Hydro Tasmania

The next generation of hydropower

Annual Report 2018

Our vision

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

Our values

We put people's health and **safety** first.

We 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.

Cover image: Holly Frankcombe (left) and Matthew Howard at Poatina penstock

Directors' statement

To the Honourable Guy Barnett MP, Minister for Energy, in compliance with the 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 ending 30 June 2018. The report has been prepared in accordance with the provisions of the *Government Business Enterprises Act 1995.*

Grant Every-Burns
Chairman, Hydro-Electric Corporation
October 2018

Stephen Davy
Director, Hydro-Electric Corporation
October 2018

Hydro-Electric Corporation
ABN 48 072 377 158

The year at a glance

Cluny Power Station had a major upgrade this year, marking 50 years of service

We've made some significant achievements over the year, which have been driven by the passion, dedication and expertise of our people.

Our production and yield are considerably up on the previous year, while our innovation and expertise have made positive changes around the country, and further afield. Tasmania stands ready to make an even greater contribution to Australia's future National Electricity Market in coming years, through the *Battery of the Nation* initiative.

We have made a concerted effort to engage with our owners, the Tasmanian community. This has been seen in many ways, including through our commitment to support recreation on waterways we manage, our community grants and our support for increasing diversity in the engineering sector.

Achievements

- We developed compelling evidence that Tasmania's *Battery of the Nation* proposal is one of the most achievable and competitive solutions to Australia's looming energy challenge.
- We identified 14 options as Tasmania's best pumped hydro storage opportunities for the next generation of Tasmanian hydropower.
- We achieved a strong profit before fair value movements and revaluations of $167.9 million, which was well above budget.
- We invested more than $90 million in modernising and maintaining our generation assets.
- We comfortably exceeded our traditional storage targets (40% at the start of summer and 30% at the end of summer) and maintained storages well above the High Reliability Level at all times.
- We secured an arbitrated outcome for ongoing gas transportation arrangements, an outcome that's a fair and reasonable deal for Tasmanians.
- We became a major sponsor of:
    - Engineers Australia's Women in Engineering Scholarship, which aims to boost the number of women entering engineering careers.
    - One of the biggest fishing events in Tasmanian history, the 39th Fips-Mouche World Fly Fishing Championships in November and December 2019.
    - *The Derwent* exhibition at the Tasmanian Museum and Art Gallery, a celebration of one of Tasmania's most treasured natural assets.

Entura Managing Director Tammy Chu presents Lucy Watt with her Women in Engineering scholarship

Cataract Gorge water release, supporting kayaking and tourism

- We committed to conducting at least two special water releases down Launceston's Cataract Gorge each year until 2022 to support kayaking and tourism and successfully conducted the first two releases.
- We signed the Women in Renewables Leaders' Pledge at the Australian Clean Energy Summit as part of efforts to support better gender diversity and equal opportunity in the renewable energy industry.
- We supported the proposed Granville Harbour wind farm on Tasmania's west coast by reaching an in-principle power purchase agreement to buy its renewable energy.
- We launched the Flinders Island Hybrid Energy Hub, reducing the island's dependence on diesel fuel and giving it a cleaner, cheaper and more secure energy future while demonstrating world-leading Tasmanian hybrid technology.
- We delivered the Rottnest Island Water and Renewable Energy Nexus Project, making the island far less dependent on diesel and incorporating its desalination plant as effective renewable energy storage.
- We designed and helped implement a hybrid energy solution for the township of Coober Pedy, achieving a diesel saving of over 70%.
- We funded another seven projects to help make Tasmanian communities safer, more connected and more empowered under our annual Community Grant Program.
- We supported the Energy Security Taskforce as it developed a robust and transparent approach to protecting Tasmania's electricity supply system against extreme events, such as an extended outage of Basslink or sustained low inflows to hydro storages.
- Entura developed Australia's first practical atlas of pumped hydro energy storage opportunities, and helped the Cook Islands, Tonga and the Federated States of Micronesia achieve their urgent renewable energy targets.

Challenges

- Managing through an unplanned 10-week Basslink interconnector outage. There was no meaningful impact on Tasmania's energy security.
- Global engineering experts DNV GL found that the probable cause of the subsea Basslink cable failure in December 2015 is that Basslink Pty Ltd operated it in a way that exceeded its design limit and degraded it.
- The loss of the historic Bronte Park Lodge, which was destroyed by fire (no longer owned by Hydro Tasmania).

Awards

- Hydro Tasmania won the Volunteering Tasmania Corporate Award (for an employee volunteering program) for the third successive year.
- Hydro Tasmania's Supplementary Generation Project won the Construction / Engineering award for Tasmania at the Australian Institute of Project Management's annual achievement awards as well-deserved recognition for employees' effort and innovation during the 2015–16 energy supply challenge.
- Momentum Energy won in three categories (customer satisfaction, environmental awareness and clearest power bills) at the 2018 Mozo People's Choice Awards.

Above: ***Manager Production and Maintenance Jesse Clark at Meadowbank Power Station***

Contents

Above: ***Liapootah no 2 main inlet valve arriving at the Cambridge Workshop for refurbishment***

Message from the Chairman and Chief Executive Officer

Chairman Grant Every-Burns

Chief Executive Officer Stephen Davy

Foreword

It's been a year of growth, consolidation and looking to the future for Hydro Tasmania.

At a time when Australia's energy landscape is uncertain and volatile, Hydro Tasmania has sought to be reliable, consistent, productive and visionary for and on behalf of all Tasmanians.

We've finished 2017–18 in an extremely secure position when it comes to energy security, our finances and asset maintenance and development.

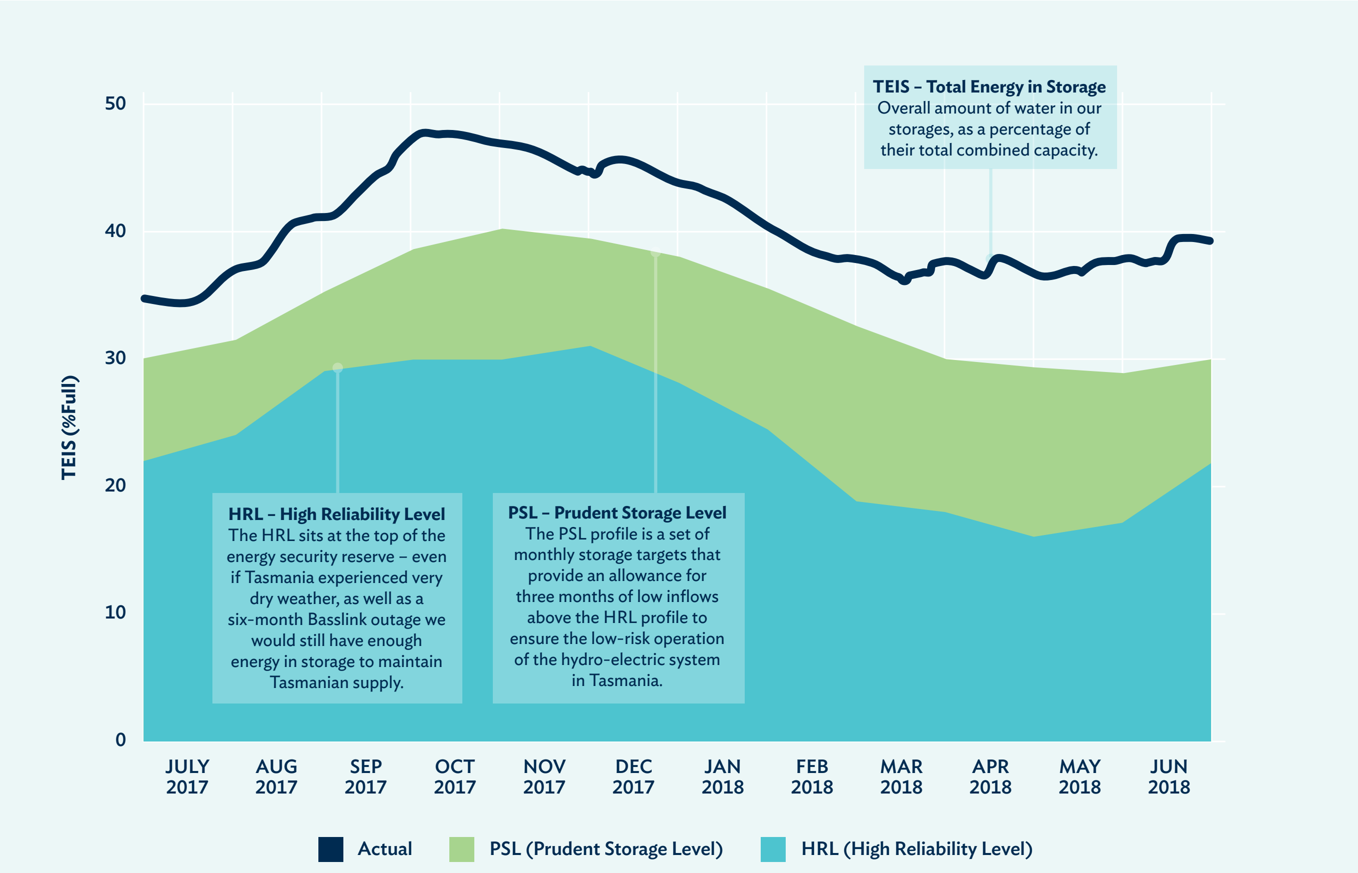
That strength and stability has allowed us to look ahead ambitiously, spearheading Tasmania's push to double our clean renewable capacity in coming years in support of making Tasmania the renewable energy *'Battery of the Nation'*.

For all the uncertainty, these are exciting times for renewable energy. It will play a key role in Australia's future electricity supply. As Australia's leading renewable energy business and largest producer of clean energy, we're positioning Tasmania to play a crucial and rewarding role in that burgeoning future.

Hydro Tasmania has rebounded and recovered from the challenges of recent years and has a strong future ahead.

That provides a crucial platform in our mission to serve the energy needs of Tasmanians, keep energy costs as low as possible, go above-and-beyond in serving and supporting the Tasmanian community, and map out a secure and exciting energy future for Tasmanians and Australians.

Figure 1: **How we measure energy security**



The PSL and HRL are components of the Energy Security Risk Response Framework.

Finances

Having posted a small profit last year and a manageable loss the year before (mostly the result of the 2015–16 energy supply challenge), we're pleased to report that 2017–18 was an extremely productive year for Hydro Tasmania, and therefore, the people of Tasmania.

We achieved a strong underlying profit of $167.9 million, which was well above budget.

This outstanding result was partly built on excellent trading conditions. We produced more large-scale generation certificates than we budgeted for. We sold more electricity contracts relating to small business customers than we expected, which may be a sign of growth in that sector.

We've also continued the process of becoming a more efficient and less complicated business, albeit in a very complex sector.

Hydro Tasmania's net debt at 30 June 2018 was $703 million, a reduction of $35 million from the previous year.

As ever, these results are built on the outstanding commitment and skill of our people, day in, day out.

Energy security

At the end of June 2018, our storages were close to 40%, an extremely secure position.

