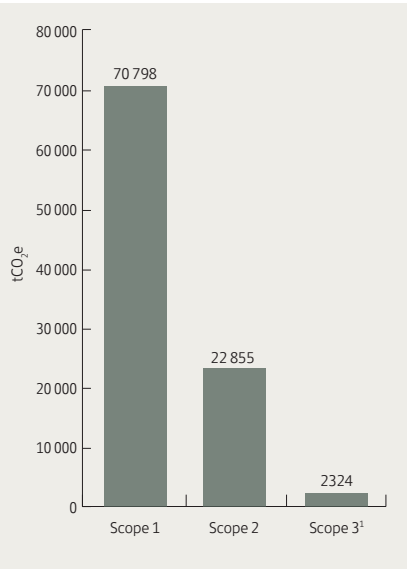


Figure 6: Hydro Tasmania's total emissions 2007–2013

Our total emissions increased in FY2012/13, mainly due to the transfer of TVPS in June 2013, which contributed 59 055 tCO_2e. There were reductions or efficiencies in other emission sources such as pump stations, buildings and facilities, business travel, paper use and aircraft hire.

Scope 1 emissions include direct emissions sources (diesel, petrol consumption and SF_6 leakage). Scope 2 emissions are indirect emissions resulting from the purchase of electricity, heat or steam electricity consumed in pumps, power stations and buildings. Scope 3 emissions are other material indirect emissions (e.g. commercial travel, paper use, waste, staff commuting).

Hydro Tasmania had operational control and emissions reporting responsibility for the Musselroe Wind Farm construction for the full financial year. These emissions contributed about five per cent of our total emissions.



[1] Includes TVPS emissions for the month of June 2013 only.

Figure 7: Sources of Hydro Tasmania emissions

[6] The standard method for the calculation of a generator's emissions intensity requires only emissions directly associated with energy generation to be included. The Hydro Tasmania group chooses to include many additional emissions in the calculation of intensity, as we believe this is more reflective of the impact of our business.

Community

Previous page: Hydro Tasmania's Leon Bateman installing draft minimising equipment as part of the Energy Champions program. This page: Mike Willson from Sustainable Living Tasmania explaining energy efficiency tactics for a client of Energy Champions

Energy champions:

Helping Tasmanians with cost-of-living pressures

Heating homes and domestic hot water are among the most significant costs faced by Tasmanian families.

Hydro Tasmania is working with Sustainable Living Tasmania to reduce that pressure.

In February 2012 the two organisations joined forces in the Power Savings for Tenants program, which provided free energy assessments for low-income households.

The technical expertise of our people has been channelled into helping families take control of their power consumption, increase their energy efficiency and save money. Our people got hands-on, changing lighting to energy-efficient alternatives, insulating hot water cylinders, installing draft-proofing and teaching people about energy efficiency in their own homes. The program involved around 900 homes.

Early in 2013, the program changed its focus from private rentals to Housing Tasmania houses and was renamed Energy Champions. The new program will run until July 2014 and aims to assess more than 3000 homes.

We estimate that the average home would reduce their yearly energy bill by around $350 once energy-efficiency measures are put in place. Importantly the program empowers people to take control of a significant aspect of cost-of-living pressures.

Long-term sustainability indicators

Sustainability code principle	Indicator	Target FY2016/17	Performance in FY2012/13	Expectations/plans for the future
Community engagement We aim to have regular, open and transparent dialogue with our community.	Stakeholder satisfaction rating	Stakeholder satisfaction rating of greater than 80% and at least 40% participation.	Stakeholder satisfaction rating in FY2012/13 was 76% with a participation rate of 41%.	We will continue to listen and respond to our stakeholders and provide value to the people of Tasmania.
	Level of community awareness	50% of Tasmanian survey respondents are aware of what Hydro Tasmania does and our contribution to Tasmania.	83% of respondents had an understanding of Hydro Tasmania and our business.	The business continues to focus effort on educating Tasmanians on the breadth of our business, particularly our contribution to the State.
Community capability We aim to make a genuine difference in the communities in which we operate.	Staff participation in the Community Initiative	25% of staff members are involved in the Community Initiative.	The target for FY2012/13 was for the involvement of 10% of staff based in Tasmania (75 people). We achieved 22.8% (171 people).	The success of the program in the first year demonstrates that the LSI target of 25% is achievable.
Suppliers and partners We work with our customers, stakeholders, suppliers and partners to contribute to a sustainable future.	Key suppliers alignment with Hydro Tasmania's sustainability principles	Key suppliers are 75% aligned with Hydro Tasmania's sustainability principles (rolling three-year average).	In FY2012/13 key suppliers were 80% aligned with our sustainability principles (rolling three-year average). 17 suppliers undertook the self-assessment process, including new suppliers to the business and some smaller suppliers who have an impact on our sustainability performance.	We intend to analyse responses more fully which may involve discussing the details with some suppliers. The learning and sharing of information through this process will help fulfil our commitment to working with suppliers and partners to contribute to a sustainable future.

Hydro Tasmania takes considerable pride in the significant contribution our operations make to the State and the part we have played in the Tasmanian community for nearly 100 years.

We believe in playing an active part in the community through our community support program, philanthropy and by providing access to the assets that we manage.

In addition to financial value and significant employment opportunities, we provide financial and hands-on support to a range of community organisations and support our employees to help organisations in their local communities.

Through our major projects and work to manage our large asset base, we provide opportunities to local suppliers of goods and services, and a stimulus to regional economies.

We engage with the communities in which we work and seek the input and views of stakeholders on our activities.

Stakeholder engagement

Stakeholder engagement approach

Hydro Tasmania has a stakeholder engagement process in place for the identification and engagement of key stakeholder groups. The organisation-wide stakeholder engagement manual is based on AccountAbility's AA1000 Stakeholder Engagement Standard and the International Association for Public Participation Australasia guidelines.

Our external assurers, Net Balance, noted our application of these engagement principles in 2012 and 2013.

We are committed to communicating with our stakeholders and the community in an open and transparent way. Good examples of how we operate are the community consultations we have undertaken for our major projects this year including for TasWind on King Island, the Musselroe Wind Farm, the Rowallan Dam upgrade and the Meadowbank crest gates refurbishment.

To understand the community's views in relation to our projects we hold community open days and public forums, develop fact sheets and provide information on our website, in the media and through social media.

The external stakeholder satisfaction survey in FY2012/13 was conducted for the first time by an independent marketing research consultant. The stakeholder satisfaction rating of 76 per cent is considerably lower than the 91 per cent reported in FY2011/12 but compares well with stakeholder satisfaction ratings for other similar organisations (ranging 72–82%[7]).

TasWind community consultation

TasWind is a proposal to develop a 200-turbine wind farm on King Island, connected to the NEM in Victoria via a high-voltage underwater cable across Bass Strait. This project is innovative in scale and technology but the real innovation comes in our approach to community consultation.

Hydro Tasmania's Environment and Heritage Manager, Sandra Hogue, at an open day at Tarraleah Power Station as part of Tasmanian Heritage Week in 2013

The project proposal was announced to the King Island community in November 2012 with a clear commitment that the project would not go ahead without community support. The first phase of the project, before undertaking any feasibility studies, involved extensive community consultation. The TasWind project team set up an office on the island and a member of the team and his family became residents.

Community forums and meetings were held on the island to provide information and to allow the project team to understand issues from the King Islanders' points of view. The community was kept updated through community bulletins, fact sheets, a website and social media. A consultative committee of King Island residents was formed to make sure that community members received the information they needed to make an informed decision on whether they supported the wind farm feasibility study being conducted, and to represent the views of the community.

The community consultation phase culminated in a survey to measure the level of support. The survey found that nearly 59 per cent of those who responded were in support of a feasibility study being undertaken. Opponents of the project have threatened legal action to prevent the project proceeding.

A staged feasibility process is now underway.

Hydro Tasmania has again given the King Island community an unequivocal commitment that the project will not proceed beyond the feasibility study without broad community support. This support will be measured prior to lodgement of a development application for the project.

This approach confirms our commitment to communicate openly with our stakeholders, listen and respond to their views.

[7] Enterprise Marketing and Research Services (EMRS) personal communication.

Increasing connectivity with the community

Social media is becoming an increasingly important tool for businesses to connect with their stakeholders and the wider community. This year Hydro Tasmania produced a social media standard to support and guide our people to use social media to initiate thought leadership, engage stakeholders and provide an insight into our business. This empowers our people to use social media platforms such as Facebook and Twitter and to interact in conversations about the business, answer questions about what we do and take part in discussions on topics related to our business. We also provide video updates on our projects on YouTube. As well as using online tools, we continue to promote our general inquiry telephone number and email address for contact and queries.

We also make a concerted effort to support our employees to be out and about in the community through our employee volunteering program (see The Community Initiative on page 68).

We have an active cultural heritage program to make our history and iconic assets accessible to the public. We also recognise that access to our sites for recreational purposes is very important to Tasmanians so we monitor water conditions constantly, publish information on water levels in the media and on our website and liaise closely with key stakeholder groups.

We will continue to look for opportunities for our business to be open and accessible to our owners, the people of Tasmania.

2013 community survey

We surveyed 1000 Tasmanians in April 2013 and asked them general questions about their knowledge of Hydro Tasmania. The outcome showed that there was a high level (83 per cent) of understanding of our business and 70 per cent of respondents considered Hydro Tasmania to be a source of pride for Tasmanians. The survey showed that there is a lack of knowledge of our subsidiary companies Entura and Momentum Energy.

The people who responded were particularly supportive of our contribution to employment in Tasmania and the generation of clean, non-polluting energy. There was also very strong support for the development of wind farms.

Of particular note, 25 per cent of respondents stated that they have a personal connection to Hydro Tasmania, either through employment or their family. This result reinforces the connection Tasmanians have to Hydro Tasmania and our role in the development of the State.

We want to share our story with the community and will continue to take opportunities to explain the breadth of our business and the contribution we make to Tasmania. Our centenary year in 2014 is the ideal opportunity to achieve this.

International Hydropower Association involvement

Representatives from Hydro Tasmania and Entura participated in the International Hydropower Association (IHA) World Congress in Sarawak, Malaysia in May 2013.

Attracting more than 500 delegates from 80 countries, the IHA World Congress is the leading global forum for hydropower, providing a platform for dialogue between the hydropower industry, investment and development banks, governments and non-government organisations.

Hydro Tasmania played a prominent role in the congress, contributing speakers across a number of sessions including presentations on sustainability, renewable energy integration, and climate change.

Hydro Tasmania is a sponsor and Board member of IHA and played a leading role in the development of the IHA's Sustainability Assessment Protocol. The protocol was a key topic of discussion at the congress, with Hydro Tasmania attending the first meeting of the Hydropower Sustainability Assessment Council.

The congress provided an excellent opportunity to raise Entura's profile in the global hydropower industry and showcase the unique skills, experience and practical solutions Entura brings to energy and water projects. For Entura, the congress provided valuable direct contact with existing and potential clients, particularly in Asia, who showed keen interest in Entura's expertise, projects and services.

The Hydro Hydrofoils competed in the Dragons Abreast Dragon Boat corporate race day, raising funds for breast cancer awareness and support

Hydro Tasmania in the community

Bushfire recovery efforts

Hydro Tasmania was built by people working together to overcome adversity. This spirit was evident in January 2013 when parts of Tasmania experienced devastating bushfires. The well-known generosity of our people was evident once again through our immediate response to the crisis.

Hydro Tasmania immediately donated $25 000 to the Australian Red Cross for the bushfire appeal. Through our employee volunteering program our people were able to help St Vincent de Paul receive, sort and deliver the enormous volume of goods that were donated from all over Australia. Our people also volunteered with BlazeAid to help farmers restore their properties.

Hydro Tasmania provided support and resources during the initial management of the clean-up and recovery effort. Four of our linesmen from the Bass Strait islands operations team travelled down to support recovery efforts by Aurora Energy to restore power to the affected properties.

We also wanted to recognise the unsung heroes of this type of disaster, the families of the emergency workers. Children in these families often spend long days at home waiting for Mum or Dad to return safely. We purchased ten passes for a Lions Club community event called 'Circus Quirkus' to thank the families of emergency workers and give them a fun day out as a family.

To encourage the next generation of active participants in our emergency services we made a donation to the Claremont Junior Volunteer Fire Brigade. This program is invaluable in not only teaching fire safety but also helps young people learn leadership and teamwork and educates our community on the importance of volunteerism.

The impact of the bushfires will be felt for many years to come. Hydro Tasmania will continue to provide resources and expertise to help communities get back on their feet.

Stakeholder and Community Coordinator Kate Hickey accepted an award on behalf of the business, which was highly commended in the Hobart City Council Volunteer Recognition Awards in the Volunteer Management Best Practice category

The Community Initiative

Hydro Tasmania's Community Initiative aims to make a difference in the community and provide our people with different learning experiences outside their everyday work.

The highlight of the program is the success of the employee volunteering program. The target for the first year of operation was for 10 per cent of our people based in Tasmania to be involved. We achieved 22.8 per cent. This means that 171 people were in the community helping grassroots organisations in Tasmania deliver services that are so important to the quality of life of many people. It is important to our people to be able to make a personal contribution to our community, and the support of Hydro Tasmania is valued by employees.

As a result of the employee volunteering program, our people have been able to:

- use their professional expertise to help not-for-profit organisations, for example through volunteer board positions
- mentor others, such as students or people experiencing disadvantage
- help Housing Tasmania tenants reduce their electricity bills through our partnership with Sustainable Living Tasmania in the Energy Champions program
- help Tasmanians recover from devastating bushfires
- work as volunteer fire fighters and ambulance officers
- contribute to giving Tasmanians a Christmas by having a food and toy drive for the Salvation Army Christmas Appeal.

Our work in the community was recognised at the 2013 Hobart City Council Volunteer Recognition Awards. We received a Highly Commended award in the Volunteer Management Best Practice category.

Another highlight of the Community Initiative this year was the launch of the Skills in Action program. This program is a way for our senior people to provide pro bono expertise to the community. The skills we have to offer are in the areas of engineering, science, finance, policy/analysis, governance/risk, human resources, operations, negotiation, information technology, project management and strategy/business.

We have also been involved in two regional festivals, the North East Rivers Festival and the Queenstown Heritage and Arts Festival. In both cases Hydro Tasmania provided sponsorship and our people participated in the festivals, both as competitors and volunteers. These are emerging festivals that provide a boost to the regional economy. For example, evaluation of the Queenstown Heritage and Arts Festival showed that for every dollar of our sponsorship, more than $100 was attracted in the form of spending by visitors to the festival.

Recreation and public access to waterways

In FY2012/13 Hydro Tasmania adopted recreational management principles to guide the planning, development and management of recreation opportunities on our land and water bodies.

During FY2012/13 we improved access to infrastructure for boating on some Hydro Tasmania-managed waterways, working with Marine and Safety Tasmania. The main boat ramps at Great Lake were improved to enable launching of larger watercraft.

In association with Canoe Tasmania we prepared the Bradys Lake recreational development and management plan. This plan will be implemented during FY2013/14 and will include improved access to the white water kayaking course at Bradys Lake.

Access has been improved at the Lake Margaret Power Station to allow safe guided tours. Hydro Tasmania has also developed a visitor experience manual for the station which provides interpretation of the Lake Margaret site. Access to other parts of the site will be developed over time.

Through a collaborative arrangement with State and local land managers a cross-agency recreational development and management plan has been developed for the Mersey-Forth catchments. A key outcome of this plan is the improvement of access to recreational areas across the catchment. The plan will be implemented over the next five years and will lead to a coordinated approach to recreational management in the Mersey-Forth.

2012 Australasian Wind for Wildlife Conference

Hydro Tasmania's community partnership with Able Tasmania, a not-for-profit organisation that provides services for people living with disabilities, achieved something special in FY2012/13. The logo for the 2012 Australasian Wind and Wildlife Conference was designed by Aaron Pitcher, a participant in the Able Australia arts program supported by Hydro Tasmania. This gave the Able Australia artists the opportunity to work on a project and provide a valuable contribution to the conference.

Competitors in action in the Derby River Derby, part of the North East Rivers Festival, supported by Hydro Tasmania

Sisters Christine and Joy McLennan hold a cheque for $100, which is a one-off payment for anyone signing up to the Smart Grid project

Smart Grid and community support on King Island

Hydro Tasmania is improving the power supply and increasing renewable energy generation on King Island through the KIREIP (see page 46). From late 2013 the project will use Smart Grid technology to better match the demand of electricity to the available renewable supply.

To demonstrate the advantages of Smart Grid we needed a big group of King Islanders to volunteer to be part of the project. For each person who signed up to participate, Hydro Tasmania donated $50 to a local community group of their choice.

This is a win-win situation. Hydro Tasmania and the KIREIP project continue to build King Island's clean and green brand and everyone in the community has the opportunity to benefit.

CEO Safety Incentive Scheme

This scheme was run in FY2012/13 as a way to maintain our focus on safety but to also help community groups enhance their safety performance. For each quarter that the whole Hydro Tasmania group is without a lost time incident, up to $20 000 is donated to community groups across all of our regions.

Due to the success of this program we have been able to help:

- the Sandford Scout Group purchase two EPIRBs
- the Arrive Safe Society continue its safe driving programs
- the Kingston Fire Brigade purchase an oxygen resuscitation kit
- the Nillumbik Junior Soccer Club purchase first aid kits
- Loui's Van purchase equipment for the safety of its kitchen staff and drivers
- the Wayatinah Ambulance Service continue to respond to emergencies
- the YWCA in Melbourne continue its projects focused on safety for young women.

Our relationship with suppliers and partners

2013 Supplier satisfaction survey

Hydro Tasmania's annual survey of suppliers rates their satisfaction with our performance as a customer. All suppliers were invited to participate, with a response rate of around 11 per cent. Overall satisfaction was maintained at last year's levels, at 91 per cent[8].

Sustainability in the supply chain

Sustainability is one of Hydro Tasmania's core values and we are committed to creating a sustainable future. Sustainability for Hydro Tasmania involves the transparent and balanced application of economic, environmental and social considerations to business decisions and activities.

Each year different key suppliers are asked to self-assess their own performance on sustainability against our principles. This demonstrates whether key suppliers share similar values to us in sustainability-related areas and helps us determine business compatibility.

This year, 20 suppliers were invited to participate in this self-assessment and 17 organisations responded. The suppliers chosen included new suppliers to the business and some smaller suppliers who have an impact on our sustainability performance. The overall score was 82 per cent[9], one per cent less than last year. In all seven of our sustainability principles, this group of key suppliers collectively self-assessed their performance above our expected benchmark of 75 per cent. Our rolling three-year average score for the self-assessment by suppliers sits at 80 per cent.

[8] The methodology for determining the score from our annual suppliers' satisfaction survey excludes all responses marked 'not applicable'.