In 2017–18, we comfortably exceeded our storage targets (40% at the start of summer and 30% at the end of summer) and maintained storages well above the High Reliability Level at all times.

Both our yield (captured rainfall) and hydropower generation were well up on last year. In fact, in August 2018 our assets generated the most power we've ever generated in a single month.

Amid all the ambition and excitement about Tasmania's clean energy future, we never lose sight of looking after and protecting what we've already got.

Our huge network of hydropower assets has served Tasmanians extremely well for more than a century, powering homes and businesses, supporting communities and the economy.

To ensure another century of secure and reliable hydropower for Tasmanians, we've recently boosted our investment in hydropower assets by 10 per cent. In 2017–18, we invested more than $90 million in modernising and maintaining our generation assets.

Lifting the combined cycle gas turbine into place at the Tamar Valley Power Station, following maintenance

Battery of the Nation

We're excited that Tasmania has an unprecedented opportunity to double our clean renewable capacity and create plenty of extra renewable energy to help mainland Australia as coal power is phased out.

In fact, the scene is set for Tasmania to produce enough clean electricity that we can put our own energy security beyond doubt and secure some of the cheapest power prices in Australia, offering a huge boost for households, industry and the local economy.

Tasmania's opportunity has arrived in the form of the *Battery of the Nation* initiative. And it's not just a Hydro Tasmania initiative, but will include opportunities for and contributions from right across the renewable energy sector.

In the past year, we've made great strides on this ambitious, game-changing Tasmanian initiative.

We've identified 14 options as the state's best pumped hydro storage opportunities which would provide up to 4800 megawatts (MW) of reliable cost-effective pumped hydro potential.

We've developed the Future State analysis report confirming that *Battery of the Nation* is extremely cost-competitive against all other realistic options for meeting Australia's future energy needs, including when the cost of more interconnection is taken into account.

And we've embarked on feasibility work, supported by the Australian Renewable Energy Agency (ARENA), into upgrading or replacing the Tarraleah Power Station and scheme. Replacement would also transform the Tarraleah scheme into a state-of-the-art hydropower asset, perfectly suited for the changing needs of Australia's energy system.

Aside from the energy benefits of *Battery of the Nation,* modelling shows that the suite of proposed renewable energy development opportunities would create up to $5 billion of investment and 3000 jobs in regional Tasmania over 10 to 15 years.

We have a duty to protect and preserve our assets so future generations can enjoy the benefits and advantages of renewable energy. That ceaseless work is in very safe hands, and we will never become complacent.

Gas generation and transmission

Despite our secure hydro storage levels and wind power resources, we're are taking every sensible measure to strengthen and guarantee our island's energy security even further.

Looking after the Tamar Valley Power Station is an important part of that work. While the vast majority of our energy comes from reliable, renewable hydropower, our gas-fired power station is an important part of our generating options and played an important role in the energy supply challenge of 2015–16.

Tasmania may one day have an abundance of hydro, wind and solar energy (as well as storage methods) well beyond its own secure needs. But in our current portfolio, the Tamar Valley Power Station, and particularly its 208-MW combined-cycle gas turbine (CCGT), is both a useful option in the current dynamic energy market, and a handy back-up if required.

We've recently completed a major inspection of the nine-year-old CCGT to replace parts that suffer high strain and fatigue. The work is a major milestone and sets the unit up for a strong and reliable future. We're pleased to report that it's generally in very good condition.

In the later months of 2017–18, we secured an arbitrated outcome for ongoing gas transportation arrangements. By patiently standing our ground and accessing the new mediation system, we secured an outcome that's fair and reasonable for Tasmanians.

For Tasmanians

We're keenly aware that Tasmanians are our owners, our most important customers and the very people we were created to serve. We know Tasmanians expect more from us than a typical business, in terms of community support and contribution.

We've committed to conducting at least two special water releases down Launceston's Cataract Gorge each year until 2022 to support kayaking, rafting and tourism. On each occasion, we'll release between 25 to 30 cumecs (cubic metres per second) of water down the gorge for up to eight hours, giving adventure-seekers a thrilling ride. The first few releases have been very well attended and received.

In 2017–18, we gave up to $5000 to another seven projects that aim to help make Tasmanian communities safer, more connected and more empowered under our annual Community Grant Program. The 14 grants awarded so far in two years of the program have gone to a diverse range of groups and causes, including women's shelters, community gardens, sports associations and literacy programs. The grants also highlight the important contribution of volunteers who support these activities. The common themes among community grant projects are that they provide opportunity, protect people's wellbeing and allow them to fulfil their potential, and they give people in local communities a reason to be proud and united.

This year we were excited to sign up as a major sponsor of one of the biggest fishing events in Tasmanian history, the 39th World Fly Fishing Championships in November and December 2019. Angling is a huge part of Tasmanian culture — about 25,000 people hold a licence to fish our island's inland waters each season. Hydro Tasmania is Australia's largest water manager; we manage more than 50 lakes and lagoons, including some popular angling waters that will be used in the world championships. It's only the third time Australia has hosted the event, and the first since 1988. The championships usually attract about 2000 people and serve as an excellent tourism showcase.

In 2017–18, we also became a major sponsor of Engineers Australia's Women in Engineering Scholarship, which aims to boost the number of women entering engineering careers. And we also sponsored the exhibition *The Derwent* at the Tasmanian Museum and Art Gallery, which celebrated one of Tasmania's most treasured natural assets, the River Derwent.

We've also made great strides in the areas of school education, heritage, as well as environmental protection and management.

National energy policy

Hydro Tasmania continues to advocate for and support stable, long-term energy and climate policy. Alongside the electricity industry more broadly, we supported development of the National Energy Guarantee on this basis.

The Energy Security Board worked effectively with the energy industry to come up with a policy that incorporated both climate and energy. We remain hopeful that such a policy can one day be implemented, as it is needed to provide a long-term framework for investment.

There is a considerable opportunity available to Tasmania to help meet Australia's future energy needs. Hydro Tasmania has a unique opportunity to provide more flexible, renewable energy to the National Energy Market. This energy will be needed under a range of possible energy futures.

Downstream of Tarraleah Power Station

Momentum Energy

Momentum Energy had a year spent dealing with significant disruption in the retail landscape.

There were several inquiries into energy throughout the year, including the Prime Minister's summit in Canberra involving the eight major electricity retailers, the Thwaites review into the Victorian electricity and gas markets and a review conducted by the ACCC. Along with an increase in competition, this has put pressure on retailers already dealing with an increase in customer churn across the industry.

Nevertheless, our mainland retailer continued differentiating itself in a very competitive market with a simple and transparent proposition for customers, which saw the business grow by five per cent. Customer experience exceeded targets (+57 net promoter score), and the team once again took out the awards for customer service, clearest power bills and environmental awareness in the Mozo People's Choice Awards.

Entura

Entura once again made an excellent contribution to the Hydro Tasmania group. Our consulting business exceeded its sales targets in 2017–18, while getting ready to support soaring demand for specialist power and water consulting services in Australia and around the world.

One of Entura's highlights for the year was developing Australia's first practical atlas of pumped hydro energy storage opportunities, which will play an important role in progressing the *Battery of the Nation* initiative. The atlas is also helping Entura win more work on the mainland, working closely with clients to identify and develop dispatchable renewables hubs.

Internationally, Entura continued to export Tasmanian skills and expertise, advising on hydropower, water infrastructure and renewable energy projects across the Indo-Pacific region, and delivering training via the Entura clean energy and water institute.

Following a long negotiation, Hydro Tasmania has decided not to proceed with a proposed joint venture for Entura with PowerChina Huadong and HydroChina International. Entura's markets and customer base have grown and changed since the joint venture was first proposed.

Entura is still partnering with PowerChina on several renewable energy projects, including Cattle Hill Wind Farm in Tasmania and the Karuma hydropower project in Uganda.

The demand for expertise in renewable energy, energy storage and water infrastructure continues to grow and we're confident Entura will unlock new markets and expand over coming years.

Conclusion

After a year of consolidation, ambition and growth, Hydro Tasmania is well placed to help lock in Tasmania's energy security, achieve the lowest possible power prices and support Australia's energy transition.

We have exciting opportunities ahead of us, and are determined to seize them on behalf of, and in the service of, the people of Tasmania.

Above: ***Tarraleah Power Station penstocks***

Financial Report

For the year ended 30 June 2018

Income Statement

for the year ended 30 June 2018

		CONSOLIDATED		PARENT	
	NOTE	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Revenue					
Sale of products and services	2(a)	1,769,696	1,440,403	749,446	512,326
Fair value gains	2(c)	244,850	46,979	227,229	2,468
Share of profit of joint venture entities		3,884	2,114	-	-
Other		21,778	39,127	21,419	66,537
Total revenue		2,040,208	1,528,623	998,094	581,331
Expenses					
Direct expenses		1,196,666	1,048,215	269,945	215,667
Labour		140,791	129,311	110,067	101,150
Depreciation and amortisation		116,521	109,094	108,051	104,358
Finance expenses	2(b)	54,379	56,668	54,540	55,960
Fair value losses	2(d)	243,739	375,001	213,047	375,001
Revaluation and impairment expenses/(gains)	2(e)	227	781	(51,471)	11,130
Other		119,099	118,261	57,107	67,324
Total expenses		1,871,422	1,837,331	761,286	930,590
Profit/(loss) before income tax equivalent expense		168,786	(308,708)	236,808	(349,259)
Comprising:					
Result before fair value movements and revaluation expenses		167,902	20,095	171,155	34,404
Net fair value gains/(losses)		1,111	(328,022)	14,182	(372,533)
Revaluation and impairment (expenses)/gains		(227)	(781)	51,471	(11,130)
Profit/(loss) before income tax equivalent expense		168,786	(308,708)	236,808	(349,259)
Income tax equivalent expense/(benefit)	4(a)	47,864	(86,095)	51,600	(103,247)
Profit/(loss) after tax attributable to owners of the parent		120,922	(222,613)	185,208	(246,012)

The Income Statement is to be read in conjunction with the notes to and forming part of the financial report included on pages 21 to 80.

Statement of Comprehensive Income

for the year ended 30 June 2018

	NOTE	CONSOLIDATED 2018 $'000	CONSOLIDATED 2017 $'000	PARENT 2018 $'000	PARENT 2017 $'000
Profit/(loss) after tax attributable to owners of the parent		120,922	(222,613)	185,208	(246,012)
Other comprehensive income					
Items that will not be reclassified in subsequent years to operating result					
Revaluation of property, plant and equipment		(175,454)	(597)	(175,454)	(597)
Actuarial gain/(loss) on RBF provision	19	3,372	56,193	3,372	56,193
Income tax relating to components of other comprehensive income		51,524	(16,679)	51,524	(16,679)
Items that may be reclassified in subsequent years to operating result					
Foreign currency translation gain/(loss)		167	278	-	-
Fair value gain/(loss) on cash flow hedges		43,145	2,480	43,145	2,480
Income tax relating to components of other comprehensive income		(12,994)	(827)	(12,944)	(744)
Total other comprehensive income		(90,240)	40,848	(90,357)	40,653
Total comprehensive income/(loss) attributable to the owners of the parent		30,682	(181,765)	94,851	(205,359)

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 21 to 80.

Balance Sheet

as at 30 June 2018

		CONSOLIDATED		PARENT	
	NOTE	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Current assets					
Cash and cash equivalents		16,987	17,054	14,569	14,550
Receivables	6	387,512	368,659	229,611	216,278
Investments	7(a)	48,903	100,003	48,900	100,000
Inventories	8	3,088	2,932	3,088	2,932
Other financial assets	11(a)	319,892	518,799	310,100	518,614
Current tax asset	4(c)	-	3,160	-	3,160
Other	12(a)	15,978	50,559	12,417	8,770
Total current assets		792,360	1,061,166	618,685	864,304
Non-current assets					
Investments	7(b)	-	-	203,827	203,827
Investments in joint ventures	7(b)	58,144	59,262	-	-
Property plant and equipment	9	4,376,798	4,570,874	4,327,818	4,518,018
Other financial assets	11(b)	361,782	537,109	361,782	537,109
Intangible assets	10	97,583	75,329	62,252	70,479
Goodwill	13	16,396	16,396	-	-
Other	12(b)	3,042	1,840	94	-
Total non-current assets		4,913,745	5,260,810	4,955,773	5,329,433
TOTAL ASSETS		5,706,105	6,321,976	5,574,458	6,193,737
Current liabilities					
Payables	14	347,891	318,713	276,532	256,177
Interest-bearing liabilities	15(a)	150,757	85,838	150,757	85,838
Provisions	16(a)	175,856	124,017	119,121	79,348
Provision for income tax	4(c)	16,144	-	16,144	-
Other financial liabilities	17(a)	455,438	768,550	455,438	768,550
Other	18	8,369	7,209	134,354	175,247
Total current liabilities		1,154,455	1,304,327	1,152,345	1,365,160
Non-current liabilities					
Interest-bearing liabilities	15(a)	618,447	768,995	618,447	768,995
Deferred tax liability	4(d)	454,206	472,997	544,170	556,360
Provisions	16(b)	395,545	393,903	303,535	313,127
Other financial liabilities	17(b)	1,087,896	1,417,215	1,087,896	1,417,215
Total non-current liabilities		2,556,094	3,053,110	2,554,048	3,055,697
TOTAL LIABILITIES		3,710,549	4,357,437	3,706,393	4,420,857
NET ASSETS		1,995,556	1,964,539	1,868,065	1,772,880
EQUITY					
Contributed equity		678,206	678,206	678,206	678,206
Reserves		151,270	243,870	151,167	243,884
Retained earnings		1,166,080	1,042,463	1,038,692	850,790
TOTAL EQUITY		1,995,556	1,964,539	1,868,065	1,772,880

The Balance Sheet is to be read in conjunction with the notes to and forming part of the financial report included on pages 21 to 80.

Cash Flow Statement

for the year ended 30 June 2018

	NOTE	CONSOLIDATED 2018 $'000	CONSOLIDATED 2017 $'000	PARENT 2018 $'000	PARENT 2017 $'000
CASH FLOW FROM OPERATING ACTIVITIES					
Inflows:					
Receipts from customers		1,968,639	1,649,181	854,082	611,900
Operating grants and subsidies received		12,780	17,308	12,780	17,308
Interest received		2,196	3,050	2,193	3,037
Outflows:					
Payments to suppliers and employees		(1,577,481)	(1,512,165)	(506,813)	(496,330)
Interest paid		(32,014)	(34,731)	(32,001)	(34,731)
Government guarantee fee		(8,419)	(5,045)	(8,419)	(5,045)
Income tax equivalent paid		(8,552)	-	(8,552)	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	5(b)	357,149	117,598	313,270	96,139
CASH FLOW FROM INVESTING ACTIVITIES					
Inflows:					
Proceeds from sale of property, plant and equipment		172	422	169	422
Net proceeds from financial derivatives		-	47,297	-	47,294
Net receipts from loans to associates		12	-	-	-
Net receipts of intercompany loans		-	-	47,835	2,016
Dividends from joint venture		4,775	5,875	-	-
Dividends from subsidiaries		-	-	-	29,048
Outflows:					
Net payments for financial derivatives		(202,501)	-	(202,501)	-
Payments for property, plant and equipment		(124,936)	(131,213)	(124,016)	(131,115)
NET CASH USED IN INVESTING ACTIVITIES		(322,478)	(77,619)	(278,513)	(52,335)
CASH FLOW FROM FINANCING ACTIVITIES					
Inflows:					
Proceeds from Tascorp loans		68,700	-	68,700	-
Equity contributions received		-	50,000	-	50,000
Outflows:					
Repayment of Tascorp loans		(153,800)	(54,900)	(153,800)	(54,900)
Repayment of finance lease		(738)	(720)	(738)	(720)
NET CASH USED IN FINANCING ACTIVITIES		(85,838)	(5,620)	(85,838)	(5,620)
NET (DECREASE)/INCREASE IN CASH		(51,167)	34,359	(51,081)	38,184
CASH AT BEGINNING OF THE YEAR		117,057	82,698	114,550	76,366
CASH AT END OF THE YEAR	5(a)	65,890	117,057	63,469	114,550

The Cash Flow Statement is to be read in conjunction with the notes to and forming part of the financial report included on pages 21 to 80.

Statement of Changes in Equity

for the year ended 30 June 2018

	NOTE	CONSOLIDATED 2018 $'000	CONSOLIDATED 2017 $'000	PARENT 2018 $'000	PARENT 2017 $'000
CONTRIBUTED EQUITY					
Balance at the beginning of the year		678,206	628,206	678,206	628,206
Equity contributions from the State of Tasmania		-	50,000	-	50,000
Balance at the end of the year		678,206	678,206	678,206	678,206
RESERVES					
Asset revaluation reserve					
Balance at the beginning of the year		248,874	249,292	248,874	249,292
Asset revaluation (decrement)/increment		(175,454)	(597)	(175,454)	(597)
Deferred income tax recognised directly in reserves	4(b)	52,536	179	52,536	179
Balance at the end of the year		125,956	248,874	125,956	248,874
Cash flow hedge reserve	1.2(ac)				
Balance at the beginning of the year	1.2(ae)	(4,990)	(6,726)	(4,990)	(6,726)
Interest rate swaps		1,352	2,480	1,352	2,480
Derivative revaluation		41,793	-	41,793	-
Deferred income tax recognised directly in reserves	4(b)	(12,944)	(744)	(12,944)	(744)
Balance at the end of the year		25,211	(4,990)	25,211	(4,990)
Foreign currency translation reserve					
Balance at the beginning of the year		(14)	(209)	-	-
Foreign currency translation		167	278	-	-
Deferred income tax recognised directly in reserves	4(b)	(50)	(83)	-	-
Balance at the end of the year		103	(14)	-	-
TOTAL RESERVES		151,270	243,870	151,167	243,884
RETAINED EARNINGS					
Balance at the beginning of the year		1,042,463	1,225,144	850,790	1,056,868
Net profit/(loss)		120,922	(222,613)	185,208	(246,012)
Dividend paid		-	-	-	-
Deferred income tax recognised directly in equity	4(b)	(1,012)	(16,858)	(1,012)	(16,858)
Actuarial gain on defined benefit plans	19	3,372	56,193	3,372	56,193
Other		335	597	334	599
Balance at the end of the year		1,166,080	1,042,463	1,038,692	850,790
TOTAL EQUITY		1,995,556	1,964,539	1,868,065	1,772,880

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 21 to 80.

1.1 Details of reporting entity

The consolidated financial statements and notes thereto relate to Hydro-Electric Corporation (the Corporation), which is a Tasmanian Government Business Enterprise, a consolidated reporting entity, and a for-profit 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 through the Corporation's subsidiaries, Momentum Energy Pty Ltd and AETV Pty Ltd.

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 55 major dams, 30 operating hydro power stations, the Tamar Valley gas-fired power station, and supplies electricity to Bass Strait islands via diesel, solar and wind power generation. The Corporation sells energy to retail customers through its subsidiary, Momentum Energy Pty Ltd, trading in all regions of the National Electricity Market (NEM) except Tasmania. The Corporation also operates the Entura consulting business.

At 30 June 2018 the Corporation had 1,179 full-time equivalent employees (FTEs) (2017: 1,105 FTEs) including 4 non-executive directors (2017: 5 FTEs).

The Corporation holds Australian Financial Services Licence number 279796. This licence authorises the Corporation to carry on a financial services business in accordance with the licence conditions.

The financial report for the year ended 30 June 2018 was adopted by the directors on 14 August 2018.

1.2 Summary of significant accounting policies

The significant 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, 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; and
- Financial disclosure requirements of the *Corporations Act 2001,* where applicable to the operations of the Corporation and its subsidiaries, and other requirements of the law.

(b) Statement of compliance

The financial report is compliant with Australian Accounting Standards and International Financial Reporting Standards (IFRS).

The following Australian Accounting Standards are applicable to the Corporation and have recently been issued or amended. As they are not yet effective the Corporation has chosen not to adopt them for the year ended 30 June 2018:

Standard/Interpretation	*Effective for annual reporting periods beginning on or after*	*Expected to be initially applied in the financial year ending*
AASB 15 'Revenue from Contracts with Customers', AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15' and AASB 2015-8 'Amendments to Australian Accounting Standards – Effective Date of AASB 15'	1 January 2018	30 June 2019
AASB 16 'Leases'	1 January 2019	30 June 2020
AASB 2014-10 'Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture', 2016-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107'	1 January 2018	30 June 2019
AASB 2017-1 'Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments'	1 January 2018	30 June 2019
Interpretation '22 Foreign Currency Transactions and Advance Consideration'	1 January 2018	30 June 2019

1.2 Summary of significant accounting policies (continued)

Impact of changes to Australian Accounting Standards and Interpretations

AASB 15 'Revenue from Contracts with Customers'

- AASB 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. AASB 15 will supersede the current revenue recognition guidance including AASB 118 'Revenue,' AASB 111 'Construction Contracts' and the related Interpretations when it becomes effective.
- The core principle of AASB 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:
  - Step 1: Identify the contract(s) with a customer
  - Step 2: Identify the performance obligations in the contract
  - Step 3: Determine the transaction price
  - Step 4: Allocate the transaction price to the performance obligations in the contract
  - Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation
- Under AASB 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

Hydro Tasmania has established a project team to assess the impact of AASB 15. The current work has analysed the revenue into major streams including:

- Mass market and business – electricity and gas
- Wholesale markets - electricity and gas
- Major industrial customers
- Consulting revenue.

There are a number of revenue streams not listed above that will be excluded from the operation of the new standard. There has been an initial review of a sample of the contractual arrangements of the major revenue streams; this work is still ongoing. The assessment to date around the treatment of revenue, discounts and customer acquisition costs is not materially different from the current policies adopted. Hydro Tasmania plans to adopt the new standard on the effective date. The Corporation is still in the process of completing a detailed assessment on the anticipated impacts and disclosure.