[9] Each supplier responds to seven questions, rating their performance from 0 per cent (poor) to 100 per cent (best practice).The final percentage reported here is the average across all questions and all respondents.

Community members inspect a turbine at close range during an open day at the Musselroe Wind Farm

Award-winning community engagement

Hydro Tasmania has won national recognition for its focus on community engagement as part of the Musselroe Wind Farm project since the start of construction in 2012.

The 2013 Clean Energy Council Awards recognise industry excellence in the areas of community engagement, innovation and media.

Winning the Community Engagement Award is recognition of the focus we have put on community engagement right from the start of this project.

Our people have worked closely with communities in north-east Tasmania, and many members of the project team have lived and worked in the north-east region over the entire construction period, becoming a real part of the community.

Hydro Tasmania has engaged with local schools, tourism bodies, Indigenous elders, and business groups to build the relationships that have resulted in genuine community ownership of this project. The Award was presented in July 2013.

Procurement expenditure

In FY2012/13, we spent $124.96 million with Tasmanian firms and $432.87 million in total on a range of goods and services. Tasmanian firms are defined as businesses operating in Tasmania that have a permanent office or presence in the State and employ Tasmanian workers. Utility costs such as electricity, transmission and fixed telephony are excluded. Our spending increased significantly from last year as a result of the Musselroe Wind Farm construction project and the major upgrade and connection of many of Hydro Tasmania's systems and processes.

Our procurement policy states that we will give consideration to sourcing supplies locally. We work with the Industry Capability Network to help source Australian suppliers of required goods and services before sourcing from overseas. Our tender documents require that suppliers provide information on their environmental and safety practices and their sustainability policy and actions.

Other initiatives

Although the annual supplier survey for FY2011/12 did not indicate any material issues to address this year, our communication with suppliers has been an ongoing focus, especially regarding the safety performance of some contractors working on our sites and opportunities for upcoming work.

Table 7: Stakeholder groups engaged by Hydro Tasmania

Category	Includes
Tasmanian Government	Premier, Treasurer and advisors Minister for Energy and Resources and advisors Tasmanian Government departments and regulators State Opposition Electricity Reform Project Team
Other governments (Australian and state governments)	Regulators Government departments Ministers, Tasmanian federal politicians
Local government	Councils
Tasmanian electricity industry	Aurora Energy Transend Networks
Tasmanian community	Commercial and recreational land and water users Environment and heritage groups Community organisations Tasmanians
Employees	Staff and contractors Unions
Customers, suppliers and partners	Wholesale and retail customers Customers of consulting services Suppliers of goods and services Partners, consultants
Other	Media—national, state, local, industry Industry associations

The initiatives implemented in FY2012/13 included:

- establishing a Contractor Safety Working Group (CSWG), a small team of Hydro Tasmania personnel and six contractor representatives who met regularly to drive improvement in contractor performance acting as a representative body. The purpose of the CSWG is to liaise directly with our contractors to understand the challenges they face in discharging their work safely and obtain feedback on how Hydro Tasmania can improve its systems and processes to provide a safer place of work. Through the working group we have improved contractor communications and made application of the Hydro Tasmania contractor management process more consistent
- updating the external Hydro Tasmania website to include a supply chain-specific page to advertise upcoming expressions of interest and tenders, and latest news of relevance to suppliers
- developing an internal database to review the suppliers who have registered interest with us to pre-qualify for potential future work
- offering and encouraging feedback to both successful and unsuccessful bidders after tenders are awarded to help them improve future bids, both technically and commercially.

Basslink

Hydro Tasmania has an ongoing commercial disagreement with Basslink Pty Ltd (BPL). BPL is owned by CitySpring Infrastructure Trust, a listed Singaporean entity. Elements of these disagreements date back to 2009. Hydro Tasmania has unsuccessfully attempted to resolve these disagreements via commercial negotiation with BPL. These disagreements have now been referred to arbitration for resolution, with a hearing fixed for November 2013.

People

Previous page: Hydro Tasmania apprentice Carson Denouden ensures safety measures are in place before (this page) moving heavy equipment at Paloona Power Station

Safety – our number one value

No harm to anyone at any time

Safety is promoted actively to everyone across the business. Our safety performance is reflected in our lost time injury (LTI) rate, which measures the number of incidents that result in time off work of one day / shift or more. It is a standard measure for safety performance and is used by many organisations.

While our lost time injuries remained low in comparison to the rest of our industry, we did not achieve our target of zero LTI for the year. There were 6 lost time injuries involving Hydro Tasmania staff and contractors.

This was partly due to inclusion of contractor LTIs for the period, following our decision to expand our LTI reporting to cover contractors. A contributing factor during the reporting period was the large number of contractors involved in construction work at Musselroe Wind Farm.

We encourage our people to view safety as everyone's responsibility and reinforce the importance of remaining vigilant about our own and our colleagues' safety in our work space, no matter where we are.

Long-term sustainability indicators

Sustainability code principle	Indicator	Target FY2016/17	Performance in FY2012/13	Expectations/plans for the future
Attraction, capability and retention We will continue to: • offer opportunities for our employees to grow and develop • reward, recognise and value employee contribution • listen and engage with our employees and maintain sound employment relations • ensure a diverse and equitable workplace.	Staff engagement score	Maintain engagement levels at the high-performing benchmark for our industry.	Achieved. Engagement score was 63% overall for the Hydro Tasmania group, the same as last year's score.	The whole-of-business plan will be seeking to address our main business-wide areas for improvement. In addition, teams are developing area-specific plans to leverage strengths and identify areas for improvement during FY2013/14.
	Percentage of development plans implemented	80% of development plans implemented to employees' satisfaction.	No data available.	Implementation of an online module for performance management in my**sap** will provide the ability to track and monitor progress of development plans.
Safety, health and wellbeing We provide a safe and healthy working environment.	Lost time injuries (LTIs)	Zero LTIs.	While incidents remained low for our industry, zero LTI has not been achieved. There were 2 Hydro Tasmania employee LTIs and 4 contractor-related LTIs. LTI frequency = 2.39, compared to the industry average of 3.2.	Our aim is to reduce LTI in FY2013/14 through, in part, piloting a behavioural safety program. The pilot will be evaluated in 2014 to assess its effectiveness and potential for application across the business.
	Safety Reporting Index (SRI)	SRI = 10.	The target of SRI=3 for FY2012/13 has been achieved and, on occasion, exceeded during the year. At 30 June, the figure was 3.8 for the Hydro Tasmania group.	Since March 2013 SRI data is being reported by separate business lines. This enables specific targets to be set within the various lines of business in accordance with the local risk profile. A SRI target of 5 has been set for the business for FY2013/14.
	Participation in Healthy Hydro Program	90% participation in program.	Participation in this program exceeded 95% of employees.	The Healthy Hydro program will continue into FY2013/14 with focus on: • continuation of the voluntary medical program • ergonomic risk reduction • manual handling risk reduction • targeted programs such as men's health and heart health awareness.

Hydro Tasmania aims to attract, develop and retain a competent and dynamic workforce which has both the skills to meet core business objectives and the capacity to adapt to and deliver on evolving business strategy. This is achieved through successful development and implementation of core people strategies including workforce planning, attraction, retention, talent management, training and development.

The successful implementation of these strategies is supported by appropriate industrial agreements.

We provide attractive employment opportunities for a significant number of highly skilled Tasmanians across the State in a wide range of professional fields such as engineering, science, finance, law, policy and apprenticeship programs, attracting professionals from interstate and overseas and encouraging talented Tasmanians to remain in the State.

Hydro Tasmania remains committed to ensuring all employees work in a safe manner reflecting the commitment of no harm to anyone at any time. A range of initiatives are being pursued to further improve safety performance.

Attraction, capability and retention

Employee profile

The Hydro Tasmania group employs 1146 people in three businesses with offices in Hobart, Melbourne, Brisbane, New Delhi and Cape Town. The majority of employees are full-time (88 per cent), with a small proportion of part-time (9 per cent) and casual (2 per cent) staff (Table 8). Employee numbers are based on headcount and include our Board members at 30 June 2013.

Statistical information about our workforce is available on our website.

EPA Agreement

At 30 June 2013, the replacement agreements for Hydro Tasmania Enterprise Partnership Agreement 2009–2013 and Entura Enterprise Agreement 2010–2013 were both still being negotiated. The negotiations between employees, bargaining representatives (including unions) and the business started in January 2013 and reflected adjustments to comply with changes in the *Fair Work Act 2009*.

Both agreements propose enhanced remuneration models to strengthen the link between strategic objectives, pay for performance and remuneration. There has also been a focus on providing more flexibility in working arrangements and preservation of employee entitlements to balance both business and employee needs. Employees have expressed concern about the proposed removal of the employee electricity discount.

Workforce planning

Over the past 12 months Hydro Tasmania has continued to conduct a number of large-scale projects in addition to 'business as usual'. Among these have been:

- a major upgrade and connection of all Hydro Tasmania's systems (my**sap**)
- construction of Musselroe Wind Farm
- engagement with and participation in implementation of the Tasmanian Government's electricity industry reform package
- negotiation of two Enterprise Agreements.

Management of these projects has required additional human resources and, in some cases, specialised skills. These pressures have tested our capability in resource planning and have mainly been addressed through hiring contract and fixed-term labour. Projects are largely running to schedule and we continue to achieve strong business results, indicating that we are able to 'resource up' to meet the demands of projects in peak times.

In the longer term, however, we continue to face challenges in attracting and retaining specialist skills (such as hydropower and dam engineering). Workforce planning has continued to be a strategic focus over the past 12 months, during which we developed a business-wide workforce planning process. The process has been applied in several parts of our business and as a result, we are implementing clear plans to close the gap between the current workforce profile and the profile required for the future. For example, we have developed recruitment practices that are more effective in head-hunting people with specialist and hard-to-find skills, and succession planning for critical positions is underway.

Hydro Tasmania currently employs 29 young people as part of our Graduate Program. The group pictured is taking part in a bonding day for graduates across the business

Staff retention and talent management

The talent management process for the Hydro Tasmania group of businesses has been further refined and implemented over the past 12 months. Our talent management process has three components: succession (identification of critical positions and how successors can be developed/sourced); high-potential development (targeted development of employees with potential for a higher level or more complex position); and retention (of key people with skills critical to continued business operation).

Work is well underway on development of a talent management module within my**sap** (see page 30) which will enable automation of parts of our talent management process, as well as improved reporting on talent risks and actions to mitigate risks.

2013 employee feedback survey

Overall employee engagement is a key performance indicator for Hydro Tasmania, and each year we conduct a survey of employees to measure engagement.

The survey:

- provides insight into key areas of concern for employees that can then be prioritised for action
- provides a benchmark to measure the effectiveness of internal programs and identify trends
- helps us understand what motivates, and demotivates, employees
- provides an opportunity for employees to voice their concerns anonymously and to contribute to improving the business and working environment
- tells us if our people:
  - believe in the organisation
  - have a desire to make things better
  - understand the business context and the bigger picture
  - are aligned with our values
  - are willing to go the extra mile.

Table 8: Total workforce by employment type

	2008	2009	2010	2011[1]	2012	2013
Full-time	732	755	752	697	884	1015
Part-time	57	75	73	74	85	107
Casual	30	30	19	20	25	24
Total	**819**	**860**	**844**	**791**	**994**	**1146**

[1] Data for 2008–2011 does not include staff of Momentum Energy or Entura's Indian office, with the exception of the Manager of that office. Data for 2012–2013 reflects all employees of the Hydro Tasmania group.

Right Management conducted the survey again this year. The survey measures engagement through eight specific questions related to employees' satisfaction, commitment, pride and advocacy. All of these questions must be answered positively for an employee to be considered engaged.

Hydro Tasmania group's 2013 employee engagement score remained steady at 63 per cent, the same as in 2012. This score is well above both the Australian average of 34 per cent and the benchmark of 58 per cent for high-performing organisations (based on Right Management's latest benchmarking study results released in June 2012). The results are particularly pleasing given the major challenges faced by the business during the year, such as industry reforms, implementation of my**sap**, and meeting challenging sales targets. In addition to the positive engagement result, the response rate for this year's survey increased to 84 per cent. This constitutes a welcome increase on last year's response rate of 80 per cent.

Similar to 2012, this year's key strengths and drivers of engagement for the Hydro Tasmania group relate to health, safety and wellbeing, commitment to the environment and sustainability. However, if we are to maintain and improve our strong levels of engagement, the survey identifies areas we need to work on. These include managing change, learning from the past and sharing information, as well as improving the way we attract and retain talent.

Graduate program

Hydro Tasmania's graduate program has been in place since 2008. We reviewed the program in 2012 in response to questions raised by stakeholders across the business about the purpose of the program and the extent to which it is meeting business area needs. The purpose of the review was to identify opportunities for improvement to the program to ensure it remains relevant to all areas of the Hydro Tasmania group and continues to support the business strategy.

The review was conducted by a working party comprised of business area and graduate program representatives, and involved focused sessions covering one or more program elements/issues. The review resulted in changes to the graduate program purpose, vision and objectives, recruitment processes, and general administration of the program. Feedback on the revised program from business areas and graduates shows that the program is perceived as of real value to Hydro Tasmania.

Learning and development

To support continued learning and development within Entura two key initiatives were implemented during the past year. *My Career* is Entura's career progression and consultant capability framework. *My Career* outlines career paths and key skills required within Entura as well as supporting tools for career planning.

Learning and development is also supported by the launch of a dedicated knowledge-sharing and management platform called the *Institute of Thinking*. The *Institute of Thinking* uses document management, wiki, blog, and twitter to provide forums for internal collaboration and knowledge management.

Left: Richard Herweynen. Middle: Andy Crawford. Right: Nigel Clark (centre)

Achieving excellence

Three employees were singled out by industry peers over the past year for excellence in their field.

Richard Herweynen, Entura's Principal Civil Engineer, was awarded the Tasmanian Professional Engineer of the year (Tasmanian division, Engineers Australia). The award recognises Richard's contribution to dams and hydropower development around Australia and internationally. Richard has continued to build and share his knowledge and has taken an active role in mentoring young engineers. Richard has been the lead dam designer for a number of recent projects around Australia, many of which have received numerous awards for engineering excellence.

Sustainability Coordinator Andy Crawford won the inaugural Tasmanian Young Water Professional of the Year. Andy has eight years' experience in the industry. The award recognises his contribution and leadership in the industry through supporting new environmental work methods, achieving external ISO 14001 certification for Hobart Water's Environmental Management System, delivering tailored school education sessions to approximately 1500 students every year and raising students' awareness of water issues. Andy joined Entura in 2012 as a water quality professional and is currently on secondment with Hydro Tasmania in the role of Sustainability Coordinator.

Momentum Energy's Managing Director Nigel Clark won *CEO Magazine*'s award for Energy and Resources Executive of the Year in November 2012. The award recognises Nigel's strong and ethical leadership in a multi-billion dollar industry and his drive, which has resulted in rapid and strong growth of what was only a few years ago a start-up retail company. Momentum Energy was acquired by Hydro Tasmania in 2009 and its revenue has doubled each year since that time. Nigel's vision for Momentum Energy leverages the natural brand assets of renewable energy generation and 'challenger retail spirit' to create a platform for genuine growth.

Safety, health and wellbeing

Our Safety Improvement Plan (SIP) identifies the key health and safety activities necessary to deliver our primary value of no harm to anyone at any time. During FY2012/13, Hydro Tasmania undertook a risk-profiling exercise to identify and rank significant health and safety risks within each business unit. We used the exercise to update the SIP and guide activities undertaken as part of the SIP. Key activities included:

- certification of Hydro Tasmania's health and safety procedures to OHSAS 18001. This is an internationally recognised safety standard, and certification helps to ensure that we meet our duty of care under an auditable system.
- introduction of SRI. This index is a metric for measuring near-misses and hazards. Near-miss information is important to help us identify trends and helps us prevent potential future incidents.
- introduction of a behavioural safety program, Safe Start. This program aims to improve individuals' awareness of hazards caused by human error. It is being piloted in the Technical and Operations division to assess its value.
- introduction of a driver training program.
- training in fatigue management. Effective fatigue management continues to be a priority for Hydro Tasmania.
- improvements in contractor safety information. Information collected on OHS incidents involving contract workers has identified a need to ensure they are better informed and able to work within our safety requirements.

In addition, we reviewed the revised workplace health and safety legislation to ensure that our current procedures are compliant. The review highlighted key areas that required enhancement of our processes, particularly incorporating safety considerations in design and management of registered plant and equipment.

The Healthy Hydro program provides employees with free flu vaccinations, fitness and medical assessments, and health and wellbeing seminars. Individual medical assessments for our people are free, confidential and comprehensive.

The value of the program has been proven through diagnosis of various previously undetected medical conditions for which people have subsequently been able to seek treatment. Ninety-five per cent of our employees participate in the program.

Table 9: Safety statistics as at 30 June for 2009–2013*

30 June:	2009	2010	2011	2012	2013
Fatalities	0	0	0	0	0
Lost time injury frequency rate[1]	2.8	2.1	0.6	2.32	2.39
Medical treatment injury frequency rate[2]	6.6	6.0	11.6	10.3	11.2
Severity frequency rate[3]	60.0	21.3	13.5	14.2	4.1
All injury frequency rate[4]	42.0	39.4	31.4	38.2	32.2
Occupational disease rate[5]	0	0.645	0	0	0.45
Hydro Tasmania staff LTIs	4	3	1	2	2
Contractor LTIs	1	2	0	3	4
Safety Reporting Index (SRI)					3.8[6]

* Data does not include Entura's India office.

[1] OHS data does not comply with Global Reporting Initiative (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 LTI frequency rate.

The calculation for LTI frequency rate is:

$$\frac{\text{(Number of incidents/number of hours worked) x 1,000,000}}{\text{Number of hours worked = number of FTE x number of working days x number of hours in a working day (7.5)}}$$

LTI is an absence from a complete shift due to workplace injury (scheduled work only).

[2] Medical Treatment Injury (MTI) is calculated as a rolling average and relates to receiving medical attention due to workplace injury and returning to work.

[3] Severity frequency rate is calculated as a rolling average and relates to the average number of work days lost per LTI per million man hours. This indicator is also referred to as Lost Day Rate (LDR) for GRI reporting and is for Hydro Tasmania employees only.

[4] All injury frequency rate is calculated as a rolling average and relates to LTIs, MTIs and first aid treatments.

[5] Occupational disease rate (ODR) is calculated using recorded incidents that fall within the definitions of disease stated in AS1885.1-1990 Workplace injury and disease recording and reporting, and as defined by the International Labour Organization.

The calculation for ODR is:

$$\frac{\text{(Number of incidents/number of hours worked) x 1,000,000}}{\text{Number of hours worked = number of FTE x number of working days x number of hours in a working day (7.5)}}$$

[6] Hydro Tasmania commenced recording / reporting on the SRI in July 2012. SRI is calculated as the sum of the number of reports of hazards and near-misses divided by the total number of injuries. Data provided is the 12 month average from July 2012.

$$\text{SRI} = \frac{\text{(Number of hazard \& near-miss reports)}}{\text{(total number of injuries)}}$$

Financial report

Financial report 30 June 2013

Contents

Income Statement for the Year Ended 30 June 2013

	NOTE	CONSOLIDATED 2013 $'000	CONSOLIDATED 2012 $'000	PARENT 2013 $'000	PARENT 2012 $'000
Revenue					
Sale of products and services		1,546,369	1,039,693	736,773	607,380
Fair value gains	2(b)	17,789	19,513	16,397	13,026
Share of profit of joint venture entities		1,756	-	-	-
Other		11,860	11,438	3,079	10,117
Total revenue		1,577,774	1,070,645	756,249	630,523
Expenses					
Direct expenses		960,782	590,001	206,331	217,954
Labour		120,539	104,802	99,415	91,374
Depreciation		91,373	82,273	89,937	81,296
Finance expenses	2(a)	67,501	86,687	66,451	78,901
Fair value losses	2(c)	19,712	105,084	19,712	111,298
Impairment expenses	2(d)	484,315	-	396,889	-
Share of loss of joint venture entities		-	384	-	-
Other		82,074	83,544	64,468	61,850
Total expenses		1,826,296	1,052,775	943,203	642,673
(Loss)/profit before income tax equivalent expense		(248,522)	17,869	(186,954)	(12,151)
Comprising:					
Result before fair value movements and impairment expenses		237,716	103,440	213,251	86,120
Net fair value losses		(1,923)	(85,570)	(3,315)	(98,273)
Impairment expenses	2(d)	(484,315)	-	(396,889)	-
(Loss)/profit before income tax equivalent expense		(248,522)	17,869	(186,954)	(12,152)
Income tax equivalent (benefit)/expense		(59,697)	3,997	17,528	(3,830)
(Loss)/profit after tax attributable to owners of the parent		(188,825)	13,872	(204,481)	(8,322)

Statement of Comprehensive Income for the Year Ended 30 June 2013

	NOTE	CONSOLIDATED 2013 $'000	CONSOLIDATED 2012 $'000	PARENT 2013 $'000	PARENT 2012 $'000
Profit/(loss) after tax attributable to owners of the parent		(188,825)	13,872	(204,481)	(8,322)
Other comprehensive income					
Items that will not be reclassified in subsequent years to operating result					
Revaluation of property, plant and equipment		(321,351)	321,351	(321,351)	321,351
Actuarial gain/(loss) on RBF provision	17	50,889	(91,503)	50,889	(91,503)
Income tax relating to components of other comprehensive income		78,139	(68,954)	78,111	(68,868)
Items that may be reclassified in subsequent years to operating result					
Foreign currency translation gain/(loss)		96	(287)	-	-
Fair value gain/(loss) on cash flow hedges		5,122	(18,581)	9,119	(18,581)
Share of other comprehensive income of associates		-	-	-	-
Income tax relating to components of other comprehensive income		(1,565)	5,660	(2,736)	5,574
Other comprehensive income for the year, net of tax		-	-	-	-
Total other comprehensive income		(188,670)	147,686	(185,968)	147,974
Total comprehensive income/(loss) attributable to the owners of the parent		(377,495)	161,559	(390,449)	139,651

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 89 to 142.

Balance Sheet as at 30 June 2013

	NOTE	CONSOLIDATED 2013 $'000	CONSOLIDATED 2012 $'000	PARENT 2013 $'000	PARENT 2012 $'000
Current assets					
Cash and cash equivalents		15,669	7,029	11,111	1,267
Receivables	6	220,828	142,062	127,999	87,896
Investments	7(a)	24,137	32	24,100	-
Inventories	8	43,680	54,706	51,552	42,659
Other financial assets	11(a)	73,277	202,368	106,168	242,665
Assets held for sale	9	-	116,731	-	110,793
Total current assets		377,591	522,928	320,930	485,279
Non-current assets					
Investments	7(b)	66,696	34,557	205,477	190,262
Property, plant and equipment	10	4,188,436	4,484,569	4,070,467	4,467,740
Other financial assets	11(b)	473,915	715,986	473,471	715,675
Goodwill	12	16,396	47,796	-	-
Total non-current assets		4,745,443	5,282,908	4,749,415	5,373,677
TOTAL ASSETS		5,123,034	5,805,836	5,070,345	5,858,956
Current liabilities					
Payables	13	142,732	124,700	78,696	89,406
Interest-bearing liabilities	14(a)	135,669	211,252	135,669	211,252
Provisions	15(a)	58,570	54,114	31,038	29,043
Provision for income tax	4(c)	61,606	28,938	61,606	28,938
Other financial liabilities	16(a)	173,773	464,891	303,326	586,643
Total current liabilities		572,350	883,895	610,335	945,282
Non-current liabilities					
Interest-bearing liabilities	14(a)	770,126	645,554	770,126	645,554
Deferred tax liabilities	4(d)	560,307	772,775	644,831	796,224
Provisions	15(b)	492,799	413,133	350,256	401,033
Other financial liabilities	16(b)	934,355	958,432	934,355	958,432
Total non-current liabilities		2,757,587	2,789,894	2,699,568	2,801,243
TOTAL LIABILITIES		3,329,937	3,673,789	3,309,903	3,746,525
NET ASSETS		1,793,097	2,132,047	1,760,442	2,112,431
EQUITY					
Contributed equity		360,239	271,100	360,239	271,100
Reserves		(19,226)	296,907	(14,789)	297,443
Retained earnings		1,452,084	1,564,040	1,414,992	1,543,888
TOTAL EQUITY		1,793,097	2,132,047	1,760,442	2,112,431

The Balance Sheet is to be read in conjunction with the notes to and forming part of the financial report included on pages 89 to 142.

Cash Flow Statement for the Year Ended 30 June 2013

	NOTE	CONSOLIDATED 2013 $'000	CONSOLIDATED 2012 $'000	PARENT 2013 $'000	PARENT 2012 $'000
CASH FLOW FROM OPERATING ACTIVITIES					
Inflows:					
Receipts from customers		1,488,304	1,007,227	731,643	586,856
Operating grants and subsidies received		7,756	8,032	7,756	8,032
Interest received		685	873	298	311
Outflows:					
Payments to suppliers and employees		(1,129,478)	(784,011)	(312,948)	(350,211)
Interest paid		(44,354)	(61,289)	(44,418)	(50,716)
Government guarantee fee		(8,595)	(8,697)	(8,595)	(8,697)
Income tax equivalent paid		(52,769)	(54,799)	(52,769)	(54,799)
NET CASH PROVIDED BY OPERATING ACTIVITIES	5(b)	261,549	107,336	320,967	130,776
CASH FLOW FROM INVESTING ACTIVITIES					
Inflows:					
Proceeds from sale of property, plant and equipment		763	509	763	509
Proceeds from financial derivatives		31,679	-	31,679	-
Proceeds from divestment		90,176	88,082	-	84,690
Dividends from joint venture		1,400	-	-	-
Outflows:					
Business acquisition		(4,326)	-	(1,875)	-
Payments for financial derivatives		-	(13,041)	-	(13,041)
Payments for property, plant and equipment		(141,558)	(167,379)	(110,652)	(180,619)
NET CASH USED IN INVESTING ACTIVITIES		(21,866)	(91,829)	(80,085)	(108,461)
CASH FLOW FROM FINANCING ACTIVITIES					
Inflows:					
Proceeds from Tascorp loans		427,000	565,600	427,000	565,600
Outflows:					
Repayment of Tascorp loans		(582,600)	(537,601)	(582,600)	(537,601)
Repayment of finance lease		(652)	(636)	(652)	(636)
Dividend paid		(50,686)	(49,008)	(50,686)	(49,008)
NET CASH USED IN FINANCING ACTIVITIES		(206,938)	(21,645)	(206,938)	(21,645)
NET INCREASE/(DECREASE) IN CASH		32,745	(6,138)	33,944	670
CASH AT BEGINNING OF THE YEAR		7,061	13,199	1,267	597
CASH AT END OF THE YEAR	5(a)	39,806	7,061	35,211	1,267

The Cash Flow Statement is to be read in conjunction with the notes to and forming part of the financial report included on pages 89 to 142.

Statement of Changes in Equity for the Year Ended 30 June 2013

	NOTE	CONSOLIDATED 2013 $'000	CONSOLIDATED 2012 $'000	PARENT 2013 $'000	PARENT 2012 $'000
CONTRIBUTED EQUITY					
Balance at the beginning of the year		271,100	271,100	271,100	271,100
Equity contributions from the State of Tasmania		89,139	-	89,139	-
Balance at the end of the year		360,239	271,100	360,239	271,100
RESERVES					
Asset revaluation reserve					
Balance at the beginning of the year		321,351	-	321,351	-
Asset revaluation (decrement)/increment		(321,351)	321,351	(321,351)	321,351
Balance at the end of the year		-	321,351	-	321,351
Derivative revaluation reserve	1.2(j), 1.2(r)				
Balance at the beginning of the year		(23,908)	(5,327)	(23,908)	(5,328)
Forward exchange contracts		4,450	(5,096)	4,451	(5,096)
Interest rate swaps		672	(13,485)	4,668	(13,485)
Balance at the end of the year		(18,786)	(23,908)	(14,789)	(23,908)
Foreign currency translation reserve					
Balance at the beginning of the year		(536)	(249)	-	-
Foreign currency translation		96	(287)	-	-
Balance at the end of the year		(440)	(536)	-	-
TOTAL RESERVES		(19,226)	296,907	(14,789)	297,443
RETAINED EARNINGS					
Balance at the beginning of the year		1,564,040	1,747,929	1,543,888	1,756,015
Net (loss)/profit for the year		(188,825)	13,872	(204,481)	(8,322)
Dividend paid		(50,686)	(49,008)	(50,686)	(49,008)
Deferred income tax recognised directly in equity	4(b)	76,574	(63,294)	75,375	(63,294)
Actuarial gain/(loss) on RBF defined benefit plan	17	50,889	(91,503)	50,889	(91,503)
Woolnorth accumulated losses divested		-	6,044	-	-
Musselroe accumulated losses divested		91	-	-	-
Other		1	-	7	-
Balance at the end of the year		1,452,084	1,564,040	1,414,992	1,543,888
TOTAL EQUITY		1,793,096	2,132,047	1,760,442	2,112,431

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 89 to 142.

Notes to and forming part of the financial statements for the year ended 30 June 2013

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 hydro power stations, 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 all regions of the National Electricity Market (NEM). On 1 June 2013, under the Tasmanian Government's electricity reform, the Tamar Valley gas-fired power station was transferred to the Corporation. This comprises two open-cycle gas turbines and one closed-cycle gas turbine.

At 30 June 2013 the Corporation had 1126 full-time equivalent employees (FTEs) (2012: 947 FTEs) including 6 non-executive directors (2012: 6).

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 2013 was adopted by the directors on 14 August 2013.

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
- 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.

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 2013:

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*—the classification and measurement of all financial assets will mean the redesignation of some financial assets.	1 January 2015	30 June 2016
AASB 10	Consolidated Financial Statements	Replaces parts of *AASB 127 Consolidated and Separate Financial Statements* and broadens the situations when an entity is considered to be controlled by another entity—minimal disclosure changes expected.	1 January 2013	30 June 2014
AASB 11	Joint Arrangements	Replaces *AASB 131 Interests in Joint Ventures* and uses the principle of control in AASB 10—minimal disclosure changes expected.	1 January 2013	30 June 2014
AASB 12	Disclosure of Interests in Other Entities	New disclosures about the judgements made by management to determine whether control exits and summarised information around those which are not considered controlled—minimal disclosure changes expected.	1 January 2013	30 June 2014
AASB 13	Fair Value Measurement	Provides guidance on how to determine fair value and expands the disclosure requirements for all assets or liabilities carried at fair value—this will impact on the values of some liabilities including borrowings, and will increase disclosures within the financial instruments note.	1 January 2013	30 June 2014
AASB 119	Employee Benefits	Revises the accounting for defined benefit plans. Requires that the liabilities arising from such plans be recognised in full with actuarial gains and losses being recognised in other comprehensive income—no change.	1 January 2013	30 June 2014
AASB 2012-2	Disclosures—Offsetting Financial Assets and Financial Liabilities	Amends *AASB 7 Financial Instruments: Disclosures* to require an entity to disclose information about rights of offset and related arrangements for financial instruments under an enforceable master netting agreement—unlikely to change current disclosures.	1 January 2013	30 June 2014
AASB 2012-3	Offsetting Financial Assets and Financial Liabilities	Addresses inconsistencies in current practice when applying the offsetting criteria in *AASB 132 Financial Instruments: Presentation*—no change to current policy.	1 January 2014	30 June 2015

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Principles of consolidation

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

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

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

(d) Significant accounting judgements

In the process of applying the Corporation's accounting policies, the Corporation 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 hydro generation assets**

  Note 1.2(i) and note 10 describe the judgement process adopted in assessing fair value of hydro 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.

- **Financial liabilities and financial assets**

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

(e) Significant accounting estimates and assumptions

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

(f) Receivables

Current trade receivables include amounts receivable on 30 day terms from Australian Energy Market Operator (AEMO) 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 Momentum 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 calendar year is completed and the certification process has been completed. In addition, if baseline generation has been exceeded in the current calendar year, the EEPs generated from that excess are recognised as inventory.

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.

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Property, plant and equipment

The Corporation carries its hydro generation assets at fair value. The basis for the fair value calculation is described in note 10. The Corporation's other property, plant and equipment 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:

	2013	2012
Hydro generation	3 – 150 years	3 – 150 years
Other generation	3 – 50 years	3 – 50 years
Motor vehicles	4 – 33 years	4 – 33 years
Minor assets	1 – 10 years	1 – 10 years
Buildings	5 – 50 years	5 – 50 years

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

(j) Other financial assets

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

- **Held-to-maturity investments**

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

- **Loans and receivables**

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

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

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

(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 acquired. Goodwill is measured at cost less accumulated impairment losses. Refer note 1.2(m).

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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
- expenditure incurred in the development phase can be reliably measured and attributed to the asset.

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

(m) Asset impairment

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

When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered impaired and is written down to its recoverable amount. Impairment losses are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amount of the other assets in the CGU on a pro rata basis. The Corporation classifies its hydro generating assets, the Momentum Energy retail business and the gas-fired generation business as separate CGUs.

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. In assessing fair value, estimates are made of the current market value of an asset less estimated cost of sale.

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

(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.

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 2013, the on-costs attributable to the annual leave provision were $1.1 million (2012: $0.9 million). Sick leave is non-accumulating and is recognised as an expense when the leave is taken.

- **Long service leave**

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

  The provision is calculated using expected future increases in wage and salary rates including related on-costs and the expected rate of utilisation based on historical patterns and is discounted using Commonwealth Bond rates at reporting date. The provision is segregated into current and non-current portions based on vesting of entitlements in the next 12 months. For 2013, the on-costs attributable to the long service leave provision were $1.6 million (2012: $1.5 million).

- **Defined benefit plan**

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

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

- **Defined contribution plans**

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

(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 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.

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Taxation (continued)

- **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 (known as the Group). 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 2013 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 from or payable to other entities in the tax consolidated group.

- **Other taxes**

  Revenues, expenses, assets and liabilities are recognised net of the amount of goods and services tax (GST) except:
  - when the GST incurred on a purchase of goods or services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable
  - 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 Income Statement.

The Corporation designates certain derivatives as effective hedges to allow hedge accounting rules to be applied. A hedge is effective if it demonstrates changes in fair value or cash flows that offset those attributable to the hedged risk over the designated hedging period. At inception of a hedge relationship the Corporation formally designates and documents the hedge relationship to which the Corporation wishes to apply hedge accounting 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 Income Statement.

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

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

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Leases

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

- **Corporation as a lessee**

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

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

- **Corporation as a lessor**

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

(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 Income Statement.

(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 Income Statement and accrued as a provision for later offset against any investments.

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

(x) Segment information

The Corporation has identified segments based on internal management reports. Refer to note 32.

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) Assets held for sale

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

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

(z) Contributed equity

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

(aa) Government grants

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

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

(ab) Revenue recognition

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

- **Electricity and gas sales**

  Revenue from generated electricity and traded gas is earned from the Australian Energy Market Operator (AEMO) at market price and is recognised at the time the electricity or gas is provided. Revenue from sale of gas to other parties is recognised at contract prices at the time of delivery. 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 environmental energy products is recognised at the time the Corporation has earned the right to register the products.

- **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**

  Interest revenue is recognised on an accrual basis using the effective interest method. This is based on the amortised cost of a financial asset and the allocation of the interest income over the relevant period using the effective interest rate. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

- **Dividends**

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

- **Rental revenue**

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

(ac) Rounding

Amounts in the financial report have been rounded to the nearest thousand dollars, unless otherwise stated.

(ad) 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 2013 $'000	CONSOLIDATED 2012 $'000	PARENT 2013 $'000	PARENT 2012 $'000
(a) Finance expenses					
Loan interest		42,418	56,608	41,368	48,822
Government guarantee fee		8,595	8,697	8,595	8,697
RBF interest	17	16,048	20,958	16,048	20,958
Other finance costs		440	424	440	424
		67,501	86,687	66,451	78,901
(b) Fair value gains					
Basslink financial asset and liabilities		15,772	12,552	15,772	12,552
Treasury derivatives		623	473	625	473
Woolnorth wind farms divestment		-	6,488	-	-
AETV onerous contract		206	-	-	-
Site rehabilitation provision		1,188	-	-	-
		17,789	19,513	16,397	13,026
(c) Fair value losses					
Energy price derivatives		19,712	105,084	19,712	111,298
Net fair value losses		1,923	85,570	3,315	98,273
(d) Impairment expenses					
Impairment arising on acquisition of AETV Pty Ltd*		335,046	-	279,020	-
Impairment of hydro generation assets		117,869	-	117,869	-
Impairment of goodwill attributable to hydro generation assets		31,400	-	-	-
		484,315	-	396,889	-

* See Note 33

3. ASSUMPTIONS AND JUDGEMENTS

Financial assets and liabilities

Changes in the fair value of financial assets and liabilities described below are presented as gains or losses through the Income Statement 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 Income Statement as detailed in note 2(b) and (c).

  Mainland electricity contracts are valued using published forward energy prices. These prices include the market impact of the carbon price. The Corporation has developed a model to calculate the fair value of the Tasmanian electricity contracts including the pass-through of carbon price. The remeasurement of the fair value of energy price derivatives at 30 June 2013 has resulted in a loss being recorded in the Income Statement (note 2(c)). Details of the methodology adopted are provided in note 18(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 remeasurement of the net financial liability to fair value at 30 June 2013 has resulted in gain being recorded in the Income Statement (note 2(b)). Note 18(c) details the methodology used to calculate the fair value of the Basslink financial asset and liabilities.