AASB 16 'Leases'

AASB 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. The accounting model for lessees will require lessees to recognise all leases on balance sheet, except for short-term leases and leases of low value assets. AASB 16 applies to annual periods beginning on or after 1 January 2019. The directors of the Corporation anticipate that the application of AASB 16 in the future may have a material impact on the amounts reported and disclosures made in the Corporation's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of AASB 16 until the Corporation performs a detailed review.

Change in accounting policy

AASB 9 Financial Instruments

The Corporation has early adopted AASB 9 *Financial Instruments* issued in July 2014 with a date of initial application of 1 July 2017. While the requirements of AASB 9 represent a significant change from AASB 139 *Financial Instruments: Recognition and Measurement,* there were no material adjustments required to the Corporation's financial statements on initial application on 1 July 2017.

The nature and effects of the key changes to the Corporation's accounting policies resulting from its adoption of AASB 9 are summarised below.

i. Classification of financial assets and financial liabilities

AASB 9 contains three principal classification categories for financial assets: measured at amortised cost, Fair Value through Other Comprehensive Income (FVOCI) and Fair Value through Profit or Loss (FVTPL). The classification of financial assets under AASB 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. AASB 9 eliminates the previous AASB 139 categories of held to maturity, loans and receivables and available for sale. Under AASB 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

ii. Impairment of financial assets

AASB 9 replaces the 'incurred loss' model in AASB 139 with an 'expected credit loss' model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under AASB 9, credit losses are recognised earlier than under AASB 139. The change in model for measuring impairment of financial assets was not material and the adjustment has been recorded in the current year profit and loss. There are no transitional adjustments at 1 July 2017.

1.2 Summary of significant accounting policies (continued)

Change in accounting policy (continued)

iii. Hedge accounting

The Corporation has elected to adopt the new general hedge accounting model in AASB 9. This requires the Corporation to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness.

The Corporation has applied the new hedge accounting to some of the energy price derivatives. On 1 July 2017, certain energy price derivatives were designated as cashflow hedges and have been accounted for since that date in accordance with policy 1.2 (ae).

The Corporation uses forward foreign exchange contracts to hedge the variability in cash flows arising from changes in foreign exchange rates relating to foreign currency borrowings, receivables, sales and inventory purchases. The Corporation designates only the change in fair value of the spot element of the forward exchange contract as the hedging instrument in cash flow hedging relationships. The effective portion of changes in fair value of hedging instruments is accumulated in a cash flow hedge reserve as a separate component of equity.

Under AASB 139, the change in fair value of the forward element of the forward exchange contracts ('forward points') was recognised immediately in profit or loss. However, under AASB 9 the forward points are separately accounted for as a cost of hedging; they are recognised in Other Comprehensive Income (OCI) and accumulated in a cost of hedging reserve as a separate component within equity.

Under AASB 139, for all cash flow hedges, the amounts accumulated in the cash flow hedge reserve were reclassified to profit or loss as a reclassification adjustment in the same period as the hedged expected cash flows affected profit or loss. However, under AASB 9, for cash flow hedges of foreign currency risk associated with forecast inventory purchases, the amounts accumulated in the cash flow hedge reserve are instead included directly in the initial cost of the inventory item when it is recognised. The same approaches also apply under AASB 9 to the amounts accumulated in the costs of hedging reserve.

iv. Classification of financial assets and financial liabilities on the initial application of AASB9

The following table shows the original measurement categories under AASB 139 and the new measurement categories under AASB 9 for each class of the Corporation's financial assets and financial liabilities. There has been no change in the original carrying amount and the new carrying amounts under each classification.

	Note	Classification under AASB 139	Classification under AASB 9
Financial Assets			
Receivables	20	Loans and receivables	Amortised cost
Investments	20	Held to maturity	Amortised cost
Interest rate swaps	20	FVTPL	FVTPL
Forward exchange contracts	20	FVTPL	FVTPL
Basslink financial asset	20	FVTPL	FVTPL
Energy price derivatives - economic hedges	20	FVTPL	FVTPL
Other assets	20	FVTPL	FVTPL
Financial Liabilities			
Accounts payable	20	Loans and payables	Amortised cost
Tascorp loans	20	Loans and payables	Amortised cost
Interest rate swaps	20	Designated hedge accounting derivatives	Designated hedge accounting derivatives
Energy price derivatives – cash flow hedges	20	Designated hedge accounting derivatives	Designated hedge accounting derivatives
Interest rate swaps	20	FVTPL	FVTPL
Forward foreign exchange contracts	20	FVTPL	FVTPL
Basslink Services Agreement	20	FVTPL	FVTPL
Basslink Facility Fee Swap	20	FVTPL	FVTPL
Energy price derivatives - economic hedges	20	FVTPL	FVTPL
Other liabilities	20	FVTPL	FVTPL

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 Corporation 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 9 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 revaluation exists or when a previous indicator of revaluation has reversed.

- **Financial liabilities and financial assets**

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

Note 3 details assumptions on financial assets and liabilities.

(e) Significant accounting estimates and assumptions

The Retirement Benefits Fund liability detailed in note 19 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 and gas. 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.

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the company's receivables from customers. The carrying amounts of financial assets represent the maximum credit exposure

The risk management committee has established a credit policy under which each new customer is analysed individually for creditworthiness before the company's standard payment terms and conditions are offered. The company's review includes credit agency information and, in some cases if they are available, financial statements and bank references. Sale limits are established for each customer and reviewed in accordance with the internal risk management guidelines.

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.

Expected credit loss assessment for customers

The Corporation allocates each exposure to a credit risk grade based on data that is determined to be predictive of the risk of loss (including but not limited to external ratings, audited financial statements, management accounts and cash flow projections and available press information about customers) and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default.

An expected credit limit rate is calculated for each customer segment based on delinquency status and actual credit loss experience over the historic performance of the base. These rates are applied to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the company's view of economic conditions over the expected lives of the receivables.

1.2 Summary of significant accounting policies (continued)

(g) Inventories

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

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

(h) Cash and cash equivalents

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

(i) Property, plant and equipment

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

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:

	2018	2017
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 are written off upon disposal or when there are no future economic benefits expected from their continued use. Any gain or loss is reported in the Income Statement.

(j) Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Internally generated intangible assets

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

(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. Note 1.2(m) contains more information on the treatment of Goodwill.

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

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

(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, an assessment of impairment is performed and 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 revaluation as part of the cash generating unit (CGU) to which it belongs. Goodwill acquired in a business combination, for the purpose of revaluation 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 post-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 revaluation loss been recognised for the asset in prior years. An impairment 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.

A restructuring provision is recognised when the Corporation has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

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. Liabilities expected to be settled within 12 months are based on wage and salary rates that the Corporation expects to pay at the time of settlement. For those expected to be settled later than 12 months the liability 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 Corporate Bond rates at reporting date.

- **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 Corporate 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.

- **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.

- **Employee termination benefits**

  Termination benefits are expensed at the earlier of when the Corporation can no longer withdraw the offer of those benefits and when the Corporation recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

(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. 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 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; and
- Receivables and payables, which are stated with the amount of GST included.

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

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

(r) 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.

(s) Borrowing expenses

Borrowing costs 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.

(t) Interest-bearing liabilities

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

(u) Foreign currency

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

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

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

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.

1.2 Summary of significant accounting policies (continued)

(v) Joint ventures

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

An investor controls an investee if they have power over the investee, are exposed to variable returns, and are able to use their power over the investee to affect the amount of the returns. The Corporation has assessed power over the joint ventures by reference to the shareholders agreement relating to each joint venture, the respective voting rights held and the percentage of vote required to effect a decision. In each case the requirement to have unanimous agreement to a decision prevents the Corporation having power over any of the joint ventures. The Corporation is subject to variable returns but is unable to influence the amount of those returns in the absence of having power over the joint venture.

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.

(w) Segment Information

The Corporation has identified segments based on internal management reports. Refer to note 33.

(x) Contributed equity

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

(y) 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.

(z) 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 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 effective and ineffective portion of electricity derivatives designated as cash flow hedges and those derivatives not designated as cash flow hedges but considered to represent economic hedges under the Corporation's Board-approved financial risk management policy are recognised in revenue in the period when the contract settles. Note 17 dislcoses the amount of realised gains and losses included in revenue during the financial year. Customers are billed on a regular basis. At the end of each reporting period, gas and electricity revenue include an accrual (unbilled revenue) for energy delivered to customers but not yet billed.

- **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.

1.2 Summary of significant accounting policies (continued)

(aa) Rounding

The Corporation is a company of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporation's Instrument, amounts in the financial report are rounded to the nearest thousand dollars unless otherwise indicated.

(ab) Comparative figures

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

(ac) Financial assets

Financial assets in the scope of AASB 9 'Financial Instruments' are classified as being carried at amortised cost, or at fair value through profit or loss. When financial assets are initially recognised they are measured at fair value. 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.

- **Amortised cost**

  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.

(ad) 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.

(ae) Derivative financial instruments

Derivative financial instruments and hedge accounting

The Corporation holds derivative financial instruments to hedge its interest rate risk exposures and some electricity price exposures. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met.

Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss.

The Corporation designates certain derivatives as hedging instruments to hedge the variability in cash flows associated with highly probable forecast transactions arising from changes in electricity prices and interest rates and certain derivatives.

At inception of designated hedging relationships, the Corporation documents the risk management objective and strategy for undertaking the hedge. The Corporation also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

Cash flow hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in OCI and accumulated in the hedging reserve. The effective portion of changes in the fair value of the derivative that is recognised in OCI is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

The Corporation designates only the change in fair value of the spot element of forward exchange contracts as the hedging instrument in cash flow hedging relationships. The change in fair value of the forward element of forward exchange contracts ('forward points') is separately accounted for as a cost of hedging and recognised in a costs of hedging reserve within equity.

When the hedged forecast transaction subsequently results in the recognition of a non-financial item such as inventory, the amount accumulated in the hedging reserve and the cost of hedging reserve is included directly in the initial cost of the non-financial item when it is recognised. For all other hedged forecast transactions, the amount accumulated in the hedging reserve and the cost of hedging reserve is reclassified to profit or loss in the same period or periods during which the hedged expected future cash flows affect profit or loss.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument is sold, expires, is terminated or is exercised, then hedge accounting is discontinued prospectively. When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the hedging reserve and the cost of hedging reserve remains in equity until, for a hedge of a transaction resulting in recognition of a non-financial item, it is included in the non-financial item's cost on its initial recognition or, for other cash flow hedges, it is reclassified to profit or loss in the same period or periods as the hedged expected future cash flows affect profit or loss.