Asset impairment

Assets are assessed for impairment in accordance with the methodology described in note 1.2(m). Note 10 describes the inputs to the asset revaluation model. Goodwill generated by acquisition of a business is attributed to cash generating units (CGU) as described in note 1.2(m). Assessment of this goodwill for impairment is conducted in conjunction with the impairment assessment of each CGU. Impairment assessment is undertaken on a value-in-use basis involving assessment of future cash flows associated with the strategic direction over the ensuing five years or useful life of the plant discounted at the Corporation's weighted average cost of capital.

Acquisition of Tamar Valley Power Station and associated contracts

The transfer of the Tamar Valley Power Station and associated contracts from Aurora Energy Pty Ltd to the Corporation occurred on 1 June 2013 as part of the Tasmanian Government energy reforms. Further details of this transfer are provided in note 33. Other elements of the reform are continuing to be progressed. An assessment of the impact on Hydro Tasmania of these reforms cannot be made at this stage.

Musselroe Wind Farm divestment

During the year the Corporation divested Musselroe Holdings Pty Ltd and its wholly owned subsidiary, Musselroe Wind Farm Pty Ltd, to Woolnorth Wind Farm Holdings Pty Ltd in which it holds a 25% interest in partnership with Shenhua Clean Energy Pty Ltd. Construction of the Musselroe Wind Farm was partially complete at the time of divestment and continued under a contract with the joint venture until completion.

Woolnorth wind farms divestment

During the previous year the Corporation divested a 75% ownership share in the Woolnorth group of companies, comprising the Bluff Point and Studland Bay wind farms, to Shenhua Clean Energy Holding Pty Ltd. This resulted in a gain on disposal, net of sale costs, of $6.5 million.

Site rehabilitation provision

The Corporation has a current obligation to demolish the Bell Bay plant and to remove the Tamar Valley Power Station at the end of its useful life 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 loss in the Income Statement.

4. INCOME TAX EQUIVALENT

	CONSOLIDATED		PARENT	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
(a) Income tax (benefit)/expense reported in Statement of Comprehensive Income				
Current income tax liability	91,428	55,150	74,692	36,482
Adjustments in respect of income tax of prior years	6,272	-	5,064	-
Deferred income tax expense arising from origination and reversal of temporary differences	(157,397)	(51,153)	(62,228)	(40,312)
Income tax (benefit)/expense recognised in the Statement of Comprehensive Income	(59,697)	3,997	17,528	(3,830)
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	(248,522)	17,869	(186,954)	(12,152)
Income tax (benefit)/expense calculated at 30%	(74,557)	5,361	(56,086)	(3,646)
Adjustment in respect of income tax of previous years	15,012	(1,202)	17,208	-
Income tax expense in relation to foreign operations	-	(57)	-	-
Other permanent differences	312	-	-	-
Expenditure not deductible for income tax purposes	129	120	56,999	41
Research and development concession	(593)	(225)	(593)	(225)
Income tax (benefit)/expense recognised in the Statement of Comprehensive Income	(59,697)	3,997	17,528	(3,830)
(b) Income tax benefit/(expense) recognised directly in equity				
Revaluation of effective hedges	(4,564)	5,660	(5,763)	5,660
Actuarial assessment of RBF provision	(15,267)	27,451	(15,267)	27,451
Revaluation of property, plant and equipment	96,405	(96,405)	96,405	(96,405)
Income tax benefit/(expense) recognised in equity	76,574	(63,294)	75,375	(63,294)
(c) Current tax assets and liabilities				
Provision for income tax	61,606	28,938	61,606	28,938
(d) Deferred tax balances				
Deferred tax assets comprise:				
Deductible temporary differences	451,447	427,516	388,710	430,033
Deferred tax liabilities comprise:				
Assessable temporary differences	1,011,754	1,200,291	1,033,541	1,226,257
Net deferred tax liabilities	560,307	772,775	644,831	796,224

4. INCOME TAX EQUIVALENT (CONTINUED)

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

	2013 CONSOLIDATED					
	Opening balance $'000	Charged to income $'000	Charged to equity $'000	Adjustments $'000	Acquisitions $'000	Closing balance $'000
Deferred tax liabilities:						
Property, plant and equipment	1,091,869	(113,743)	(96,405)	(13,912)	17,153	884,962
Electricity derivatives	818	(25,017)	-	-	-	(24,199)
Financial assets	126,543	(15,733)	4,564	2,388	-	117,762
Other	(18,939)	11,891	-	90,955	-	83,907
	1,200,291	(142,602)	(91,841)	79,431	17,153	1,062,432
Deferred tax assets:						
Provisions for employee entitlements	129,255	678	(15,267)	(12,136)	474	103,004
Basslink and other financial liabilities	296,145	(20,517)	-	(2)	-	275,626
Provisions	8,128	31,049	-	4,118	5,457	48,752
Tax losses	2,961	(7,196)	-	15,775	-	11,540
Transfer to assets held for sale	(933)	933	-	-	-	-
Other	(8,040)	9,848	-	61,395	-	63,203
	427,516	14,795	(15,267)	69,150	5,931	502,125
Net deferred tax liabilties	772,775	(157,397)	(76,574)	10,281	11,222	560,307

	2013 PARENT					
	Opening balance $'000	Charged to income $'000	Charged to equity $'000	Adjustments $'000	Acquisitions $'000	Closing balance $'000
Deferred tax liabilities:						
Property, plant and equipment	1,083,486	(49,619)	(96,405)	2,098	-	939,560
Electricity derivatives	818	(25,017)	5,763	(5,763)	-	(24,199)
Financial assets	126,543	(15,733)	-	5,743	-	116,553
Other	15,410	4,231	-	(18,014)	-	1,627
	1,226,257	(86,138)	(90,642)	(15,936)	-	1,033,541
Deferred tax assets:						
Provisions for employee entitlements	128,693	1,066	(15,267)	440	-	114,932
Basslink and other financial liabilities	296,144	(20,517)	-	-	-	275,627
Tax losses	2,961	(7,196)	-	19,523	-	15,288
Other	2,235	2,737	-	(22,109)	-	(17,137)
	430,033	(23,910)	(15,267)	(2,146)	-	388,710
Net deferred tax liabilties	796,224	(62,228)	(75,375)	(13,790)	-	644,831

4. INCOME TAX EQUIVALENT (CONTINUED)

	2012 CONSOLIDATED					
	Opening balance $'000	Charged to income $'000	Charged to equity $'000	Adjustments $'000	Acquisitions $'000	Closing balance $'000
Deferred tax liabilities:						
Property, plant and equipment	1,005,089	(9,625)	96,405	-	-	1,091,869
Electricity derivatives	23,012	(22,194)	-	-	-	818
Financial assets	143,519	(11,316)	(5,660)	-	-	126,543
Other	18,398	(21,742)	-	-	(15,595)	(18,939)
	1,190,018	(64,877)	90,745	-	(15,595)	1,200,291
Deferred tax assets:						
Provisions for employee entitlements	102,703	(899)	27,451	-	-	129,255
Basslink and other financial liabilities	311,240	(15,095)	-	-	-	296,145
Provisions	5,590	2,538	-	-	-	8,128
Tax losses	3,062	(101)	-	-	-	2,961
Transfer to assets held for sale	-	-	-	-	(933)	(933)
Other	(7,873)	(167)	-	-	-	(8,040)
	414,722	(13,724)	27,451	-	(933)	427,516
Net deferred tax liabilties	775,296	(51,153)	63,294	-	(14,662)	772,775

	2012 PARENT					
	Opening balance $'000	Charged to income $'000	Charged to equity $'000	Adjustments $'000	Acquisitions $'000	Closing balance $'000
Deferred tax liabilities:						
Property, plant and equipment	998,996	(11,915)	96,405	-	-	1,083,486
Electricity derivatives	23,012	(22,194)	-	-	-	818
Financial assets	143,519	(11,316)	(5,660)	-	-	126,543
Other	15,410	-	-	-	-	15,410
	1,180,937	(45,425)	90,745	-	-	1,226,257
Deferred tax assets:						
Provisions for employee entitlements	98,808	2,434	27,451	-	-	128,693
Basslink and other financial liabilities	311,239	(15,095)	-	-	-	296,144
Tax losses	3,062	(101)	-	-	-	2,961
Other	(5,414)	7,649	-	-	-	2,235
	407,695	(5,113)	27,451	-	-	430,033
Net deferred tax liabilties	773,242	(40,312)	63,294	-	-	796,224

All deferred tax balances relate to continuing operations.

At 30 June 2013, there is no recognised or unrecognised deferred income tax liability (2012: 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.

* See Note 1.2 (q)

5. NOTE TO THE CASH FLOW STATEMENT

	CONSOLIDATED		PARENT	
	2013 $'000	2012 $'000	2013 $'000	2012 $'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	15,669	7,029	11,111	1,267
Money market investments	24,137	32	24,100	-
	39,806	7,061	35,211	1,267
(b) Reconciliation of net cash provided by operating activities to net profit for the year				
Loss/(profit) after income tax equivalent expense	(188,825)	13,872	(204,481)	(8,322)
Adjusted for non-cash items of income and expense:				
Depreciation of property, plant and equipment	91,373	82,273	89,937	81,296
Impairment of property plant and equipment	149,269	-	117,869	-
Impairment arising on acquisition of AETV Pty Ltd	335,046	-	279,020	-
Loss on derecognition of property, plant and equipment	3,908	87	2,499	73
Gain on Woolnorth wind farms divestment	-	(6,487)	-	-
Change in fair value of inventories	(3,119)	10,247	72,562	(20,576)
Change in fair value of energy derivatives	(19,712)	105,084	(19,712)	111,298
Change in fair value of treasury derivatives	623	(473)	625	(473)
Change in fair value of Basslink financial instruments	15,772	(12,552)	15,772	(12,552)
Site rehabilitation provision	(1,188)	-	-	-
Equity accounted share of joint venture (profit)/loss	(1,756)	384	-	-
Income tax expense	(59,697)	3,997	17,528	(3,830)
Cash from operating profit before changes in working capital	321,694	196,432	371,619	146,914
(Increase)/decrease in receivables	(61,683)	(33,368)	(40,316)	(20,669)
Decrease/(increase) in inventories	11,025	9,524	(8,891)	19,480
Increase/(decrease) in other financial assets and liabilities	32,379	(15,400)	42,813	23,804
Increase/(decrease) in payables	19,420	25,375	1,140	6,369
(Decrease)/increase in provisions	(8,517)	(20,428)	7,371	9,677
Income tax equivalent paid	(52,769)	(54,799)	(52,769)	(54,799)
NET CASH PROVIDED BY OPERATING ACTIVITIES	261,549	107,336	320,967	130,776

6. RECEIVABLES

	CONSOLIDATED		PARENT	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Trade receivables	222,356	142,951	128,199	88,156
Provision for impairment	(1,528)	(889)	(200)	(260)
	220,828	142,062	127,999	87,896
Ageing of past due but not impaired trade receivables:				
60–90 days	2,539	834	759	300
Over 90 days	5,552	1,843	3,122	927
	8,091	2,677	3,881	1,227

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 $3.3 million of bad debts during the year (2012: $3.0 million). The Corporation does not hold any security over the balances past due.

7. INVESTMENTS

	NOTE	CONSOLIDATED		PARENT	
		2013 $'000	2012 $'000	2013 $'000	2012 $'000
(a) Current investments					
Money market investments		24,137	32	24,100	-
(b) Non-current investments					
Investment in joint ventures	30	66,696	34,557	-	-
Investment in subsidiaries		-	-	205,477	190,262
		66,696	34,557	205,477	190,262

8. INVENTORIES

	CONSOLIDATED		PARENT	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Maintenance stores	2,237	1,617	2,237	1,616
Environmental energy products	41,443	53,089	49,315	41,043
	43,680	54,706	51,552	42,659

9. ASSETS HELD FOR SALE

The assets held for sale at 30 June 2012 represented the Corporation's development of the Musselroe Wind Farm. Divestment occurred 5 February 2013.

The amounts shown below were included within the Hydro Tasmania segment in 2012 in note 32 as the Musselroe Wind Farm was fully owned by Hydro Tasmania at 30 June 2012.

The Musselroe Wind Farm assets were assessed for evidence of impairment with no indication evident at 30 June 2012.

	CONSOLIDATED 2012 $'000	PARENT 2012 $'000
Prepayments	3,158	-
Property, plant and equipment	3,525	-
Cost to date on construction contract	110,793	110,793
Other assets	931	-
Assets held for sale	118,407	110,793
Payables	4	-
Provisions	1,672	-
Liabilities held for sale	1,676	-
Net assets held for sale	116,731	110,793

10. PROPERTY, PLANT AND EQUIPMENT

Asset valuation

The hydro generation class of assets is carried at fair value based on value-in-use. 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 pending regulation and legislation. The price curve has been validated by comparison to other published price trend predictions in the National Electricity Market. The valuation also includes projected revenue under the existing large-scale mandatory renewable energy target until 2030.

Gas-fired generation assets are carried at fair value at date of acquisition based on the higher of value-in-use and market value less costs to sell.

Short-term market energy prices used in the fair value calculation include the market view of carbon. Long-term energy prices include a carbon element based on current floating price formula.

The other principal inputs to the fair value of generation assets are forecast generation 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 an equivalent generation volume of 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 11.00% (2012: 10.90%). This has been validated against Australian financial and equity market data.

As disclosed in note 18, 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 18. Movements in fair value of hydro generation assets will offset movement in the fair value of financial liabilities for the same forecast price change. Fair value of hydro generation assets is estimated to increase by $555 million (2012: $421 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 $3.808 billion (2012: $3.993 billion).

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 2013 has indicated an impairment of the generation class of assets. This is attributable to a reduction in forecast energy and carbon prices.

10. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	2013 CONSOLIDATED						
	Hydro generation at fair value $'000	Other generation 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	4,325,178	23,449	11,296	41,211	89,413	107,220	4,597,767
Additions	-	-	3,587	-	4,665	312,407	320,659
Assets held for sale	-	-	-	-	91	114,318	114,409
Business acquisitions	-	98,523	58	995	407	-	99,983
Disposals	(1,196)	-	(1,956)	-	(13,343)	(1,568)	(18,063)
Transfers	24,432	18	-	184	7,467	(32,101)	-
Business divestment	-	-	-	-	(91)	(298,210)	(298,301)
Net revaluation adjustment	(512,587)	-	-	-	-	-	(512,587)
Balance at the end of the year	3,835,827	121,990	12,985	42,390	88,609	202,066	4,303,867
Accumulated depreciation							
Balance at the beginning of the year	11,179	15,982	5,448	10,740	69,849	-	113,198
Disposals	(179)	-	(1,478)	-	(13,148)	-	(14,805)
Business divestment	-	-	-	-	(91)	-	(91)
Impairment loss/(reversal)	-	-	-	-	-	-	-
Net revaluation adjustment	(74,244)	-	-	-	-	-	(74,244)
Depreciation expense	77,347	408	1,992	1,457	10,169	-	91,373
Balance at the end of the year	14,103	16,390	5,962	12,197	66,779	-	115,431
Net book value at the end of the year	3,821,724	105,600	7,023	30,193	21,830	202,066	4,188,436

	2013 PARENT						
	Hydro generation at fair value $'000	Generation at cost and auxillary $'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	4,316,608	23,441	10,975	27,931	87,349	104,871	4,571,175
Additions	-	-	3,559	-	2,083	129,254	134,896
Disposals	(1,196)	-	(1,918)	-	(13,332)	(1,568)	(18,014)
Transfers	24,432	18	-	184	7,467	(32,101)	-
Net revaluation adjustment	(513,229)	-	-	-	-	-	(513,229)
Balance at the end of the year	3,826,615	23,459	12,616	28,115	83,567	200,456	4,174,829
Accumulated depreciation							
Balance at the beginning of the year	3,553	15,975	5,253	9,632	69,022	-	103,435
Disposals	(179)	-	(1,441)	-	(13,147)	-	(14,767)
Impairment loss/(reversal)	-	-	-	-	-	-	-
Net revaluation adjustment	(74,244)	-	-	-	-	-	(74,244)
Depreciation expense	76,584	408	1,965	1,454	9,526	-	89,937
Balance at the end of the year	5,714	16,383	5,777	11,086	65,401	-	104,361
Net book value at the end of the year	3,820,901	7,076	6,839	17,029	18,166	200,456	4,070,467

10. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	2012 CONSOLIDATED						
	Hydro generation at fair value $'000	Generation at cost and auxillary $'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	4,368,973	25,496	10,335	54,637	83,745	112,715	4,655,901
Additions		-	2,237	116	2,057	181,542	185,952
Business divestment	(228,149)	-	(72)	(13,820)	(469)	(235)	(242,745)
Disposals	(64)	(2,288)	(1,204)	(85)	(3,368)	(247)	(7,256)
Transfers	64,094	241	-	363	7,539	(72,237)	-
Assets held for sale	-	-	-	-	(91)	(114,318)	(114,409)
Net revaluation adjustment	120,324	-	-	-	-	-	120,324
Balance at the end of the year	4,325,178	23,449	11,296	41,211	89,413	107,220	4,597,767
Accumulated depreciation and impairment							
Balance at the beginning of the year	143,098	17,851	4,620	12,129	63,983	-	241,681
Business acquisitions	-	-	-	(2,792)	(378)	-	(3,170)
Disposals	(14)	(2,288)	(878)	(67)	(3,220)	-	(6,467)
Transfer to assets held for sale	-	-	-	-	(91)	-	(91)
Net revaluation adjustment	(201,028)	-	-	-	-	-	(201,028)
Depreciation expense	69,123	419	1,706	1,470	9,555	-	82,273
Balance at the end of the year	11,179	15,982	5,448	10,740	69,849	-	113,198
Net book value at the end of the year	4,313,999	7,467	5,848	30,471	19,564	107,220	4,484,569

	2012 PARENT						
	Hydro generation at fair value $'000	Generation at cost and auxillary $'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	4,132,254	25,488	9,872	27,500	80,816	91,736	4,367,666
Additions	-	-	2,237	116	1,046	196,254	199,653
Disposals	(64)	(2,288)	(1,134)	(48)	(2,052)	(89)	(5,675)
Transfers	64,094	241	-	363	7,539	(72,237)	-
Assets held for sale	-	-	-	-	-	(110,793)	(110,793)
Net revaluation adjustment	120,324	-	-	-	-	-	120,324
Balance at the end of the year	4,316,608	23,441	10,975	27,931	87,349	104,871	4,571,175
Accumulated depreciation							
Balance at the beginning of the year	135,494	17,844	4,382	8,194	62,314	-	228,228
Disposals	(14)	(2,288)	(823)	(30)	(1,906)	-	(5,061)
Net revaluation adjustment	(201,028)	-	-	-	-	-	(201,028)
Depreciation expense	69,101	419	1,694	1,468	8,614	-	81,296
Balance at the end of the year	3,553	15,975	5,253	9,632	69,022	-	103,435
Net book value at the end of the year	4,313,055	7,466	5,722	18,299	18,327	104,871	4,467,740

11. OTHER FINANCIAL ASSETS

	NOTE	CONSOLIDATED 2013 $'000	CONSOLIDATED 2012 $'000	PARENT 2013 $'000	PARENT 2012 $'000
(a) Current other financial assets					
Prepayments		16,286	9,879	10,067	9,652
Loans to subsidiaries (i)		-	-	41,806	40,657
Loans to joint ventures (ii)		2,696	135	-	-
Energy price derivatives	16	23,471	126,004	23,471	126,004
Basslink financial asset (iii)	16	30,823	66,347	30,823	66,347
Other		1	3	1	4
		73,277	202,368	106,168	242,664
(b) Non-current other financial assets					
Basslink financial asset (iii)	16	361,718	379,166	361,718	379,166
Basslink security deposit (iv)		50,000	50,000	50,000	50,000
Energy price derivatives	16	61,355	286,316	61,355	286,316
Prepayments		444	311	-	-
Other		398	193	398	193
		473,915	715,986	473,471	715,675

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

(ii) Loans to joint ventures represents loans to Woolnorth Wind Farm Holding Pty Ltd (WNWFH) and Cathedral Rocks Construction and Management Pty Ltd (CRCM). The loan to CRCM is interest-free and on-call. The loan to WNWFH is interest-bearing and for a fixed term.