2. Revenue and expenses

			CONSOLIDATED		PARENT	
		NOTE	2018 $'000	2017 $'000	2018 $'000	2017 $'000
(a)	**Revenue**					
	Revenue from the sale of goods		1,741,608	1,416,030	724,142	490,092
	Revenue from the rendering of services		28,088	24,373	25,304	22,234
			1,769,696	1,440,403	749,446	512,326
(b)	**Finance expenses**					
	Loan interest		31,894	34,039	31,894	34,039
	Government guarantee fee		8,187	8,714	8,187	8,714
	RBF net interest	19	13,402	12,960	13,402	12,960
	Other finance costs		896	955	1,057	247
			54,379	56,668	54,540	55,960
(c)	**Fair value gains**					
	Basslink financial asset and liabilities		72,863	-	72,863	-
	Energy price derivatives - unwind of fair value of cash flow hedges		147,878	-	147,878	-
	Treasury derivatives		1,653	629	1,653	629
	Onerous contracts		22,432	39,099	4,811	1,839
	Site rehabilitation provision		-	7,251	-	-
	Other		24	-	24	-
			244,850	46,979	227,229	2,468
(d)	**Fair value losses**					
	Basslink financial asset and liabilities		-	37,834	-	37,834
	Energy price derivatives - economic hedges		175,093	296,368	175,093	296,368
	Site rehabilitation provision		911	-	-	-
	Onerous contracts		67,735	40,694	37,954	40,694
	Other		-	105	-	105
	Fair value losses		243,739	375,001	213,047	375,001
	Net fair value gains/(losses)		1,111	(328,022)	14,182	(372,533)
(e)	**Revaluation and impairment expense/(gain)**					
	Impairment of investments		227	781	-	-
	Impairment of loans carried at amortised cost		-	-	(51,471)	11,130
			227	781	(51,471)	11,130

3. Assumptions and judgements

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Corporations accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

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 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 9 *Financial Instruments* 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(c) and (d).

  Mainland electricity contracts are valued using published forward energy prices. The remeasurement of the fair value of energy price derivatives at 30 June 2018 has resulted in a loss being recorded in the Income Statement (note 2(d)).

  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, including the credit risk of the out of the money party to the agreement. The calculation of projected future cash flows requires, among other things, a forecast electricity price. Beyond the period when market prices are observable, the Corporation derives forecast prices from an internal model.

- **Basslink financial asset and liabilities**

  The financial asset and liabilities associated with the Basslink agreements are recorded at fair value in accordance with AASB 9. The remeasurement of the net financial liability to fair value at 30 June 2018 has resulted in loss being recorded in the Income Statement (note 2(d)). Note 20(c) details the methodology used to calculate the fair value of the Basslink financial asset and liabilities.

Asset valuation

Assets are fair valued and assessed for impairment in accordance with the methodology described in note 1.2(m). Note 9 describes the inputs to the asset revaluation model. Goodwill generated by acquisition of a business is attributed to CGUs as described in note 1.2(m). Assessment of this goodwill for impairment is conducted in conjunction with the revaluation assessment of the relevant CGUs. 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.

Site rehabilitation provision

The Corporation has provided for the cost of removing the Bell Bay plant and removing the Tamar Valley Power Station at the end of its useful life. The provision includes the cost of remediating the site within prescribed limits. The provision also includes costs associated with remediating sites that were used for diesel generation during the last financial year. 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.

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Corporation has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

Unbilled energy

In valuing unbilled energy the Corporation estimates the load of electricity sold to customers as at 30 June at the average sale price.

4. Income tax equivalent

		CONSOLIDATED		PARENT	
		2018 $'000	2017 $'000	2018 $'000	2017 $'000
(a)	**Income tax (benefit)/expense reported in Statement of Comprehensive Income**				
	Current income tax liability/(receivable)	35,719	17,588	33,094	14,750
	Adjustments in respect of income tax of prior years	(4,904)	4,164	(4,287)	4,377
	Income tax expense in relation to foreign operations	659	228	-	-
	Deferred income tax expense arising from origination and reversal of temporary differences	16,390	(108,075)	22,793	(122,374)
	Income tax expense/(benefit) recognised in the Statement of Comprehensive Income	47,864	(86,095)	51,600	(103,247)
	A reconciliation between income tax expense and accounting profit before income tax multiplied by the Corporation's income tax rate is as follows:				
	Accounting (loss)/profit before income tax	168,786	(308,708)	236,808	(349,259)
	Income tax expense/(benefit) calculated at 30%	50,636	(92,611)	71,042	(104,777)
	Adjustment in respect of income tax of previous years	(4,244)	4,376	(4,287)	4,377
	Income tax expense in relation to foreign operations	659	228	-	-
	Expenditure not deductible for income tax purposes	813	1,912	286	2,528
	Effect of transactions within the tax consolidated group that are not subject to taxation	-	-	(15,441)	(5,375)
	Income tax expense/(benefit) recognised in the Statement of Comprehensive Income	47,864	(86,095)	51,600	(103,247)
(b)	**Income tax benefit/(expense) recognised directly in equity**				
	Revaluation of effective hedges	(12,944)	(744)	(12,944)	(744)
	Actuarial assessment of RBF provision	(1,012)	(16,858)	(1,012)	(16,858)
	Revaluation of property, plant and equipment	52,536	179	52,536	179
	Foreign currency translation reserve	(50)	(83)	-	-
	Income tax (expense)/benefit recognised in equity	38,530	(17,506)	38,580	(17,423)
(c)	**Current tax assets and liabilities**				
	Current tax asset	-	3,160	-	3,160
	Provision for income tax	(16,144)	-	(16,144)	-
(d)	**Deferred tax balances**				
	Deferred tax assets comprise:				
	Deductible temporary differences	599,434	819,429	552,109	780,740
	Tax losses	245	3,848	245	3,848
		599,679	823,277	552,354	784,588
	Deferred tax liabilities comprise:				
	Assessable temporary differences	1,053,885	1,296,274	1,096,524	1,340,948
	Net deferred tax liabilities	454,206	472,997	544,170	556,360

4. Income tax equivalent (continued)

	2018 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	1,002,997	(8,872)	(52,536)	-	-	941,589
Electricity derivatives	170,357	(170,357)	-	-	-	-
Financial assets	100,020	(8,489)	-	-	-	91,531
Other	22,900	(2,135)	-	-	-	20,765
	1,296,274	(189,853)	(52,536)	-	-	1,053,885
Deferred tax assets:						
Provision for employee entitlements	103,206	364	(1,012)	-	-	102,558
Basslink and other financial liabilities	656,100	(410,093)	-	-	-	246,007
Electricity derivatives	-	186,069	(12,944)	-	-	173,125
Provisions	53,041	18,133	-	-	-	71,174
Other	7,082	(716)	(50)	254	-	6,570
	819,429	(206,243)	(14,006)	254	-	599,434
Net deferred tax liabilities	476,845	16,390	(38,530)	(254)	-	454,451
Unused tax losses and credits	(3,848)	2,519	-	1,084	-	(245)
Net deferred tax liabilities	472,997	18,909	(38,530)	830	-	454,206

	2018 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	1,051,101	(12,257)	(52,536)	-	-	986,308
Electricity derivatives	170,357	(170,357)	-	-	-	-
Financial assets	100,020	(8,489)	-	-	-	91,531
Other	19,470	(785)	-	-	-	18,685
	1,340,948	(191,888)	(52,536)	-	-	1,096,524
Deferred tax assets:						
Provision for employee entitlements	102,253	270	(1,012)	-	-	101,511
Basslink and other financial liabilities	656,100	(410,093)	-	-	-	246,007
Electricity derivatives	-	186,069	(12,944)	-	-	173,125
Provisions	15,627	9,814	-	-	-	25,441
Other	6,760	(741)	-	6	-	6,025
	780,740	(214,681)	(13,956)	6	-	552,109
Net deferred tax liabilities	560,208	22,793	(38,580)	(6)	-	544,415
Unused tax losses and credits	(3,848)	2,519	-	1,084	-	(245)
Net deferred tax liabilities	556,360	25,312	(38,580)	1,078	-	544,170

4. Income tax equivalent (continued)

	2017 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	1,009,317	(6,141)	(179)	-	-	1,002,997
Electricity derivatives	50,930	119,427	-	-	-	170,357
Financial assets	100,375	(355)	-	-	-	100,020
Other	13,424	9,651	-	(175)	-	22,900
	1,174,046	122,582	(179)	(175)	-	1,296,274
Deferred tax assets:						
Provision for employee entitlements	119,837	227	(16,858)	-	-	103,206
Basslink and other financial liabilities	423,348	233,496	(744)	-	-	656,100
Provisions	54,703	(1,678)	-	16	-	53,041
Other	8,426	(1,388)	(83)	127	-	7,082
	606,314	230,657	(17,685)	143	-	819,429
Net deferred tax liabilities	567,732	(108,075)	17,506	(318)	-	476,845
Unused tax losses and credits	(3,533)	-	-	(315)	-	(3,848)
Net deferred tax liabilities	564,199	(108,075)	17,506	(633)	-	472,997

	2017 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	1,060,938	(9,658)	(179)		-	1,051,101
Electricity derivatives	50,930	119,427	-	-	-	170,357
Financial assets	100,375	(355)	-	-	-	100,020
Other	7,872	11,598	-	-	-	19,470
	1,220,115	121,012	(179)	-	-	1,340,948
Deferred tax assets:						
Provision for employee entitlements	119,032	79	(16,858)	-	-	102,253
Basslink and other financial liabilities	423,348	233,496	(744)	-	-	656,100
Provisions	4,372	11,255	-	-	-	15,627
Other	7,886	(1,444)	-	318	-	6,760
	554,638	243,386	(17,602)	318	-	780,740
Net deferred tax liabilities	665,477	(122,374)	17,423	(318)	-	560,208
Unused tax losses and credits	(3,533)	-	-	(315)	-	(3,848)
Net deferred tax liabilities	661,944	(122,374)	17,423	(633)	-	556,360

All deferred tax balances relate to continuing operations.

At 30 June 2018, there is no recognised or unrecognised deferred income tax liability (2017: nil) for taxes that would be payable on the unremitted earnings of certain of the Corporation's subsidiaries or joint ventures. The Corporation has no liability for additional taxation should such amounts be remitted.