(iii) The Basslink financial asset represents the fair value of the contractual rights to receive revenue under the Basslink Services Agreement (note 18).

(iv) Basslink security deposit represents the contribution made to the asset 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.

12. GOODWILL

	CONSOLIDATED		PARENT	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Balance at the beginning of the year	47,796	47,796	-	-
Goodwill arising on acquisition of AETV Pty Ltd	335,046	-	-	-
Impairment of AETV Pty Ltd goodwill	(335,046)	-	-	-
Impairment of goodwill attributed to hydro generation assets	(31,400)	-	-	-
Closing balance of goodwill	16,396	47,796	-	-

Goodwill has been tested for impairment and that portion attributable to the generation class of the Corporation's assets has been impaired.

Goodwill arising on acquisiton of AETV Pty Ltd has been impaired in full following assessment against the fair value of the net assets acquired.

13. PAYABLES

	CONSOLIDATED		PARENT	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Trade creditors	61,554	42,272	55,368	29,910
Accrued expenses	67,947	71,563	15,161	48,631
Accrued interest payable	13,231	10,865	8,167	10,865
	142,732	124,700	78,696	89,406

14. INTEREST-BEARING LIABILITIES

	CONSOLIDATED		PARENT	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
(a) Interest-bearing liabilities				
Current				
Loans from Tascorp	135,000	210,600	135,000	210,600
Finance lease liability	669	652	669	652
	135,669	211,252	135,669	211,252
Non-current				
Loans from Tascorp	765,000	640,000	765,000	640,000
Finance lease liability	5,126	5,554	5,126	5,554
	770,126	645,554	770,126	645,554

Additional debt was acquired as part of the acquisition of AETV Pty Ltd (refer note 33).

	CONSOLIDATED		PARENT	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
(b) Loan facilities				
Master loan facility				
Facility limit	1,080,000	1,080,000	1,080,000	1,080,000
Less: used/committed	900,000	850,600	900,000	850,600
Balance	180,000	229,400	180,000	229,400
Standby revolving credit facility				
Facility limit	20,000	20,000	20,000	20,000
Less: used/committed	-	-	-	-
Balance	20,000	20,000	20,000	20,000
Bank overdraft				
Facility limit	1,000	1,000	1,000	1,000
Less: used/committed	-	-	-	-
Balance	1,000	1,000	1,000	1,000
Corporate purchasing card				
Facility limit	7,675	7,660	7,500	7,500
Less: used/committed	5,101	4,353	4,926	4,311
Balance	2,574	3,307	2,574	3,189

14. INTEREST-BEARING LIABILITIES (CONTINUED)

	PARENT & CONSOLIDATED			
	2013 $'000	2013 $'000	2013 $'000	2013 $'000
	Less than one year	Between one and five years	Later than five years	Total
(c) Finance lease liabilities				
Future minimum lease payments	669	2,846	4,833	8,348
Interest	-	(525)	(2,027)	(2,552)
Present value of future minimum lease payments	669	2,321	2,806	5,796

	PARENT & CONSOLIDATED			
	2012 $'000	2012 $'000	2012 $'000	2012 $'000
	Less than one year	Between one and five years	Later than five years	Total
Future minimum lease payments	652	2,777	5,571	9,000
Interest	-	(479)	(2,314)	(2,793)
Present value of future minimum lease payments	652	2,298	3,257	6,207

(d) Fair value disclosures

Details of the fair value of the Corporation's interest-bearing liabilities are set out in note 18.

15. PROVISIONS

	NOTE	CONSOLIDATED		PARENT	
		2013 $'000	2012 $'000	2013 $'000	2012 $'000
(a) Current provisions					
Employee entitlements		14,114	10,462	11,618	9,836
Retirement Benefits Fund provision	17	19,048	18,835	19,048	18,835
Onerous contracts (i)		11,021	372	372	372
Regulatory environmental schemes liability		11,491	17,910	-	-
Bell Bay demolition provision (ii)		2,896	6,535	-	-
		58,570	54,114	31,038	29,043
(b) Non-current provisions					
Employee entitlements		13,863	11,719	13,704	11,719
Retirement Benefits Fund provision	17	336,552	389,314	336,552	389,314
Onerous contracts (i)		99,424	-	-	-
Site rehabilitation provision (ii)		42,960	12,100	-	-
		492,799	413,133	350,256	401,033

(i) Onerous contracts include the Corporation's obligation to remediate the Studland Bay Wind Farm foundations plus the value of AETV Pty Ltd onerous contracts recognised on acquisition.

(ii) Site rehabilitation provision in 2013 comprises estimated future cost of demolishing the Bell Bay plant and the Tamar Valley plant at the end of its useful life and of rehabilitating the site.

16. OTHER FINANCIAL LIABILITIES

	CONSOLIDATED		PARENT	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
(a) Current other financial liabilities				
Income received in advance	562	16	475	-
Basslink Services Agreement	82,604	93,336	82,604	93,336
Basslink Facility Fee Swap	9,836	253,108	9,836	253,108
Interest rate swaps	18,025	23,771	14,027	23,771
Loans from subsidiaries (i)	-	-	133,638	121,768
Energy price derivatives	62,746	94,660	62,746	94,660
	173,773	464,891	303,326	586,643
(b) Non-current other financial liabilities				
Basslink Services Agreement	542,632	640,701	542,632	640,701
Basslink Facility Fee Swap	283,682	-	283,682	-
Energy price derivatives	108,041	317,731	108,041	317,731
	934,355	958,432	934,355	958,432

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

16. OTHER FINANCIAL LIABILITIES (CONTINUED)

	NOTE	CONSOLIDATED 2013 $'000	CONSOLIDATED 2012 $'000	PARENT 2013 $'000	PARENT 2012 $'000
Energy price derivatives movement reconciliation:					
Liability/(asset) at the beginning of the year		71	(100,386)	71	(100,386)
Amount included in electricity revenue due to settlement during the year		(15,143)	83,988	(12,651)	138,619
Net cash receipts/(payments) on futures margin account		31,679	(13,041)	31,679	(13,041)
Fair value loss/(gain) on contracts outstanding as at 30 June		69,355	29,510	66,863	(25,121)
Liability/(asset) at the end of the year		85,962	71	85,962	71
Represented by:					
Current energy price derivative liability	16(a)	62,746	94,660	62,746	94,660
Non-current energy price derivative liability	16(b)	108,041	317,731	108,041	317,731
		170,787	412,391	170,787	412,391
Current energy price derivative asset	11(a)	23,471	126,004	23,471	126,004
Non-current energy price derivative asset	11(b)	61,355	286,316	61,355	286,316
		84,826	412,320	84,826	412,320
Net energy price derivatives liability/(asset)		85,961	71	85,961	71
Net Basslink financial liability movement reconciliation:					
Balance at the beginning of the year		541,632	554,132	541,632	554,132
Current year net (revenue) and operating expenses realised during the year and included in the opening valuation		(34,809)	(32,987)	(34,809)	(32,987)
Increase/(decrease) in present value of projected rights and obligations of later years as at the beginning of the year		65,147	23,849	65,147	23,849
Loss/(gain) arising on re-estimation of fair value of contract rights and obligations over the remaining contract term as at 30 June		(45,757)	(3,362)	(45,757)	(3,362)
Balance at the end of the year		526,213	541,632	526,213	541,632
Represented by:					
Current Basslink financial liability		92,440	346,444	92,440	346,444
Non-current Basslink finanical liability		826,314	640,701	826,314	640,701
		918,754	987,145	918,754	987,145
Current Basslink financial asset	11(a)	30,823	66,347	30,823	66,347
Non-current Basslink financial asset	11(b)	361,718	379,166	361,718	379,166
		392,541	445,513	392,541	445,513
Net Basslink financial liability		526,213	541,632	526,213	541,632

17. 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. All new members receive accumulation only benefits.

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

Principal actuarial assumptions as at balance date

	2013 %	2012 %
Discount rate	4.25	3.45
Expected salary increase rate	3.00	3.50
Expected rate of return on plan assets	N/A	7.50
Expected pension increase rate	2.50	2.50
Expected rate of increase in compulsory preserved amounts	3.75	3.75

The expected rate of 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 asset class and allowing for 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 expected rate of return on assets is no longer applicable from 30 June 2013 due to revision of the applicable accounting standard.

The discount rate is based on the market yields on the longest dated Government bonds as at 30 June 2013. 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 2013 %	30 June 2012 %
Australian equity	27	25
International equity	19	18
Fixed income	12	12
Property	15	17
Alternatives/Other	24	24
Cash	3	4
	100	100

17. RETIREMENT BENEFITS FUND PROVISION (CONTINUED)

Reconciliation of the present value of the defined benefit obligation:

	2013 $'000	2012 $'000
Present value of defined benefit obligations at the beginning of the year ^	477,671	388,964
Current service cost ^	5,595	4,918
Interest cost	16,048	20,958
Estimated contributions by plan participants	1,281	1,539
Actuarial (gains)/losses ^	(50,431)	94,008
Estimated benefits paid	(24,314)	(31,982)
Estimated taxes, premiums and expenses paid	(691)	(734)
Present value of defined benefit obligations at year end	425,159	477,671

^ 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.

Reconciliation of the fair value of scheme assets:

	2013 $'000	2012 $'000
Fair value of plan assets at beginning of the year	69,522	69,245
Expected return on plan assets	5,004	5,316
Actuarial gains/(losses)	458	(1,958)
Estimated employer contributions	18,299	28,096
Estimated contributions by plan participants	1,281	1,539
Estimated benefits paid	(24,314)	(31,982)
Estimated taxes, premiums and expenses paid	(691)	(734)
Fair value of plan assets at end of the year	69,559	69,522

Assets are not held separately for each employer but are held for the Fund as a whole. These are attributed by allocating the total Fund assets to each employer in proportion to the value of each employer's funded liabilities, calculated using assumptions outlined in this note.

The fair value of Fund assets includes no amounts relating to:

- any of the employer's own financial instruments
- any property occupied by, or other assets used by, the employer.

Actual return on Fund assets:

	2013 $'000	2012 $'000
Actual return on plan assets	5,462	3,358

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

17. RETIREMENT BENEFITS FUND PROVISION (CONTINUED)

Reconciliation of the net liability recognised in the Balance Sheet

	NOTE	2013 $'000	2012 $'000
Defined benefit obligation		425,159	477,671
Fair value of plan assets		(69,559)	(69,522)
Net superannuation liability		355,600	408,149
Comprising:			
Current net liability	15	19,048	18,835
Non-current net liability	15	336,552	389,314
Net superannuation liability		355,600	408,149

Expense recognised in the Income Statement

	2013 $'000	2012 $'000
Service cost	5,595	4,918
Interest cost	16,048	20,958
Expected return on assets	(5,004)	(5,316)
Total expense recognised	16,639	20,560
Gain/(loss) recognised in Other Comprehensive Income		
Actuarial gains/(losses)	50,889	(91,503)

Historical information

	2013 $'000	2012 $'000	2011 $'000	2010 $'000	2009 $'000
Present value of defined benefit obligation	425,159	477,671	388,964	400,400	375,483
Fair value of plan assets	69,559	69,522	69,245	77,080	77,835
Deficit in plan	355,600	408,149	319,719	323,320	297,648
Experience adjustments (gain)/loss—plan liabilities	1,520	(8,794)	3,661	2,311	4,734
Experience adjustments (gain)/loss—plan assets	(555)	1,958	1,456	66	10,285

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

	$'000
Expected employer contributions for the financial year ending 30 June 2014	19,048

18. 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 2013 $'000	Net fair value 2013 $'000	Carrying amount 2012 $'000	Net fair value 2012 $'000	Carrying amount 2013 $'000	Net fair value 2013 $'000	Carrying amount 2012 $'000	Net fair value 2012 $'000
Financial assets								
Cash	15,669	15,669	7,029	7,029	11,111	11,111	1,267	1,267
Loans and receivables								
Receivables	220,828	220,828	142,062	142,062	127,999	127,999	87,896	87,896
Held to maturity								
Investments	24,137	24,137	32	32	24,100	24,100	-	-
Fair value through profit or loss								
Credit swaps	139,742	139,742	176,067	176,067	139,742	139,742	176,067	176,067
Forward foreign exchange contracts	-	-	-	-	-	-	-	-
Basslink financial asset	392,541	392,541	445,513	445,513	392,541	392,541	445,513	445,513
Energy price derivatives	84,826	84,826	412,320	412,320	84,826	84,826	412,320	412,320
Other assets	13,696	13,696	63,175	63,175	10,067	10,067	59,658	59,658
	891,439	891,439	1,246,198	1,246,198	790,386	790,386	1,182,721	1,182,721
Financial liabilities								
Loans and receivables								
Accounts payable	129,501	129,501	113,808	113,808	70,529	70,529	78,540	78,540
Tascorp loans	913,231	939,375	861,465	892,022	913,231	939,375	861,465	892,022
Bank loan—secured	-	-	-	-	-	-	-	-
Designated hedge accounting derivatives								
Interest rate swaps	21,102	21,102	20,701	20,701	14,027	14,027	20,701	20,701
Forward foreign exchange contracts	57	57	5,320	5,320	57	57	5,320	5,320
Fair value through profit or loss								
Credit swaps	139,742	139,742	176,067	176,067	139,742	139,742	176,067	176,067
Basslink Services Agreement	625,236	625,236	734,037	734,037	625,236	625,236	734,037	734,037
Basslink Facility Fee Swap	293,518	293,518	253,108	253,108	293,518	293,518	253,108	253,108
Energy price derivatives	165,487	165,487	412,391	412,391	165,487	165,487	412,391	412,391
Other liabilities	5,856	5,856	2,810	2,810	5,775	5,775	8,377	8,377
	2,293,730	2,319,874	2,579,707	2,610,264	2,227,602	2,253,746	2,550,006	2,580,563

18. 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 14, contributed equity and cash and cash equivalents disclosed in note 5.

The Corporation is subject to financial covenants on its borrowings and the BFFS. 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's revenue is exposed to fluctuations in the market price of electricity in Tasmania. In addition the Corporation's revenue 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 also exposed to fluctuations in electricity market prices in all National Electricity Market (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 in all 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.

18. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

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

	2013				2012			
	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	(15,190)	-	(15,190)	-	(16,241)	-	(16,241)	-
Energy derivative net asset	(175,508)	-	(175,508)	-	(105,164)	-	(105,164)	-
Electricity forward price -10%								
Basslink net liability	17,237	-	17,237	-	16,242	-	16,242	-
Energy derivative net asset	4,786	-	4,786	-	113,408	-	113,408	-

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 forecast price methodology is outlined in note 10. 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. An energy price derivative instrument may also expose the Corporation to commodity price risk.

(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. Interest rate exposure on specific loans is managed 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 2013 fixed rate loans varied from 4.7% to 7.0% (2012: 4.4% to 7.4%). Floating rates were based on bank bill rates and these varied from 2.7% to 4.2% (2012: 3.7% to 5.2%).

The Government Guarantee Fee rate varied from 0.5% to 2.0% for this financial year (2012: 0.5% to 2.3%).

Basslink

The Basslink Services Agreement (BSA) and Floating Facility Fee Instrument 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. 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 National Electricity Market.

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. Following negotiation with the counterparty to the BFFS regarding their right to break in the FY2012/13, the inherent fixed rate has increased to 7.83% for the remainder of the term.

18. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

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

	2013				2012			
	CONSOLIDATED		PARENT		CONSOLIDATED		PARENT	
	Income $'000	Equity $'000	Income $'000	Equity $'000	Income $'000	Equity $'000	Income $'000	Equity $'000
Increase/(decrease)								
Forward interest rates +0.1 bps								
Financial assets	1,374	-	1,374	-	1,529	-	1,529	-
Financial liabilities	(1,534)	(55)	(1,534)	(55)	(1,702)	(82)	(1,702)	(82)
Forward interest rates -0.1 bps								
Financial assets	(1,374)	-	(1,374)	-	(1,529)	-	(1,529)	-
Financial liabilities	1,534	55	1,534	55	1,702	82	1,702	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 for 2013 for both the parent and consolidated entities is 6.88% (2012: 7.08%). This incorporates both loans and interest rate swaps as at the reporting date and also includes the average government guarantee fee of 1.03% (2012: 0.98%).

(C) Foreign currency rates

The Corporation owns and operates consulting companies in India and South Africa 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.

18. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

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

	CONSOLIDATED		PARENT	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Receivables				
Not later than one year	929	703	929	703
Later than one year but not later than two years	294	-	294	-
Later than two years	-	-	-	-
Total	1,223	703	1,223	703
Payables				
Not later than one year	2,337	65,974	2,337	65,974
Later than one year but not later than two years	3,778	1,698	3,778	1,698
Later than two years	777	-	777	-
Total	6,892	67,672	6,892	67,672

(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 documentation. Where possible this documentation contains clauses enabling the netting of exposures.

Receivables

Receivables represent amounts due from with Australian Energy Market Operator (AEMO), electricity, gas, treasury and environmental energy product counterparties, consulting service clients and retail electricity customers.

The Corporation's credit exposure to AEMO is mitigated by the provisions of the National Electricity Rules (NER). The NER define the rules for conduct of the wholesale electricity market.

Consulting services clients are spread across diverse industries and geographical locations. Ongoing credit evaluation is performed on the financial condition of debtors, and where necessary recovery action is undertaken and contract penalty clauses activated.

Appropriate credit management practices are adopted to protect against exposure to non-payment by retail customers.

Basslink credit swaps

While the BFFS transaction has been executed with a single counterparty, the Corporation has also entered into supplementary interest rate swap transactions with other counterparties to mitigate the potential credit risk associated with a single counterparty. These swaps are readily tradeable financial instruments.

18. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

	CONSOLIDATED		PARENT	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Credit risk exposure by instrument type				
Financial assets				
Investments and bank balances	39,806	7,060	35,211	1,267
Receivables	220,828	142,062	127,999	87,896
Basslink financial asset	1,614	596	1,614	596
Derivative financial instruments				
Interest rate swaps	43	86	43	86
Forward foreign exchange contracts	166	2	166	2
Basslink Facility Fee Swap	9,307	8,203	9,307	8,203
Energy price derivatives	39,385	51,140	39,385	51,140
Total credit risk exposure	311,149	209,149	213,725	149,190
Credit risk exposure by institution ratings				
Australian-based institutions				
AA+ to AA- ratings	148,117	3,527	148,117	3,527
A+ to A ratings	11,539	7,065	11,539	7,065
BBB+ to BBB- ratings	470	30,552	470	30,552
Unrated	151,022	167,281	53,599	107,322
	311,148	208,425	213,725	148,466
Overseas-based institutions				
AA+ to AA- ratings	-	-	-	-
A+ to A ratings	-	724	-	724
Unrated	-	-	-	-
	-	724	-	724
Total credit risk exposure	311,148	209,149	213,725	149,190

(iv) Liquidity risk

Liquidity risk represents the possibility that the Corporation may be unable to settle an obligation on the due date.

To manage this risk, the Corporation maintains adequate stand-by funding facilities and other arrangements as detailed in note 14.

The Corporation's exposure at 30 June 2013 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 SA Power Networks 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.

18. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

	2013 CONSOLIDATED				2013 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	15,669	-	-	-	11,111	-	-	-
Receivables	220,828	-	-	-	127,999	-	-	-
Held to maturity								
Investments	24,137	-	-	-	24,100	-	-	-
Fair value through profit or loss								
Credit swaps	16,575	21,572	166,223	394,109	16,575	21,572	166,223	394,109
Forward foreign exchange contracts	101	42	35	-	101	42	35	-
Energy price derivatives	9,014	15,025	58,632	32,378	9,014	15,025	58,632	32,378
Basslink financial asset	15,412	15,412	246,576	618,683	15,412	15,412	246,576	618,683
Other assets	13,696	-	-	-	5,775	-	-	-
	315,432	52,051	471,466	1,045,169	210,087	52,051	471,466	1,045,169
Financial liabilities								
Loans and receivables								
Accounts payable	129,501	-	-	-	70,529	-	-	-
Tascorp loans	35,575	63,007	522,904	175,326	35,575	63,007	522,904	175,326
Designated hedge accounting derivatives								
Interest rate swaps	16,596	21,572	166,201	394,109	16,596	21,572	166,201	394,109
Forward foreign exchange contracts	62	-	188	-	62	-	188	-
Fair value through profit or loss								
Credit swaps	16,596	21,572	166,201	394,109	16,596	21,572	166,201	394,109
Basslink Services Agreement	37,836	37,836	281,263	1,153,009	37,836	37,836	281,263	1,153,009
Basslink Facility Fee Swap	21,551	25,887	200,901	530,922	21,551	25,887	200,901	530,922
Energy price derivatives	42,448	21,900	91,033	69,746	42,448	21,900	91,033	69,746
Other liabilities	5,856	-	-	-	5,775	-	-	-
	306,021	191,774	1,428,691	2,717,221	246,968	191,774	1,428,691	2,717,221

18. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

	2012 CONSOLIDATED				2012 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	7,029	-	-	-	1,267	-	-	-
Receivables	142,062	-	-	-	87,896	-	-	-
Held to maturity								
Investments	32	-	-	-	-	-	-	-
Fair value through profit or loss								
Credit swaps	8,755	21,808	169,320	434,153	8,755	21,808	169,320	434,153
Energy price derivatives	102,717	65,033	287,552	327,718	102,717	65,033	287,552	327,718
Basslink financial asset	33,173	33,173	264,013	754,825	33,173	33,173	164,013	754,825
Other assets	12,747	-	-	50,428	9,658	-	-	50,000
	306,515	120,014	720,885	1,567,124	243,466	120,014	620,885	1,566,696
Financial liabilities								
Loans and receivables								
Accounts payable	113,808	-	-	-	78,540	-	-	-
Tascorp loans	108,046	136,215	599,954	96,042	108,046	136,215	599,954	96,042
Designated hedge accounting derivatives								
Interest rate swaps	4,755	8,669	36,288	755	4,755	8,669	36,288	755
Forward foreign exchange contracts	1,478	4,760	304	-	1,478	4,760	304	-
Fair value through profit or loss								
Credit swaps	8,755	21,808	169,320	434,153	8,755	21,808	169,320	434,153
Basslink Services Agreement	43,412	43,412	386,202	1,321,251	43,412	43,412	386,202	1,321,251
Basslink Facility Fee Swap	13,838	25,052	197,602	562,082	13,838	25,052	197,602	562,082
Energy price derivatives	81,503	90,586	293,462	417,048	81,503	90,586	293,462	417,048
Other liabilities	2,810	-	-	-	8,377	-	-	-
	378,405	330,502	1,683,132	2,831,331	348,704	330,502	1,683,132	2,831,331

18. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

(c) Fair values

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

Where possible this fair value is determined from prices quoted for the financial instrument on an active market. The fair value of energy price derivatives reflects carbon pricing to the extent that published price curves have been influenced by the 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 appropriate discount rate.

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

	CONSOLIDATED							
	2013				2012			
	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								
Fair value through profit or loss								
Credit swaps	-	139,742	-	139,742	-	176,067	-	176,067
Forward foreign exchange contracts	-	-	-	-	-	-	-	-
Basslink financial asset	-	-	392,541	392,541	-	-	445,513	445,513
Energy price derivatives	14,881	27,895	42,049	84,825	104,909	307,411	-	412,320
	14,881	167,637	434,590	617,108	104,909	483,478	445,513	1,033,900
Financial liabilities								
Designated hedge accounting derivatives								
Interest rate swaps	-	21,102	-	21,102	-	20,701	-	20,701
Forward foreign exchange contracts	-	57	-	57	-	5,320	-	5,320
Fair value through profit or loss								
Credit swaps	-	139,742	-	139,742	-	176,067	-	176,067
Basslink Services Agreement	-	-	625,236	625,236	-	-	734,037	734,037
Basslink Facility Fee Swap	-	-	293,518	293,518	-	-	253,108	253,108
Energy price derivatives	4,098	49,000	112,389	165,487	(21,698)	434,090	-	412,392
	4,098	209,901	1,031,143	1,245,142	(21,698)	636,178	987,145	1,601,625

18. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

	PARENT							
	2013				2012			
	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								
Fair value through profit or loss								
Credit swaps	-	139,742	-	139,742	-	176,067	-	176,067
Forward foreign exchange contracts				-	-	-	-	-
Basslink financial asset	-	-	392,541	392,541	-	-	445,513	445,513
Energy price derivatives	14,881	27,895	42,049	84,826	104,909	307,411	-	412,320
	14,881	167,637	434,590	617,108	104,909	483,478	445,513	1,033,900
Financial liabilities								
Designated hedge accounting derivatives								
Interest rate swaps	-	14,027	-	14,027	-	20,701	-	20,701
Forward foreign exchange contracts	-	57	-	57	-	5,320	-	5,320
Fair value through profit or loss								
Credit swaps	-	139,742	-	139,742	-	176,067	-	176,067
Basslink Services Agreement	-	-	625,236	625,236	-	-	734,037	734,037
Basslink Facility Fee Swap	-	-	293,518	293,518	-	-	253,108	253,108
Energy price derivatives	4,098	49,000	112,389	165,487	(21,698)	434,090	-	412,391
	4,098	202,826	1,031,143	1,238,067	(21,698)	636,178	987,145	1,601,624

Basslink financial instruments

The Basslink financial instruments comprise the Basslink Services Agreement (BSA), Floating Facility Fee Instrument (FFFI) and Basslink Facility Fee Swap (BFFS). The fair value of the Basslink financial instruments has been calculated using a valuation model based on the present value of expected contractual cash flows. The fair value of expected receipts of Inter-Regional Revenues under the BSA has been separately calculated based on experience to date and projected operating conditions and reported as a financial asset. The expected contractual payments under the BSA, FFFI and BFFS have been reported as financial liabilities. These represent the Basslink Facility Fees and interest rate swap settlements payable under these contracts.

The fair value of the BSA has been calculated using the pre-tax weighted average cost of capital as the nominal discount rate. The fair values of the FFFI and BFFS have been calculated using a 18-year forward market interest rate.

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

18. 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 and has developed a model to value these 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.

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 2013 are not attributable to changes in credit risk.

Fair values are disclosed in Table 18(a).

19. COMMITMENTS FOR EXPENDITURE

	CONSOLIDATED		PARENT	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
(a) Capital expenditure commitments				
Not later than 1 year	25,368	12,946	25,368	12,710
Over 1 year and up to 2 years	6,176	6,198	6,176	6,198
	31,544	19,144	31,544	18,908
(b) Operating lease commitments				
Future minimum lease payments				
Not later than 1 year	4,214	4,506	3,255	3,279
Over 1 year and up to 2 years	3,137	3,679	3,137	2,759
Over 2 years and up to 5 years	9,224	7,771	9,224	7,771
Later than 5 years	13,429	18,000	13,429	18,000
	30,004	33,956	29,045	31,809

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	57,786	296,317	54,534	294,290
Over 1 year and up to 2 years	24,751	22,517	22,178	20,632
Over 2 years and up to 5 years	7,238	23,669	21	19,800
Later than 5 years	10,265	4,318	-	-
	100,040	346,821	76,733	334,722

The other commitments relate to pass-through costs for consulting work, energy transmission charges, contracted maintenance services and supply of general goods and services.

Commitments include those relating to the jointly controlled entities detailed in note 28.

20. CONTINGENT ASSETS AND LIABILITIES

Contingent asset

The Corporation, in co-operation with CLP Asia Renewable Projects Ltd (CLP), its former joint venture partner in Roaring 40s Renewable Energy Pty Ltd, has appealed against the assessment of duty by the Tasmanian State Revenue Office in respect of the dissolution of the Roaring 40s joint venture. If successful, the appeal may result in the full duty payment being refunded. Some, but not all of the grounds for appeal would have application to Hydro Tasmania's subsequent sale of the Woolnorth wind farms to Woolnorth Wind Farm Holding Pty Ltd, the Corporation's joint venture with Shenhua Clean Energy Holding Pty Ltd.

The Corporation currently has a disagreement with the owner of the Basslink interconnector, Basslink Pty Ltd, relating to charges associated with the Basslink Services Agreement. The dispute dates back to events in 2009. In December 2012 the dispute broadened following implementation by BPL of a new 'dynamic protocol' for the bidding of Basslink. The disputes have been referred to arbitration, and a hearing is fixed for November 2013.

Contingent liability

The Corporation entered into an Engineering Procurement Construction Agreement with Musselroe Wind Farm Pty Ltd, pursuant to which the Corporation is to construct the Musselroe Wind Farm. The Corporation supported this obligation through contracts with Vestas – Australian Wind Technology Pty Ltd (Vestas) and Consolidated Power Projects Australia Pty Ltd (CPP) for delivery of wind turbines and civil and electrical works. Construction of various parts of the Musselroe Wind Farm was not completed by the relevant dates for completion, giving rise to a series of potential liabilities owed by the Corporation to Musselroe Wind Farm Pty Ltd and by Vestas and CPP to the Corporation. Vestas and CPP have also made claims against the Corporation in respect of these delays or liabilities.

During the construction of the Musselroe Wind Farm, the Corporation was required, by Musselroe Wind Farm Pty Ltd's financiers and their independent engineer, to undertake additional work on the foundations for the towers of some wind turbines. The Corporation has advised the designer of the foundations, Sinclair Knight Merz, that the Corporation intends to make a claim against it for the cost of these additional works.

21. AUDITOR'S REMUNERATION

	CONSOLIDATED		PARENT	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Amounts received, or due and receivable, by the Auditor-General from the Corporation for auditing the financial statements of the Corporation	408	347	339	225
Amounts received, or due and receivable, for compliance audits	17	-	17	-

22. KEY MANAGEMENT PERSONNEL COMPENSATION

a) Remuneration policy

Remuneration levels for key management personnel of the Corporation are competitively set to attract and retain appropriately qualified and experienced directors and executives. The Human Resources and Remuneration Committee, a committee of the Board, obtains independent advice on the appropriateness of remuneration packages given trends in comparative entities both locally and interstate and the objectives of the Corporation's remuneration policy.

The remuneration structures take into account:

- the capability and experience of key management personnel
- the key management personnel's ability to control the relevant segments' performance
- achievement of the Corporation's strategic initiatives.

Remuneration packages include contribution to post-employment superannuation plans.

Non-executive directors' remuneration

Non-executive directors are appointed by the Governor-in-Council on the joint recommendation of the Treasurer and Portfolio Minister. Each instrument of appointment is for a maximum period of three years and prescribes the relevant remuneration provisions. Directors can be re-appointed.

The level of fees paid to non-executive directors is administered by the Department of Premier and Cabinet.

Superannuation is paid at the appropriate rate as prescribed by superannuation guarantee legislation.

No other leave, termination or retirement benefits are accrued or paid to directors.

Directors are entitled to reimbursement of expenses incurred while attending to Board business.

Non-executive directors' remuneration is reviewed periodically with increases subject to approval by the Treasurer and Portfolio Minister.

Senior executives

The employment terms and conditions of senior executives are contained in individual employment contracts and prescribe total remuneration, superannuation, annual and long service leave and salary sacrifice provisions.

The Chief Executive Officer (CEO) is appointed by the Board. Independent professional advice is obtained prior to entering into or extending an employment agreement and when determining the CEO's remuneration package.

The Board consults with the Treasurer and Portfolio Minister prior to finalising the CEO's remuneration package.

The CEO and executive-level employees are also eligible for a short-term incentive payment subject to meeting agreed key performance indicators. The CEO and Executive Remuneration Policy is aligned to Hydro Tasmania's strategic objectives and business performance results across a mix of corporate, team and individual measures.

The performance of each senior executive, including the CEO, is reviewed annually including a review of the remuneration package.

The terms of employment of each senior executive, including the CEO, contain a termination clause that requires the senior executive or the CEO to provide a minimum notice period of up to 6 months prior to termination of the contract.

Service contracts have durations not exceeding five years.

22. KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)

b) Director remuneration

The following tables disclose the remuneration details in bands for each person that acted as a non-executive director during the current and previous financial years:

	2013					
Band	Number of directors	Directors' fees $	Committee fees $	Superannuation $	Total 2012/13 $	Total 2011/12 $
<$40,000	-	-	-	-	-	36,451
$40,001–$80,000	5	232,949	39,419	24,513	296,881	253,607
>$80,000	1	107,766	20,444	10,829	139,039	132,036
Total	6	340,715	59,863	35,342	435,920	422,093

	2012					
Band	Number of directors	Directors' fees $	Committee fees $	Superannuation $	Total 2011/12 $	Total 2010/11 $
<$40,000	1	30,004	3,437	3,010	36,451	-
$40,001–$80,000	4	188,911	43,808	20,888	253,607	388,591
>$80,000	1	106,233	15,552	10,251	132,036	151,637
Total	6	325,149	62,796	34,149	422,093	540,229

c) Executive remuneration

The following table discloses the remuneration details of senior executives during the current and previous financial years:

	Number of employees	Base salaries $	Short-term* incentive payments $	Superannuation $	Total 2012/13 $	Total 2011/12 $	Total 2010/11 $
Total	11	2,960,421	902,072	198,300	4,060,793	3,725,403	5,157,464

* Short-term incentive payments are those that are dependent on achieving specified performance goals within specified timeframes. These payments are non-recurrent and are capped at a percentage of base salary.

By mutual agreement between the Board and Mr Adair, former CEO, a payment was made to Mr Adair in accordance with any entitlements under his employment contract which is subject to a confidentiality agreement.

Note 23 lists the directors of the Corporation as at 30 June 2013.

23. RELATED PARTY INFORMATION

	Sales to related parties		Purchases from related parties		Amounts owed by related parties		Amounts owed to related parties	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000	2013 $'000	2012 $'000	2013 $'000	2012 $'000
CONSOLIDATED								
Woolnorth Wind Farm Holding Pty Ltd	3,775	462	36,892	10,453	995	117	-	-
Cathedral Rocks Construction and Management Pty Ltd	-	-	-	-	135	135	-	-
Kakamas Hydro Electric Power (Pty) Ltd	-	-	-	-	-	-	-	-
PARENT								
HT Wind Operations Pty Ltd	-	1,119	-	-	-	-	127,549	96,409
Cathedral Rocks Construction and Management Pty Ltd	-	-	-	-	135	135	-	-
Bell Bay Power Pty Ltd	341	313	-	-	-	2,125	382	-
Bell Bay Three Pty Ltd	-	-	-	-	-	-	1,472	4,339
Lofty Ranges Power Pty Ltd	-	-	-	-	622	772	-	-
Hydro Tasmania Consulting (Holding) Pty Ltd	-	-	-	-	4,035	4,324	-	-
Hydro Tasmania Consulting India Pty Ltd	-	80	-	-	-	380	30	-
RE Storage Project Holding Pty Ltd	-	-	-	-	936	940	-	-
Momentum Energy Pty Ltd	314,601	163,829	-	-	35,105	21,726	-	-
AETV Pty Ltd	-	-	-	-	189,881	-	-	-
Hydro Tasmania South Aftica (Pty) Ltd	-	-	-	-	1,756	-	-	-

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 2013 were:

Dr D M Crean, Chairman
Mr S R Eslake
Mr G Every-Burns
Ms J M Healey
Ms T C Jakszewicz
Mr S S Kalinko

Mr G Every-Burns was appointed on 27 August 2012.
Ms T C Jakszewicz was appointed on 27 August 2012.
Mr R Adair resigned as a director on 30 June 2013.

During the year the CEO undertook 11 overseas trips and the directors of the Corporation undertook 4 overseas trips at an aggregate cost of $123,626.

There were no transactions with director-related entities during the year.

24. ENERGY REFORM

The Tamar Valley Power Station and associated contracts have been transferred on 1 June 2013 to the Corporation as part of the Tasmanian Government energy reforms under a transfer notice issued by the Treasurer.

The Corporation has incurred costs in relation to the reform process, as detailed below:

	2013 $'000
Nature	
The Corporations' share of costs of funding the Business Transition Group	915
Costs of consultants engaged by the State-owned electricity business	1,788
Cost of employees who spend greater than 80% of their time on reform-related activities	990
Capital costs	-
Other costs	169
Corporation's share of costs	3,862

25. EVENTS SUBSEQUENT TO BALANCE DATE

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

26. GOVERNMENT GRANTS

The Corporation has recognised $9 million of grant revenue during the year (2012: $9 million) as detailed below:

Community Service Obligations

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

During the year ended 30 June 2013, the State paid the Corporation $7.7 million (2012: $8.0 million) as reimbursement for the cost of providing CSOs.