5. Note to the cash flow statement

		CONSOLIDATED		PARENT	
		2018 $'000	2017 $'000	2018 $'000	2017 $'000
(a)	Cash reconciliation				
	Cash	16,987	17,054	14,569	14,550
	Money market investments	48,903	100,003	48,900	100,000
		65,890	117,057	63,469	114,550
	Reconciliation of net cash provided by operating activities to net profit for the year				
(b)	Profit/(loss) after income tax equivalent expense	120,922	(222,613)	185,208	(246,012)
	Adjusted for non-cash items of income and expense:				
	Depreciation of property, plant and equipment	95,359	92,016	92,136	88,726
	Amortisation	21,162	17,078	15,915	15,632
	Revaluations and impairment	227	781	(51,471)	11,130
	Loss on derecognition of property, plant and equipment	3,908	3,926	2,466	3,926
	Equity accounted share of joint venture (profit)/loss	(3,884)	(2,114)	-	-
	Intercompany loans forgiven	-	-	826	-
	Net fair value gains/(losses)	(1,111)	328,022	(14,182)	372,533
	Income tax (benefit)/expense	47,864	(86,095)	51,600	(103,247)
	Cash from operating profit before changes in working capital	284,447	131,001	282,498	142,688
	(Increase)/decrease in receivables	(18,686)	12,492	(13,307)	(7,882)
	(Increase)/decrease in inventories	(156)	181	(156)	181
	Increase/(decrease) in other financial assets and liabilities	60,351	(29,416)	31,829	(66,182)
	Increase/(decrease) in payables	29,107	3,069	20,549	28,526
	Increase/(decrease) in provisions	10,638	271	409	(1,192)
	Income tax equivalent paid	(8,552)	-	(8,552)	-
	Net cash provided by operating activities	357,149	117,598	313,270	96,139

6. Receivables

	CONSOLIDATED		PARENT	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Trade receivables	393,538	371,034	229,666	216,294
Provision for impairment	(6,026)	(2,375)	(55)	(16)
	387,512	368,659	229,611	216,278
Ageing of past due but not impaired trade receivables:				
60-90 days	909	1,009	102	144
Over 90 days	939	2,518	845	400
	1,848	3,527	947	544

	CONSOLIDATED	PARENT
	2018 $'000	2018 $'000
Reconciliation of provision:		
Opening balance at 1 July 2017	(2,375)	(16)
Adjustment on initial application of AASB 9	(2,443)	-
Amounts written off	6,472	184
Movement in the provision	(7,680)	(223)
Balance at 30 June 2018	(6,026)	(55)

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 wrote off $6.4m of bad debts during the year (2017: $4.5m). The Corporation does not hold any security over the balances past due.

7. Investments

	NOTE	CONSOLIDATED		PARENT	
		2018 $'000	2017 $'000	2018 $'000	2017 $'000
(a) Current investments					
Money market investments		48,903	100,003	48,900	100,000
(b) Non-current investments					
Investment in joint ventures	30	58,144	59,262	-	-
Investment in subsidiaries		-	-	203,827	203,827
		58,144	59,262	203,827	203,827

8. Inventories

	CONSOLIDATED		PARENT	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Maintenance stores	3,088	2,932	3,088	2,932
	3,088	2,932	3,088	2,932

9. Property, plant and equipment

Asset valuation

The hydro generation class of assets is carried at fair value using a discounted cash flow model. 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 NEM. The valuation also includes projected revenue under the existing large-scale mandatory renewable energy target with forecast prices based on internal models.

Gas-fired generation assets are carried at fair value based on an independent valuation.

Beyond the period when market prices are observable, the Corporation derives forecast prices from an internal model for use in the fair value calculation.

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. The financial forecasts used to value the hydro generation assets are based on an assumed equivalent generation volume of 9000 Gigawatt hours (GWh) per annum at the generator. As disclosed in note 20, the financial assets and liabilities representing the Basslink and energy price derivatives are also carried at fair value.

Revenue and expenses in the fair value calculation are inflated at the forecast CPI and are discounted using the Corporation's post-tax nominal weighted average cost of capital (WACC) of 7.7% (2017: 7.7% a pre-tax WACC of 11% was used for the 2017 calculation). This has been validated against Australian financial and equity market data.

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 $491 million (2017: $525 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 hydro generation assets had remained under the cost method their carrying amount would be $3,873 million (2017: $3,858 million).

Revaluation of assets

Note 1.2(i) and (m) details the Corporation's valuation policy with respect to assets.

An assessment in 2018 has indicated a downwards revaluation of the generation class of assets. This is attributed to a decrease in forecast energy prices.

Details of the Corporation's generation assets fair value hierarchy as at 30 June 2018 are as follows:

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Fair value as at 30/06/18 $'000
Generating plant	-	-	4,135,993	4,135,993

There were no transfers between Level 1 and Level 2 during the year.

9. Property, plant and equipment (continued)

2018 CONSOLIDATED	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	4,490,531	23,668	14,930	69,256	91,264	212,815	4,902,464
Additions	-	-	-	-	91	124,778	124,869
Disposals	(642)	-	(3,355)	(3,357)	(1,800)	(1,671)	(10,825)
Transfers#	110,530	1,307	4,283	4,905	2,371	(166,834)	(43,438)
Net revaluation adjustment	(322,429)	-	-	-	-	-	(322,429)
Balance at the end of the year	4,277,990	24,975	15,858	70,804	91,926	169,088	4,650,641
Accumulated depreciation							
Balance at the beginning of the year	(205,784)	(14,044)	(7,466)	(26,404)	(77,892)	-	(331,590)
Disposals	636	-	2,540	1,292	1,663	-	6,131
Transfers#	-	-	-	-	-	-	-
Revaluation and impairment	146,975	-	-	-	-	-	146,975
Depreciation expense	(83,824)	(683)	(2,281)	(2,958)	(5,613)	-	(95,359)
Balance at the end of the year	(141,997)	(14,727)	(7,207)	(28,070)	(81,842)	-	(273,843)
Net book value at the end of the year	4,135,993	10,248	8,651	42,734	10,084	169,088	4,376,798

2018 PARENT	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	4,340,498	23,578	14,600	50,669	86,651	211,376	4,727,372
Additions	-	-	-	-	6	124,010	124,016
Disposals	(642)	-	(3,339)	(1,115)	(1,539)	(37,261)	(43,896)
Transfers#	110,496	1,307	4,281	4,887	2,225	(130,969)	(7,773)
Net revaluation adjustment	(322,429)	-	-	-	-	-	(322,429)
Balance at the end of the year	4,127,923	24,885	15,542	54,441	87,343	167,156	4,477,290
Accumulated depreciation							
Balance at the beginning of the year	(91,414)	(13,983)	(7,268)	(21,621)	(75,068)	-	(209,354)
Disposals	636	-	2,539	335	1,533	-	5,043
Transfers#	-	-	-	-	-	-	-
Revaluation and impairment	146,975	-	-	-	-	-	146,975
Depreciation expense	(82,008)	(667)	(2,260)	(2,292)	(4,909)	-	(92,136)
Balance at the end of the year	(25,811)	(14,650)	(6,989)	(23,578)	(78,444)	-	(149,472)
Net book value at the end of the year	4,102,112	10,235	8,553	30,863	8,899	167,156	4,327,818

9. Property, plant and equipment (continued)

2017 CONSOLIDATED	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	4,408,208	21,222	14,400	66,299	89,335	174,135	4,773,599
Additions	597	-	67	-	153	130,993	131,810
Disposals	(57)	-	(1,348)	(17)	(1,180)	(4,079)	(6,681)
Transfers#	82,380	2,446	1,811	2,974	2,956	(88,234)	4,333
Net revaluation adjustment	(597)	-	-	-	-	-	(597)
Balance at the end of the year	4,490,531	23,668	14,930	69,256	91,264	212,815	4,902,464
Accumulated depreciation							
Balance at the beginning of the year	(108,260)	(13,423)	(6,200)	(23,552)	(73,085)	-	(224,520)
Disposals	25	-	1,025	16	1,136	-	2,202
Transfers#	(17,374)	-	-	(13)	131	-	(17,256)
Revaluation and impairment	-	-	-	-	-	-	-
Depreciation expense	(80,175)	(621)	(2,291)	(2,855)	(6,074)	-	(92,016)
Balance at the end of the year	(205,784)	(14,044)	(7,466)	(26,404)	(77,892)	-	(331,590)
Net book value at the end of the year	4,284,747	9,624	7,464	42,852	13,372	212,815	4,570,874

2017 PARENT	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	4,276,930	21,132	14,151	48,006	84,858	171,381	4,616,458
Additions	597	-	-	-	143	130,973	131,713
Disposals	(58)	-	(1,348)	(17)	(1,106)	(7,970)	(10,499)
Transfers#	63,626	2,446	1,797	2,680	2,756	(83,008)	(9,703)
Net revaluation adjustment	(597)	-	-	-	-	-	(597)
Balance at the end of the year	4,340,498	23,578	14,600	50,669	86,651	211,376	4,727,372
Accumulated depreciation							
Balance at the beginning of the year	(13,002)	(13,379)	(6,062)	(19,501)	(70,814)	-	(122,758)
Disposals	25	-	1,025	16	1,064	-	2,130
Transfers#	(6)	-	-	6	-	-	-
Revaluation and impairment	-	-	-	-	-	-	-
Depreciation expense	(78,431)	(604)	(2,231)	(2,142)	(5,318)	-	(88,726)
Balance at the end of the year	(91,414)	(13,983)	(7,268)	(21,621)	(75,068)	-	(209,354)
Net book value at the end of the year	4,249,084	9,595	7,332	29,048	11,583	211,376	4,518,018

#Net transfers relate to transfers of capital work in progress to intangible assets (note 10). In 2017 transfers included a reclassification of items between cost and accumulated depreciation.

10. Intangible assets

	CONSOLIDATED		PARENT	
	2018 Software at cost $'000	2017 Software at cost $'000	2018 Software at cost $'000	2017 Software at cost $'000
Gross carrying amount				
Balance at the beginning of the year	143,124	131,043	134,649	125,878
Additions	67	-	-	-
Disposals	(969)	(932)	(959)	(932)
Transfers from capital work in progress	43,438	13,013	7,773	9,703
Balance at the end of the year	185,660	143,124	141,463	134,649
Accumulated amortisation				
Balance at the beginning of the year	(67,795)	(51,497)	(64,170)	(49,410)
Disposals	880	872	874	872
Transfers	-	(92)	-	-
Amortisation expense	(21,162)	(17,078)	(15,915)	(15,632)
Balance at the end of the year	(88,077)	(67,795)	(79,211)	(64,170)
Net book value at the end of the year	97,583	75,329	62,252	70,479

11. Other financial assets

	NOTE	CONSOLIDATED		PARENT	
		2018 $'000	2017 $'000	2018 $'000	2017 $'000
(a) Current other financial assets					
Energy price derivatives - economic hedges	17	192,734	366,172	192,734	366,172
Basslink financial asset (i)	17	46,948	47,978	46,948	47,978
Environmental energy products		80,210	104,649	70,418	104,464
		319,892	518,799	310,100	518,614
(b) Non-current other financial assets					
Basslink financial asset (i)	17	258,158	285,424	258,158	285,424
Basslink security deposit (ii)		50,000	50,000	50,000	50,000
Energy price derivatives - economic hedges	17	53,624	201,685	53,624	201,685
		361,782	537,109	361,782	537,109

(i) The Basslink financial asset represents the fair value of the contractual rights to receive revenue under the Basslink Services Agreement (note 20).

(ii) 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 3 years of the agreement.

12. Other assets

	CONSOLIDATED		PARENT	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
(a) Current other assets				
Prepayments	10,703	42,436	10,551	7,910
Other	5,275	8,123	1,866	860
	15,978	50,559	12,417	8,770
(b) Non-current other assets				
Prepayments	360	303	94	-
Other	2,682	1,537	-	-
	3,042	1,840	94	-

13. Goodwill

	CONSOLIDATED		PARENT	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Balance at the beginning of the year	16,396	16,396	-	-
Impairment losses	-	-	-	-
Closing balance of goodwill	16,396	16,396	-	-

At the end of each reporting period the Corporation is required to assess if there are any indications of impairment. There were indicators for impairment present in this financial year, the subsequent impairment testing resulted in the assessed value being greater than the carrying value and therefore nil impairment was recorded.