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

During the year ended 30 June 2011, the Commonwealth Government entered into a $15.3 million 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.

During the year ended 30 June 2013 the Corporation recognised $1.3 million (2012: $0.1 million) as reimbursement of costs relating to the grant.

27. CONTROLLED ENTITIES

	Footnote	Country of incorporation	Percentage of shares held by Hydro-Electric Corporation 2013 %	2012 %
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
Momentum Energy Pty Ltd	6	Australia	100	100
HT Wind Operations Pty Ltd	7	Australia	100	100
Hydro Tasmania South Africa (Pty) Ltd	8	South Africa	100	100
AETV Pty Ltd	9	Australia	100	-

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 (9999 shares) in Hydro Tasmania Consulting India Private Limited with Hydro-Electric Corporation holding 1 share.
6. 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.
7. Hydro Tasmania acquired 100% of the issued capital of HT Wind Operations 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, HT Wind Developments Pty Ltd and HT Wind New Zealand Pty Ltd. HT Wind Operations Pty Ltd was registered on 29 November 2004.
8. Hydro Tasmania acquired 100% ownership of Hydro Tasmania South Africa (Pty) Ltd on 23 January 2012. Hydro Tasmania South Africa (Pty) Ltd holds a 92% ownership interest in Hydro Tasmania Neusberg (Pty) Ltd. As at 30 June 2013 these companies had commenced operations.
9. AETV Pty Ltd was transferred to Hydro Tasmania by Ministerial direction on midnight 1 June 2013.

28. 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	2013 %	2012 %	2013 %	2012 %	2013 %	2012 %	2013 %	2012 %
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	-	-	-	-
Woolnorth Wind Farm Holding Pty Ltd	Wind farm operation	30 June	25	25	25	25	-	-	-	-
Kakamas Hydro Electric Power (Pty) Ltd	Mini-hydro operation	30 June	25	-	25	-	-	-	-	-

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 30).

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 29).

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.

In 2012 the Corporation divested 75% of its ownership interests in Woolnorth Bluff Point Wind Farm Pty Ltd and Woolnorth Studland Bay Wind Farm Pty Ltd. The interests were sold to form a joint venture with Shenhua Clean Energy Holding Pty Ltd on 27 February 2012. The Corporation retained a 25% ownership in the joint venture with Shenhua Clean Energy Holding Pty Ltd.

On 5 February 2013 the Corporation divested ownership of Musselroe Holdings Pty Ltd, which wholly owns Musselroe Wind Farm Pty Ltd, to the Woolnorth Wind Farm Holding Pty Ltd joint venture.

A subsidiary of the Corporation, Hydro Tasmania South Africa (Pty) Ltd became a joint venture partner in the Kakamas Hydro Electric Power (Pty) Ltd joint venture during the year and holds a 25% interest in the joint venture. The principal activity of the joint venture is to develop a mini-hydro scheme in Neusberg, South Africa.

29. 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	
	2013 $'000	2012 $'000
Current assets		
Cash	43	32
Receivables	3	3
Other	1	8
Total current assets	47	43
Non-current assets		
Property, plant and equipment	1,231	1,253
Total non-current assets	1,231	1,253
TOTAL ASSETS	1,278	1,296
Current liabilities		
Payables	21	21
Total current liabilities	21	21
TOTAL LIABILITIES	21	21
NET ASSETS	1,257	1,275

30. 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			
	Woolnorth Wind Farm Joint Venture 25% 2013 $'000	Cathedral Rocks Construction and Management Pty Ltd 50% 2013 $'000	Kakamas Hydro Electric Power Pty Ltd 25% 2013 $'000	Total 2013 $'000
Income statement				
Revenue	43,080	10	-	43,090
Expenses	35,856	-	-	35,856
Profit/(loss) before income tax benefit	7,224	10	-	7,234
Fair value gain	-	-	-	-
Income tax expense	(22,764)	(3)	-	(22,767)
Net profit after tax	(15,540)	7	-	(15,533)
Balance sheet				
Current assets	77,452	404	10,892	88,748
Non-current assets	592,812	-	22,438	615,250
Total assets	670,264	404	33,330	703,998
Current liabilities	28,785	272	2,747	31,804
Non-current liabilities	447,526	-	17,167	464,693
Total liabilities	476,311	272	19,914	496,497
Net assets	193,953	132	13,416	207,501
Share of accumulated profits/(losses)				
Share of accumulated profits/(losses) at the beginning of the year	5,823	(31)	-	5,792
Share of profit before income tax expense	1,751	5	-	1,756
Share of accumulated profit/(losses) at the end of the year	7,574	(26)	-	7,548
Movements in carrying amount of investment in joint ventures				
Carrying amount at the beginning of the year	34,549	7	-	34,557
Investment in Musselroe Wind Farm Holding Pty Ltd	27,458	-	-	27,456
Investment in Hydro Tasmania South Africa Pty Ltd	-	-	4,326	4,326
Dividends received	(1,400)	-	-	(1,400)
Share of profit before income tax for the year	1,751	5	-	1,756
Carrying amount at the end of the year	62,358	12	4,326	66,696

30. INCORPORATED JOINT VENTURES (CONTINUED)

	CONSOLIDATED		
	Woolnorth Wind Farm Joint Venture 25% 2012 $'000	Cathedral Rocks Construction and Management Pty Ltd 50% 2012 $'000	Total 2012 $'000
Income statement			
Revenue	10,606	15	10,621
Expenses	12,172	-	12,172
Profit/(loss) before share of profit from asset sale and income tax benefit (expense)	(1,566)	15	(1,551)
Profit of joint venture from asset sale	24,858	-	24,858
Income tax benefit/(expense)	(6,968)	(4)	(6,972)
Net loss after tax	16,324	11	16,335
Balance sheet			
Current assets	20,395	393	20,788
Non-current assets	284,613	-	284,613
Total assets	305,008	393	305,401
Current liabilities	17,509	272	17,781
Non-current liabilities	161,502	-	161,502
Total liabilities	179,011	272	179,283
Net assets	125,997	121	126,118
Share of accumulated profits/(losses)			
Share of accumulated profits/(losses) at the beginning of the year	-	(39)	(39)
Share of profit before income tax expense	5,823	7	5,830
Share of accumulated profit/(losses) at the end of the year	5,823	(31)	5,792
Movements in carrying amount of investment in joint ventures			
Carrying amount at the beginning of the year	-	-	-
Initial Contribution	29,533	-	29,533
Share of profit before income tax for the year	5,823	7	5,830
Return of equity	(807)	-	(807)
Carrying amount at the end of the year	34,549	7	34,557

The investment in joint ventures are carried at cost by subsidiaries of the parent.
Contingent liabilities and capital expenditure commitments relating to the joint ventures are included in notes 19 and 20.

31. DIVIDEND

	CONSOLIDATED		PARENT	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Declared and paid during the year				
Statutory dividend	50,686	49,008	50,686	49,008
Proposed for approval (not recognised as a liability as at 30 June)				
Statutory dividend	116,481	50,686	116,481	50,686

32. SEGMENT INFORMATION

Identification of reportable segments

The Corporation has identified its operating segments based on the internal reports that are reviewed and used by the Chief Executive Officer (CEO) as chief operating decision-maker in assessing the performance and determining the allocation of resources. Three segments have been identified as Hydro Tasmania, AETV and Momentum Energy.

Types of products and services by segment

(i) Hydro Tasmania

Hydro Tasmania generates and sells wholesale energy into the National Electricity Market from hydro generation assets and provides consulting services.

(ii) AETV

AETV Pty Ltd generates and sells wholesale energy into the National Electricity Market from gas-fired generation assets and sells gas to wholesale customers in Tasmania.

(iii) Momentum Energy

Momentum Energy sells energy to retail customers in the Victorian, New South Wales, South Australian and Queensland regions of the National Electricity Market.

Basis of accounting for purposes of reporting by operating segments

Unless stated otherwise, all amounts reported to the CEO with respect to individual segments are determined in accordance with the accounting policies adopted in the financial statements as detailed in note 1.2.

Inter-segment revenues are eliminated on consolidation.

Capital expenditure consists of additions of property, plant and equipment.

32. SEGMENT INFORMATION (CONTINUED)

	YEAR ENDED 30 JUNE 2013					
	Hydro Tasmania $'000	AETV $'000	Momentum Energy $'000	Total segments $'000	Adjustments & eliminations $'000	Consolidated $'000
Revenue						
External customers	754,073	11,896	800,237	1,566,206	(19,837)	1,546,369
Other revenue	11,226	-	634	11,860	-	11,860
Total revenue	765,299	11,896	800,871	1,578,066	(19,837)	1,558,229
Segment results						
Interest expense	66,451	1,050	-	67,501	-	67,501
Depreciation & amortisaion	90,461	294	618	91,373	-	91,373
Share of loss of joint venture	1,788	-	-	1,788	-	1,788
Income tax expense	38,724	(103,811)	5,390	(59,697)	-	(59,697)
Segment profit/(loss)	222,436	(2,098)	17,586	237,924	(208)	237,716
Total assets	4,789,395	205,883	136,597	5,131,875	(8,841)	5,123,034
Total liabilities	2,870,457	355,542	112,987	3,338,986	(9,049)	3,329,937
Other disclosures						
Investment in joint venture	66,696	-	-	66,696	-	66,696
Capital expenditure	82,412	667	2,665	85,744	-	85,744

Inter-segment revenues are eliminated on consolidation.
Segment results for AETV are for the period from acquisition on 1 June 2013 to 30 June 2013.

	YEAR ENDED 30 JUNE 2012				
	Hydro Tasmania $'000	Momentum Energy $'000	Total segments $'000	Adjustments & eliminations $'000	Consolidated $'000
Revenue					
External customers	630,217	463,808	1,094,025	(54,332)	1,039,693
Other revenue	11,438	-	11,438	-	11,438
Total revenue	641,655	463,808	1,105,463	(54,332)	1,051,131
Segment results					
Interest expense	86,687	-	86,687	-	86,687
Depreciation & amortisaion	81,379	893	82,272	-	82,272
Share of loss of joint venture	384	-	384	-	384
Income tax expense/(benefit)	646	3,351	3,997	-	3,997
Segment profit	93,823	11,099	104,922	(1,482)	103,440
Total assets	5,700,579	108,096	5,808,675	(2,839)	5,805,836
Total liabilities	3,581,429	96,682	3,678,111	(4,322)	3,673,789
Other disclosures					
Investment in joint venture	34,557	-	34,557	-	34,557
Capital expenditure	185,952	984	186,936	-	186,936

32. SEGMENT INFORMATION (CONTINUED)

	YEAR ENDED 2013 $'000	YEAR ENDED 2012 $'000
Reconciliation of profit		
Segment profit	237,924	104,922
Energy sales	19,837	54,332
Purchased energy	(19,837)	(54,332)
Environmental energy products	(208)	(1,482)
Result before fair value movements and impairment expenses	237,716	103,440
Reconciliation of assets		
Segment total assets	5,131,875	5,808,675
Inventory valuation	(8,841)	(2,839)
Corporation total assets	5,123,034	5,805,836
Reconciliation of liabilities		
Segment total liabilities	3,338,986	3,678,111
Environmental schemes liability valuation	(9,049)	(4,322)
Corporation total liabillties	3,329,937	3,673,789

Geographic information

All revenue is generated from Australian based resources.

33. BUSINESS ACQUISITION

The Tamar Valley Power Station and associated contracts were transferred from Aurora Energy to the Corporation on 1 June 2013 as part of the Tasmanian Government energy reforms (refer note 3). The Parent entity assumed 100% ownership of the shares of AETV Pty Ltd by equity contribution from the State of $89.1 million.

	Book value $'000	Fair value adjustment $'000	Fair value on acquisition $'000
Net assets acquired			
Current assets			
Cash and cash equivalents	17,296	-	17,296
Receivables	-	-	-
Investments	-	-	-
Prepayments	2,498	(1,907)	590
Inventories	-	-	-
	19,794	(1,907)	17,886
Non-current assets			
Property, plant and equipment	317,473	(216,271)	101,202
Financial assets	8,670	(8,670)	-
	326,143	(224,941)	101,202
Current liabilities			
Payables	(6,277)	-	(6,277)
Interest-bearing liabilities	(3,949)	-	(3,949)
Provisions	(1,417)	-	(1,417)
Financial liabilities	(509)	(8,567)	(9,076)
	(12,152)	(8,567)	(20,719)
Non-current liabilities			
Interest-bearing liabilities	(205,000)	-	(205,000)
Provisions	(26,109)		(26,109)
Financial liabilities	(2,316)	(99,631)	(101,946)
Deferred tax liability	(11,221)	-	(11,221)
	(244,646)	(99,631)	(344,276)
Net assets	89,139	(335,046)	(245,907)

	CONSOLIDATED 2013 $'000	PARENT 2013 $'000
Net cash flow on acquisition		
Consideration paid in cash	-	-
Cash and cash equivalent balances acquired	17,296	-
Net cash flow on acquisition	17,296	-

Superannuation declaration

I, Stephen Davy, 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.

S Davy
Acting Chief Executive Officer
14 August 2013

Statement of certification

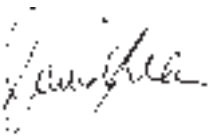
In the opinion of the directors of the Hydro-Electric Corporation (the Corporation):

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 2013 and the financial position at 30 June 2013 of the Corporation and its subsidiaries
   (ii) complying with the Australian Accounting Standards and Interpretations, and with the Treasurers' Instructions.
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 acting Chief Executive Officer and Chief Financial Officer of the Corporation:

a) the financial records of the Corporation for the year ended 30 June 2013 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 2013 have been prepared in accordance with Section 52 of the *Government Business Enterprises Act 1995*
c) the financial statements and notes for the year ended 30 June 2013 give a true and fair view.

Signed in accordance with a resolution of the directors:



Dr D.M. Crean
Chairman
14 August 2013

J Healey
Director
14 August 2013

Auditor's independence declaration

Tasmanian Audit Office

14 August 2013

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

Dear Board Members

Auditor's Independence Declaration

In relation to my audit of the financial report of the Hydro-Electric Corporation for the financial year ended 30 June 2013, I declare that to the best of my knowledge and belief, there have been no contraventions of:

a) the auditor independence requirements of Australian Auditing Standards in relation to the audit; and

b) any applicable code of professional conduct in relation to the audit.

As agreed with the Audit Committee, a copy of this declaration must be included in the Annual Report.

Yours sincerely

H M Blake
Auditor-General

To provide independent assurance to the Parliament and Community on the performance and accountability of the Tasmanian Public sector.
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Strive | Lead | Excel | To Make a Difference

Independent audit report

Tasmanian Audit Office

Independent Auditor's Report
To Members of the Parliament of Tasmania
Hydro-Electric Corporation
Financial Report for the Year Ended 30 June 2013

Report on the Financial Report

I have audited the accompanying consolidated financial report of the Hydro-Electric Corporation (the Corporation), which comprises the balance sheet as at 30 June 2013 and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the statement by the directors' on the financial report 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 Corporation's financial report:

(i) presents fairly, in all material respects, the consolidated entity's financial position as at 30 June 2013, and 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;

(b) the consolidated 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 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 the financial report complies with International Financial Reporting Standards.

Independent audit report

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 directors' 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.

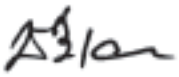
Independence

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

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

My independence declaration provided to the directors dated 14 August 2013 and included in the Annual Report, would be unchanged if provided to the directors as at the date of this auditor's report.

Tasmanian Audit Office



H M Blake
Auditor-General

HOBART
16 August 2013

2 of 2

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Summaries, glossary and index

About this report

The Hydro Tasmania Annual Report 2013 is our eighth integrated report on our financial, environmental and social performance.

This report covers the financial year from 1 July 2012 to 30 June 2013. It complies with legislative requirements for annual reporting under the *Government Business Enterprises Act 1995* and our commitment to report our sustainability performance under our Sustainability Code. We also comply with the reporting requirements of various Guidelines for Tasmanian Government Businesses issued by the Department of Treasury and Finance. The report structure is based on our Sustainability Code principles (see page 5 for more information).

Report content

Hydro Tasmania takes seriously the need to engage with and listen to the communities in which we operate, and the stakeholders who have an interest in our activities.

Our annual report content is determined in part by issues of 'material interest' to our stakeholders, both internal and external.

We identified the material interests of external stakeholders through media monitoring reports, the Government Business Enterprise hearings, our stakeholder survey, Momentum Energy's customer survey and Entura's client survey.

To determine key material interests for the business we used data from our risk management system, interviews with senior executives including the CEO, the 2013 employee survey and other internal staff workshops.

A frequency and priority matrix was applied to finalise the key material issues. Final material issues are therefore represented by items that have high incidence frequency and a high stakeholder priority. These are set out in Table 10 on page 151. Material issues are arranged under the principles of our Sustainability Code.

Our stakeholder groups are listed on page 72. Our primary audience is the people of Tasmania where our operations have the most significant economic, social and environmental impact.

The report content is also aligned with sustainability reporting guidelines, including the Global Reporting Initiative G3.1 (GRI electric utility sector supplement), and the Energy Supply Association of Australia sustainable practice framework.

Data collection and basis

Entura and Momentum Energy

Information provided on Hydro Tasmania's subsidiary businesses (Victoria-based energy retailer Momentum Energy and consulting business Entura) is included in this report for the interest of their clients and customers unless otherwise stated. This provides a complete picture of the Hydro Tasmania group of businesses because Momentum and Entura are critical parts of our business.

Global Reporting Initiative

We have determined our reporting scope with reference to GRI G3.1 'guidance and decision tree for boundary setting'. At this time only aggregated finance data is provided for the Tamar Valley Power Station, which will be fully incorporated into the GRI report next financial year. Other aspects of TVPS's operations are addressed throughout this report.

Performance indicator definitions are the same as the GRI G3.1 guidelines definitions where possible and otherwise we explain the difference. OHS data is based on the Australian Standard 1885, except that overtime hours are not included.

Contractor hours are included in the OHS data calculations.

The calculation for LTI frequency rate is:

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

The calculation for absentee rate is:

$$\frac{\text{Total number of missed days of the period} \times 1\,000\,000}{\text{Total number of workforce days worked for the same period.}}$$

Finance

Financial statements comply with International Financial Reporting and Australian Accounting Standards and are in accordance with the *Government Business Enterprises Act 1995* and Treasurer's Instructions. Financial results include all wholly-owned entities of the Hydro Tasmania group, including Entura's overseas operations, the Tamar Valley Power Station, and a proportionate share of the operating results of joint ventures. A 50 per cent share of the assets and liabilities of Lofty Ranges Power, the unincorporated joint venture, is also included. All monetary amounts are in Australian dollars.