14. Payables

	CONSOLIDATED		PARENT	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Trade creditors	273,657	249,112	252,514	231,691
Accrued expenses	67,296	62,788	17,080	17,673
Accrued interest payable	6,938	6,813	6,938	6,813
	347,891	318,713	276,532	256,177

15. Interest-bearing liabilities

		CONSOLIDATED		PARENT	
		2018 $'000	2017 $'000	2018 $'000	2017 $'000
(a)	**Interest-bearing liabilities**				
	Current	150,000	85,100	150,000	85,100
	Loans from Tascorp (i)	757	738	757	738
	Finance lease liability (ii)	150,757	85,838	150,757	85,838
	Non-current				
	Loans from Tascorp (i)	615,000	765,000	615,000	765,000
	Finance lease liability (ii)	3,447	3,995	3,447	3,995
		618,447	768,995	618,447	768,995

(i) The loans from Tascorp are unsecured

(ii) The finance leases are secured by the leased assets

		CONSOLIDATED		PARENT	
		2018 $'000	2017 $'000	2018 $'000	2017 $'000
(b)	**Loan facilities**				
	Master loan facility				
	Facility limit	1,305,000	925,000	1,305,000	925,000
	Facility used/committed	765,000	850,100	765,000	850,100
	Facility balance	540,000	74,900	540,000	74,900
	Standby revolving credit facility				
	Facility limit	30,000	40,000	30,000	40,000
	Facility used/committed	-	-	-	-
	Facility balance	30,000	40,000	30,000	40,000
	Bank overdraft				
	Facility limit	1,000	1,000	1,000	1,000
	Facility used/committed	-	-	-	-
	Facility balance	1,000	1,000	1,000	1,000
	Corporate purchasing card				
	Facility limit	7,500	7,500	7,500	7,500
	Facility used/committed	4,386	4,129	4,386	4,129
	Facility balance	3,114	3,371	3,114	3,371

Hydro Tasmania manages its debt portfolio under a Board-approved Treasury Policy, in line with the requirement of the *GBE Act* and related Treasurer's Instructions. The policy requires a weighted average term to maturity of 4 years. The policy also places limits around maturity profile of the debt.
The maturity profile of the Corporation's debt as at 30 June 2018 is included in Note 20. At 30 June 2018, the consolidated entity has a deficiency of current assets to current liabilities of $362m (2017: $243m). Having regard to the budgeted cash flows for the year ending 30 June 2019 and the unused loan facilities of $570m (2017: $114.9m), there is sufficient funding to settle the current liabilities as and when they become due and payable.

15. Interest-bearing liabilities (continued)

	PARENT & CONSOLIDATED			
	2018 $'000 Less than one year	2018 $'000 Between one and five years	2018 $'000 Later than five years	2018 $'000 Total
(c) Finance lease liabilities				
Future minimum lease payments	757	3,220	856	4,833
Interest	-	(431)	(198)	(629)
Present value of future minimum lease payments	757	2,789	658	4,204

	PARENT & CONSOLIDATED			
	2017 $'000 Less than one year	2017 $'000 Between one and five years	2017 $'000 Later than five years	2017 $'000 Total
Future minimum lease payments	738	3,142	1,691	5,571
Interest	-	(418)	(420)	(838)
Present value of future minimum lease payments	738	2,724	1,271	4,733

(d) Reconciliation of financing activities

Liabilities	Closing balance	New leases acquired	Change in fair value	Interest charged	Cash received	Cash repayments	Closing balance
	2017	Non-cash changes			Cash flows		2018
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Finance lease	4,733	-	(23)	232	-	(738)	4,204
Tascorp loans	850,100	-	-	-	68,700	(153,800)	765,000
	854,833	-	(23)	232	68,700	(154,538)	769,204

(e) Fair value disclosures

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

16. Provisions

	NOTE	CONSOLIDATED 2018 $'000	CONSOLIDATED 2017 $'000	PARENT 2018 $'000	PARENT 2017 $'000
(a) Current provisions					
Employee entitlements		21,767	20,827	18,793	18,082
Retirement Benefits Fund provision	19	18,342	18,143	18,342	18,143
Other provisions		135,747	85,047	81,986	43,123
		175,856	124,017	119,121	79,348
(b) Non-current provisions					
Employee entitlements		6,847	5,787	6,400	5,412
Retirement Benefits Fund provision	19	295,171	299,548	295,171	299,548
Other provisions		93,527	88,568	1,964	8,167
		395,545	393,903	303,535	313,127

Employee entitlements include redundancy costs.

Other provisions	CONSOLIDATED Onerous contracts(i) $'000	Regulatory schemes $'000	Site rehabilitation(ii) $'000	TOTAL $'000
Balance at 1 July 2017	94,130	28,965	50,520	173,615
Additional provision recognised	37,954	68,658	-	106,612
Reductions arising from payments	(483)	-	(209)	(692)
Reductions from settlement	-	(58,522)	-	(58,522)
Reductions resulting from re-measurement or settlement without cost	7,350	-	911	8,261
Balance at 30 June 2018	138,951	39,101	51,222	229,274

Other provisions	PARENT Onerous contracts(i) $'000	Regulatory schemes $'000	Site rehabilitation(ii) $'000	TOTAL $'000
Balance at 1 July 2017	51,290	-	-	51,290
Additional provision recognised	37,954	-	-	37,954
Reductions arising from payments	(483)	-	-	(483)
Reductions resulting from re-measurement or settlement without cost	(4,811)	-	-	(4,811)
Balance at 30 June 2018	83,950	-	-	83,950

(i) Onerous contracts include gas contracts, lease liabilities and large generation certificates valuation.

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

17. Other financial liabilities

		CONSOLIDATED		PARENT	
		2018 $'000	2017 $'000	2018 $'000	2017 $'000
(a)	**Current other financial liabilities**				
	Basslink Services Agreement	65,252	103,402	65,252	103,402
	Basslink Facility Fee Swap	58,949	36,294	58,949	36,294
	Interest rate swaps	4,669	7,128	4,669	7,128
	Energy price derivatives – economic hedges	90,614	621,726	90,614	621,726
	Energy price derivatives – cash flow hedges	235,954	-	235,954	-
		455,438	768,550	455,438	768,550
(b)	**Non-current other financial liabilities**				
	Basslink Services Agreement	446,587	484,420	446,587	484,420
	Basslink Facility Fee Swap	249,229	297,212	249,229	297,212
	Energy price derivatives – economic hedges	34,754	635,583	34,754	635,583
	Energy price derivatives – cash flow hedges	357,326	-	357,326	-
		1,087,896	1,417,215	1,087,896	1,417,215

17. Other financial liabilities (continued)

		CONSOLIDATED		PARENT	
		2018 $'000	2017 $'000	2018 $'000	2017 $'000
Energy price derivatives movement reconciliation:					
Liability/(asset) at the beginning of the year		689,452	344,385	689,452	344,385
Amount included in electricity revenue due to settlement during the year		(383,258)	(293,120)	(383,258)	(293,120)
Net cash payments/(receipts) on futures margin account		202,584	(48,697)	202,584	(48,697)
Fair value (gain)/loss on contracts outstanding as at 30 June		(36,488)	686,884	(36,488)	686,884
Liability/(asset) at the end of the year		472,290	689,452	472,290	689,452
Represented by:					
Current energy price derivative liability - economic hedges	17(a)	90,614	621,726	90,614	621,726
Current energy price derivative liability - cash flow hedges	17(a)	235,954	-	235,954	-
Non-current energy price derivative liability - economic hedges	17(b)	34,754	635,583	34,754	635,583
Non-current energy price derivative liability - cash flow hedges	17(b)	357,326	-	357,326	-
		718,648	1,257,309	718,648	1,257,309
Current energy price derivative asset - economic hedges	11(a)	192,734	366,172	192,734	366,172
Non-current energy price derivative asset - economic hedges	11(b)	53,624	201,685	53,624	201,685
		246,358	567,857	246,358	567,857
Net energy price derivatives liability/(asset)		472,290	689,452	472,290	689,452
Net Basslink financial liability movement reconciliation:					
Balance at the beginning of the year		587,925	551,580	587,925	551,580
Current year net (revenue) and operating expenses realised during the year and included in the operating valuation		(91,717)	(53,817)	(91,717)	(53,817)
Increase/(decrease) in present value of projected rights and obligations of later years as at the beginning of the year		145,553	(44,673)	145,553	(44,673)
(Gain)/loss arising on re-estimation of fair value of contract rights and obligations over the remaining contract term as at 30 June		(126,850)	134,835	(126,850)	134,835
Balance at the end of the year		514,911	587,925	514,911	587,925
Represented by:					
Current Basslink financial liability	17(a)	124,201	139,696	124,201	139,696
Non-current Basslink financial liability	17(b)	695,816	781,632	695,816	781,632
		820,017	921,328	820,017	921,328
Current Basslink financial asset	11(a)	46,948	47,978	46,948	47,978
Non-current Basslink financial asset	11(b)	258,158	285,424	258,158	285,424
		305,106	333,402	305,106	333,402
Net Basslink financial liability		514,911	587,926	514,911	587,926

18. Other liabilities

	CONSOLIDATED		PARENT	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Current other liabilities				
Income received in advance	7,136	5,976	7,048	5,892
Loans from subsidiaries (i)	-	-	126,072	168,122
Other	1,233	1,233	1,233	1,233
	8,369	7,209	134,353	175,247

(i) Loans from associates and subsidiaries are interest-free and on-call and presented on a net basis.

19. 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.

The scheme operates under the *Public Sector Superannuation Reform Act 2016* and the *Public Sector Superannuation Reform Regulations 2017.*

Although the scheme is not formally subject to the Superannuation Industry (Supervision) (SIS) legislation, the Tasmanian Government has undertaken (in a Heads of Government Agreement) to operate the scheme in accordance with the spirit of the SIS legislation.

As an exempt public sector superannuation scheme (as defined in the SIS legislation), the scheme is not subject to any minimum funding requirements.

RBF is a complying superannuation fund within the provisions of the *Income Tax Assessment Act 1997* such that the fund's taxable income is taxed at a concessional rate of 15%. However RBF is also a public sector superannuation scheme which means that employer contributions may not be subject to the 15% tax (if the Tasmanian Government and RBF elect) up to the amount of "untaxed" benefits paid to members in the year.

The Superannuation Commission (the Commission) has fiduciary responsibility for, and oversees the administration of, the Scheme. The day to day running of the Scheme is managed by the Office of the Superannuation Commission, within the Department of Treasury and Finance.

There are a number of risks to which the scheme exposes the Corporation. The more significant risks relating to the defined benefits are:

Investment risk - The risk that investment returns will be lower than assumed and employers will need to increase contributions to offset this shortfall over the long term.

Salary growth risk - The risk that wages or salaries (on which future benefit amounts will be based) will rise more rapidly than assumed, increasing defined benefit amounts and the associated employer contributions over the long term.