Generation data are reported as the net value at our market connection points in Tasmania.

Water and energy

We measure water storage in gigawatt hours of energy or in percentage full in energy terms. See an explanation on page 157.

Greenhouse gas reporting

Hydro Tasmania collects data on scope 1, 2 and 3[10] greenhouse gas emissions from all Australian facilities under our operational control. We report scope 1 and 2 emissions annually under the *National Greenhouse and Energy Reporting Act 2007*. On 1 July 2012 the Bass Strait islands facilities came under the direct operational control of Hydro Tasmania and are therefore included in our reporting. On 1 June 2013 TVPS came under direct operational control of Hydro Tasmania and is therefore included in our reporting.

[10] **Scope 1 emissions** are the release of greenhouse gases into the atmosphere as a direct result of an activity, or series of activities (including ancillary activities) that constitute the facility (e.g. vehicle fleet fuel usage).

Scope 2 emissions are the release of greenhouse gases into the atmosphere as a direct result of one or more activities that generate electricity, heating, cooling or steam that is consumed by the facility but do not form part of the facility (consumption of purchased electricity, e.g. head office lighting).

Scope 3 emissions include greenhouse gas emissions (other than scope 2 emissions) that are generated in the wider economy as a result of activities at a facility but are physically produced by another facility (e.g. commercial flights, hire cars and paper use etc).

Employee data

Employee data includes Hydro Tasmania, Entura and Momentum Energy employees and the numbers are based on head count at 30 June 2013 unless otherwise stated.

Assurance

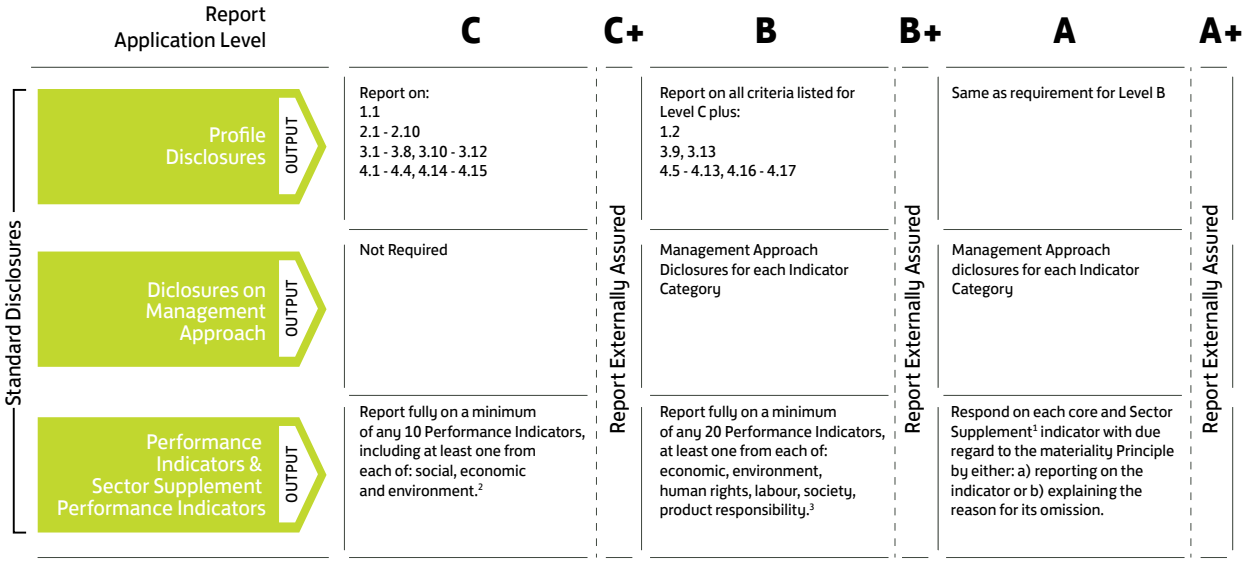
Assurance provides a valuable source of feedback for improvement in Hydro Tasmania's business performance, processes and systems, and greater confidence for our readers that what we report is accurate, transparent and balanced. Hydro Tasmania engaged Net Balance to assure this report against AA1000 Assurance Standard.

GRI application

Hydro Tasmania has assessed that this report conforms to a GRI A+ level.

Net Balance affirms this opinion in its Assurance Statement on page 18.

See the full GRI index on our website.



[1] Sector supplement in final version.
[2] Performance Indicators may be selected from any finalised Sector Supplement, but 7 of the 10 must be from the original GRI Guidelines.
[3] Performance Indicators may be selected from any finalised Sector Supplement, but 14 of the 20 must be from the original GRI Guidelines.

Figure 8: GRI application level criteria

Table 10: Material issues identified for FY2012/13

Principle	Material issue	Source: internal, external or both	Read more
Economic	Hydro Tasmania as an integrated energy business	Both	12
	Wind generation and development	Both	27
	Implications of the price on carbon	Both	22
	Strategic agreement framework with Shenhua Clean Energy Holding Pty	External	27
	Electricity prices	Internal	26
Governance and processes	Industry reform	Both	31
	Shareholder engagement	Internal	32
	Implementation of the my**sap** project	Internal	30
	Technology and systems	Internal	32
Customers	Momentum Energy's customer growth/satisfaction and relationships	Both	41
	Momentum Energy's brand growth and communications	Internal	43
	Momentum Energy's competitive pricing	External	42
	Momentum Energy's renewable or clean energy products	External	44
	Entura's customer satisfaction and relationships	Both	41
	Entura's opportunities and strategy	Internal	45
	King Island Renewable Energy Integration Project	External	46
	Entura's work on hydropower projects in Sarawak	External	46
Infrastructure and resources	Prudent water management	Internal	54
	Asset management	Internal	52
Environment	Managing the aquatic environment	Internal	58
	Lagoon of Islands project	Internal	59
	Managing environmental impacts	Internal	59
	Environmental systems and risk management	Internal	59
Community	Stakeholder engagement approach	Internal	66
	Increasing connectivity with the community	External	67
	Community engagement on large projects	Internal	66, 71
	Recreation and public access to waterways	External	69
People	Enterprise Partnership Agreement	Internal	76
	Workforce planning	Internal	76
	Staff retention and talent management	Internal	76
	Safety	Internal	79

Generation statistical summary

As at June 30		2009	2010	2011	2012	2013
Mainland Tasmania						
Power stations						
Hydro	Number	28	30[1]	30	30	30[2]
Thermal (gas)	Number	1	0	0	0	1[3]
Wind	Number	0	0	2[4]	0[5]	0[6]
Total no. of power stations	**Number**	**29**	**30**	**32**	**30**	**31**
Installed capacity						
Hydro	MW	2 270	2 281	2 281	2 281	2 281
Thermal (gas)	MW	240	0	0	0	372[7]
Wind	MW	0	0	140	0	0
Total installed capacity	**MW**	**2 510**	**2 281**	**2 421**	**2 281**	**2 653**
Energy generated[8]						
Hydro	GWh	7 203	8 167	9 273	8 334	10 627
Thermal (gas)	GWh	608	0	0	0	140[9]
Wind[10]	GWh	0	0	0	313	0
Total energy generated	**GWh**	**7 811**	**8 167**	**9 273**	**8 647**	**10 767**
Generation peak	MW	2248	2131	2093	2 042	2 222
Generation load factor[11]	%	40	44	51	48	55
Bass Strait islands						
King Island						
Diesel	MWh	10 221	10 480	11 232	11 635	7 968
Wind	MWh	5 516	4 724	5 139	4 830	4 133
Flinders Island Diesel	MWh	4 404	4 340	4 232	4 123	3 569
Total Bass Strait islands	**MWh**	**20 141**	**19 544**	**20 603**	**20 588**	**15 670**

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 power stations differs from the number in the Statement of Corporate Intent as this table includes power stations additional to the main undertakings, namely Parangana, Nieterana (Butlers Gorge mini-hydro) and Lower Lake Margaret.

[3] Tamar Valley Power Station transferred to Hydro Tasmania on 1 June 2013.

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

[5] Woolnorth Bluff Point Wind Farm and Woolnorth Studland Bay Wind Farm transferred from Hydro Tasmania in February 2012.

[6] Musselroe Wind Farm transferred from Hydro Tasmania on 5 February 2013 before operational production commenced.

[7] Tamar Valley Power Station Registered Capacity.

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

[9] Tamar Valley Power Station energy generated for the month of June 2013.

[10] Wind energy generation is from 1 July 2011 to 27 February 2012 when the Woolnorth wind farms were transferred from Hydro Tasmania.

[11] Calculated as average MW divided by peak MW. Average MW calculated from total energy divided by hours in the year.

Financial statistical summary

Five-Year Profile – Statement of Comprehensive Income

	Year ended 30 June				
	2009 $'000	2010 $'000	2011 $'000	2012 $'000	2013 $'000
Income					
Sales of goods and services	610,838	717,246	804,181	1,039,693	1,546,369
Other income	14,899	9,687	8,591	11,438	13,616
TOTAL INCOME	**625,737**	**726,933**	**812,772**	**1,051,131**	**1,559,985**
Less expenses					
Labour	88,822	100,763	104,660	104,802	120,539
Direct operating expenses	262,518	319,018	374,930	590,001	960,782
Depreciation and amortisation of non-current assets	73,766	77,681	79,873	82,273	91,373
Impairment of non-current assets	(186,925)	-	-	-	484,315
Finance costs	86,684	80,337	80,481	86,687	67,501
Fair value movements	(185,638)	(259,194)	(116,389)	85,571	1,923
Other operating expenses	68,619	76,248	72,812	83,928	82,074
TOTAL EXPENSES	**207,846**	**394,853**	**596,367**	**1,033,262**	**1,808,507**
NET PROFIT/(LOSS) BEFORE TAX	**417,891**	**332,080**	**216,405**	**17,869**	**(248,522)**

Five-Year Profile – Balance Sheet

	Year ended 30 June				
	2009 $'000	2010 $'000	2011 $'000	2012 $'000	2013 $'000
Assets					
Cash and cash equivalents	30,562	3,038	13,199	7,061	39,806
Investments	122,826	121,790	-	34,557	66,696
Receivables	154,356	82,657	114,253	142,062	220,828
Property, plant and equipment	4,146,346	4,161,631	4,414,220	4,484,569	4,188,436
Financial and other assets	758,809	759,886	964,922	1,137,587	607,268
TOTAL ASSETS	**5,212,899**	**5,129,002**	**5,506,594**	**5,805,836**	**5,123,034**
Liabilities					
Payables	171,576	69,935	81,260	124,700	142,732
Provisions	365,579	363,461	371,154	467,247	551,369
Interest-bearing liabilities	941,235	872,864	983,366	856,806	905,795
Tax liabilities	677,681	749,099	804,684	801,713	621,913
Financial liabilities	1,391,346	1,191,713	1,252,677	1,423,323	1,108,128
TOTAL LIABILITIES	**3,547,417**	**3,247,072**	**3,493,141**	**3,673,789**	**3,329,937**
NET ASSETS	**1,665,482**	**1,881,930**	**2,013,453**	**2,132,047**	**1,793,097**
EQUITY	**1,665,482**	**1,881,930**	**2,013,453**	**2,132,047**	**1,793,097**

Five-Year Profile – Capital Works

	Year ended 30 June				
	2009 $'000	2010 $'000	2011 $'000	2012 $'000	2013 $'000
Expenditure					
Generation assets	69,662	78,423	48,049	147,310	58,461
Bass Strait islands	982	860	1,144	6,389	1,828
Communications	-	7		-	-
Land and buildings	1,977	973	823	956	1,286
Fleet	1,807	2,784	1,938	2,159	2,887
Information systems	4,591	10,299	9,279	20,617	57,047
Renewable developments	-	-	-	3,584	8,654
Other assets	2,228	2,187	3,105	5,120	6,604
TOTAL CAPITAL EXPENDITURE	**81,247**	**95,533**	**64,338**	**186,135**	**136,767**

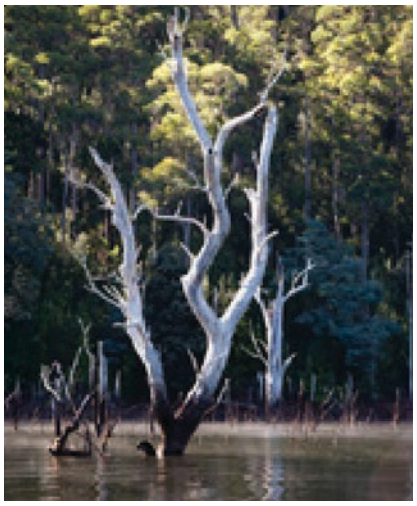
Acronyms and glossary

Excluding the financial statements

AEMO	Australian Energy Market Operator, an organisation that manages the National Electricity Market and gas markets in eastern and south-eastern Australia
AETV Pty Ltd (formerly Aurora Energy (Tamar Valley) Pty Ltd)	The electricity/gas sales entity that includes the Tamar Valley Power Station (TVPS)
AMP	Asset Management Plan
ANCOLD	Australian National Committee on Large Dams
Basslink	An undersea high-voltage direct current cable carrying electricity between Tasmania and Victoria
BBB financial strength	Assessment of an organisation's financial strength based on the rating methodologies used by Standard and Poor's and Moody's. Hydro Tasmania was assessed by Tasmanian Public Finance Corporation (TASCORP). BBB reflects an investment-grade credit rating whereby the organisation has adequate capacity to meet financial commitments but is more subject to adverse economic conditions
BPL	Basslink Pty Ltd, the company that operates Basslink (see Basslink)
C&I	Commercial and industrial
Carbon emissions intensity	Carbon emissions per unit of energy generated. Measured in tonnes of carbon dioxide equivalent per megawatt-hour (tCO_2e/MWh)
CEO	Chief Executive Officer
Client perception score	Measured using the Net Promoter Score (see NPS)
CSO	Community service obligation
EPA	Enterprise Partnership Agreement
ERP	Enterprise resource planning
exciter	A component in an electrical generator
FTE	Full-time equivalent
FY	Financial year
GBE Act	*Tasmanian Government Business Enterprises Act 1995*
GRI	Global Reporting Initiative
HSE	Health, safety and environment
IBRM	Integrated business risk management
IFS	Inland Fisheries Service
IT	Information technology
Kaplan turbine	A propeller-type water turbine which has adjustable blades
KIREIP	King Island Renewable Energy Integration Project
Large-scale Renewable Energy Target	The Large-scale Renewable Energy Target, administered by the Clean Energy Regulator, creates a financial incentive for the establishment and growth of renewable energy power stations, such as wind and solar farms, or hydro-electric power stations. It does this by legislating demand for Large-scale Generation Certificates (LGCs). These LGCs are created based on the amount of eligible renewable electricity produced by the power stations. LGCs can be sold or traded to liable entities, in addition to the power station's sale of electricity to the grid. RET liable entities have a legal obligation to buy LGCs and surrender them to the Clean Energy Regulator on an annual basis
LGC	Large-scale Generation Certificate (see Large-scale Renewable Energy Target)
LSI	Long-term sustainability indicator
LTI	Lost time injuries — see page 79 for definition
MFWMR	Mersey-Forth Water Management Review
Ministerial Charter	A Ministerial Charter sets out the purpose and objectives of a Government Business Enterprise under the GBE Act. It is reviewed annually

mysap	New integrated business management system at Hydro Tasmania group based on SAP software
nacelle	The cover housing of a wind turbine
NEM	National Electricity Market. The NEM began operation on 13 December 1998, and operations are currently based in five interconnected regions – Queensland, New South Wales, Tasmania, Victoria and South Australia. Tasmania was the last state to join the NEM as the sixth region in May 2005 and became fully operational on 29 April 2006 when the Basslink interconnector was fully activated
NPS	Net promoter score, a customer loyalty metric. A positive score is considered good. A score of over 50 is considered excellent
OHS	Occupational health and safety
Promoter score	See NPS
RAPS	Remote area power supply
REIPPP	South Africa Renewable Energy Independent Power Producer Program
Remote Area Power Supply	A Remote Area Power Supply (RAPS) is an autonomous electricity supply system that relies on one or more energy sources usually in conjunction with a battery and power conditioning equipment. Although RAPS systems can provide a reliable and cost-effective source of power in remote regions, they are not limited to remote areas
Safety Reporting Index	See definition on page 79
SCE	Shenhua Clean Energy Holdings Pty Ltd
SCORE	Sarawak Corridor of Renewable Energy
SEB	Sarawak Energy Berhad
Seepage erosion	Sub-surface erosion process that causes gullies and eventually stream- or river-bank failure
SF_6	Sulphur hexafluoride, a greenhouse gas
SIP	Safety improvement plan
Smart Grid technology	A smart grid is an electrical grid that uses information and communications technology to gather and act on information, such as information about the behaviours of suppliers and consumers. The automated system improves the efficiency, reliability, economics, and sustainability of the production and distribution of electricity
Smart meters	A smart meter is an electronic electricity meter that records consumption of energy in intervals of an hour or less and communicates that information at least daily back to the supplier for monitoring and billing. Smart meters enable two-way communication between the meter and the central system
SME	Small to medium enterprise
SmilePower	Momentum Energy power product
Special Water Licence	A special water licence has been granted to Hydro Tasmania under the *Tasmanian Water Management Act 1999*. Under the licence Hydro Tasmania is responsible for prudent management of an extensive network of modified lakes, rivers, streams and canals, flowing through a diverse range of landforms and land use zones, each of which have unique aquatic issues
SRI	Safety reporting index — see page 79 for definition
Storage levels	Water storage is measured in two different ways: energy in storage and lake levels. For definitions see page 157
SWRMP	Strategic Water Resources Management Plan
TAC	Tasmanian Aboriginal Centre
TESI	Tasmanian Electricity Supply Industry
TVPS	Tamar Valley Power Station

Measuring water storage levels



Hydro Tasmania publishes water storage data in two ways: 'energy in storage', and 'lake levels'.

Lake levels are reported as metres below full and are a measure of the level of the lake relative to its full supply level.

Energy in storage is the amount of electricity that could be generated from the water stored in a lake. Storage levels are described as 'x per cent full in energy terms' or 'per cent full of energy' or 'gigawatt-hours'. The figure is not the same as the level of water in the storage. Energy in storage can be reported for the system as a whole or for individual lakes.

The preferred operating minimum level forms part of our obligations to prudently manage our water storages, and is a seasonal energy in storage level for the system as a whole. We aim to keep above this level under median inflows.

Economic operating levels are seasonal lake level targets that ensure a reasonable balance between risk of spill and risk of energy shortfall.

Terms of energy measurement

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.

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We welcome feedback, comments and any queries regarding this report or its contents so that we can continue to improve its value to our readers. Contact us by phone on 1300 360 441 or email contactus@hydro.com.au or write to GPO Box 355, Hobart, Tasmania, Australia 7001

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