Inflation risk - The risk that inflation is higher than anticipated, increasing pension payments and the associated employer contributions over the long term.

Benefits options risk - The risk that a greater proportion of members who joined prior to 1 July 1994 will elect the pension option, which is generally more costly than the alternative lump sum option.

Pensioner mortality risk - The risk that pensioner mortality will be lighter than expected, resulting in pensions being paid for a longer period.

Legislative risk - The risk that legislative changes could be made which increase the cost of providing the defined benefits.

There were no Scheme amendments affecting the defined benefits payable, curtailments or settlements during the year.

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

19. Retirement Benefits Fund provision (continued)

Reconciliation of the net liability recognised in the Balance Sheet:

	NOTE	2018 $'000	2017 $'000
Defined benefit obligation		388,291	389,032
Fair value of plan assets		(74,778)	(71,341)
Net superannuation liability		313,513	317,691
Comprising:			
Current net liability	16	18,342	18,143
Non-current net liability	16	295,171	299,548
Net superannuation liability		313,513	317,691

Reconciliation of the present value of the defined benefit obligation:

	NOTE	2018 $'000	2017 $'000
Present value of defined benefit obligations at the beginning of the year		389,032	441,233
Current service cost		3,109	4,595
Interest cost		16,392	15,219
Contributions by plan participants		1,058	1,111
Actuarial (gains)/losses arising from changes in demographic assumptions		-	(9,091)
Actuarial losses/(gains) arising from changes in financial assumptions		2,171	(39,307)
Actuarial losses/(gains) arising from liability experience		(167)	378
Benefits paid		(23,295)	(24,481)
Taxes, premiums and expenses paid		(9)	(625)
Present value of defined benefit obligations at year end		388,291	389,032

The asset ceiling has no impact on the defined benefit liability.

Reconciliation of the fair value of scheme assets:

	NOTE	2018 $'000	2017 $'000
Fair value of plan assets at beginning of the year		71,341	66,504
Interest income		2,990	2,259
Actual return on plan assets less interest income		5,374	8,174
Employer contributions		17,319	18,399
Contributions by plan participants		1,058	1,111
Benefits paid		(23,295)	(24,481)
Taxes, premiums and expenses paid		(9)	(625)
Fair value of plan assets at end of the year		74,778	71,341

19. Retirement Benefits Fund provision (continued)

Fair value of scheme assets:

		2018		
		Quoted prices in active markets -	Significant observable inputs -	Unobservable inputs
Asset category	Total	Level 1	Level 2	Level 3
Equity securities	27,456	11,779	15,677	-
Unit trusts	46,591	24,634	21,940	17
Direct property	709	-	709	-
Derivative assets	22	-	22	-
Total	74,778	36,413	38,348	17

		2017		
		Quoted prices in active markets -	Significant observable inputs -	Unobservable inputs
Asset category	Total	Level 1	Level 2	Level 3
Equity instruments	50,668	22,944	27,714	10
Unit trusts	-	-	-	-
Debt instruments	19,526	1,371	16,600	1,555
Direct property	723	-	723	-
Derivatives	424	-	424	-
Total	71,341	24,315	45,461	1,565

The fair value of the scheme assets includes no amounts relating to any of the Corporation's own financial instruments or to any property occupied, or other assets used by the Corporation.

Assets are not held separately for each employer but are held for the Fund as a whole. The fair value of Scheme assets for each reporting entity was estimated by allocating the total Fund assets in proportion to the value of each reporting entity's funded liabilities, calculated using the assumptions outlined in this report, with the exception of the discount rate. For the purposes of allocating assets to each reporting entity, a government bond yield of 3.00% has been used, in order to be consistent with the allocation of assets reported to the Department of Treasury and Finance.

For the purpose of performing the calculations necessary under AASB 119, various actuarial assumptions are required. The Department of Treasury and Finance has approved these assumptions.

Significant actuarial assumptions as at balance date:

	2018 %	2017 %
Assumptions used to determine defined benefit cost and defined benefit obligation at the start of the year		
Discount rate (active members)	4.35	3.55
Discount rate (pensioners)	4.35	3.55
Expected rate of increase in compulsory preserved amounts	3.00	4.50
Expected salary increase rate	3.00	3.00
Expected pension increase rate	2.50	2.50

19. Retirement Benefits Fund provision (continued)

	2018 %	2017 %
Assumptions used to determine defined benefit cost and defined benefit obligation at the end of the year		
Discount rate (active members)	4.30	4.35
Discount rate (pensioners)	4.30	4.35
Expected salary increase rate	3.00	3.00
Expected rate of increase in compulsory preserved amounts	3.00	3.00
Expected pension increase rate	2.50	2.50

	2018 $'000	2017 $'000
(Loss)/gain recognised in Other Comprehensive Income		
Actuarial (losses)/gains	3,372	56,193

Sensitivity analysis:

The defined benefit obligation as at 30 June 2018 under several scenarios is presented below.

Scenario A and B relate to discount rate sensitivity. Scenario C and D relate to expected pension increase rate sensitivity.

Scenario A: 1% pa lower discount rate assumption

Scenario B: 1% pa higher discount rate assumption

Scenario C: 1% pa lower expected pension increase rate assumption

Scenario D: 1% pa higher expected pension increase rate assumption

	Base case	Scenario A -1.0% pa discount rate	Scenario B +1.0% pa discount rate	Scenario C -1.0% pa increase rate	Scenario D +1.0% pa increase rate
Discount rate %	4.30	3.30	5.30	4.30	4.30
Pension increase rate %	2.50	2.50	2.50	1.50	3.50
Defined benefit obligation (A$'000s)	388,291	436,809	348,771	356,724	425,791

The defined benefit obligation has been recalculated by changing the assumptions as outlined above, whilst retaining all other assumptions.

We are not aware of any asset and liability matching strategies adopted by the fund.

The Corporation contributes a percentage of each lump sum or pension benefit payment. This percentage may be amended by the Minister on the advice of the Actuary.

The weighted average duration of the defined benefit obligation for the Corporation is 11.7 years.

	2019 $'000
Expected employer contributions	18,342

20. 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 are derivatives and loans. The Corporation has other financial assets and liabilities such as a bank overdraft, cash and short-term investments, and 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 2018 $'000	Net fair value 2018 $'000	Carrying amount 2017 $'000	Net fair value 2017 $'000	Carrying amount 2018 $'000	Net fair value 2018 $'000	Carrying amount 2017 $'000	Net fair value 2017 $'000
Financial assets								
Cash	16,987	16,987	17,054	17,054	14,569	14,569	14,550	14,550
Amortised cost								
Receivables	387,512	387,512	368,659	368,659	229,611	229,611	216,278	216,278
Investments	48,903	48,903	100,003	100,003	48,900	48,900	100,000	100,000
Fair value through profit or loss								
Interest rate swaps	188,011	188,011	200,476	200,476	188,011	188,011	200,476	200,476
Forward foreign exchange contracts	334	334	169	169	334	334	169	169
Basslink financial asset	305,106	305,106	333,402	333,402	305,106	305,106	333,402	333,402
Energy price derivatives - economic hedges*	246,358	246,358	567,857	567,857	246,358	246,358	567,857	567,857
Other assets	11,511	11,511	42,442	42,442	10,551	10,551	7,910	7,910
	1,204,722	1,204,722	1,630,062	1,630,062	1,043,440	1,043,440	1,440,642	1,440,642
Financial liabilities								
Amortised cost								
Accounts payable	340,953	340,953	311,898	311,898	269,594	269,594	249,364	249,364
Tascorp loans	771,938	785,173	856,913	872,495	771,938	785,173	856,913	872,495
Designated hedge accounting derivatives								
Interest rate swaps	4,669	4,669	7,128	7,128	4,669	4,669	7,128	7,128
Energy price derivatives - cash flow hedges	593,281	593,281	-	-	593,281	593,281	-	-
Fair value through profit or loss								
Interest rate swaps	186,904	186,904	200,476	200,476	186,904	186,904	200,476	200,476
Forward foreign exchange contracts	161	161	541	541	161	161	541	541
Basslink Services Agreement	511,840	511,840	587,822	587,822	511,840	511,840	587,822	587,822
Basslink Facility Fee Swap	308,178	308,178	333,506	333,506	308,178	308,178	333,506	333,506
Energy price derivatives - economic hedges	125,367	125,367	1,257,309	1,257,309	125,367	125,367	1,257,309	1,257,309
Other liabilities	4,517	4,517	2,711	2,711	4,429	4,429	2,626	2,626
	2,847,808	2,861,043	3,558,304	3,573,886	2,776,361	2,789,596	3,495,685	3,511,267

*Energy price derivatives – economic hedges include a balance of $98.7m relating to Hydro-Electric Corporation futures cash account.

20. Financial instruments disclosures (continued)

(a) Financial instrument categories (continued)

The amounts relating to items designated as hedging instruments and hedge ineffectiveness were as follows:

	CONSOLIDATED 2018					
	Carrying liability $'000	Line item in the statement of financial position where the hedging instrument is included	Changes in the value of the hedging instrument recognised in OCI $'000	Hedge ineffective-ness recognised in profit or loss $'000	Unwind of hedge instrument recognised in profit or loss $'000	Line item in profit or loss that includes hedge ineffective-ness and hedge unwind
Interest rate swaps	4,669	Other financial liabilities (current)	1,352	1,107	-	Fair value gains
Energy price derivatives - cash flow hedges*	593,281	Other financial liabilities (current & non-current)	41,793	-	147,878	Fair value gains

	CONSOLIDATED 2017					
	Carrying liability $'000	Line item in the statement of financial position where the hedging instrument is included	Changes in the value of the hedging instrument recognised in OCI $'000	Hedge ineffective-ness recognised in profit or loss $'000	Unwind of hedge instrument recognised in profit or loss $'000	Line item in profit or loss that includes hedge ineffective-ness and hedge unwind
Interest rate swaps	7,128	Other financial liabilities (current)	2,480	-	-	Fair value gains

*Hedge accounting commenced for a portion of energy price derivatives on 1 July 2017.

20. Financial instruments disclosures (continued)

(b) Financial risk management objectives and policies

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

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(ac).

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 15, 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 energy 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, on 1 January 2014 wholesale regulation began in Tasmania. The wholesale pricing methodology links Tasmanian regulated contract prices to Victorian market prices. The Corporation's revenue is also 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 (BFF). The Corporation is also exposed to fluctuations in electricity market prices in all NEM regions in relation to its retail operation in Victoria and other NEM regions. Exposure to these fluctuations in market price is managed through the use of derivative contracts executed 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.

The Corporation manages electricity trading risk using an earnings at risk approach combined with an asset-backed trading model.

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.

20. Financial instruments disclosures (continued)

(b) Financial risk management objectives and policies (continued)

	2018				2017			
	CONSOLIDATED		PARENT		CONSOLIDATED		PARENT	
	Income $'000	Equity $'000	Income $'000	Equity $'000	Income $'000	Equity $'000	Income $'000	Equity $'000
Increase/(decrease)								
Electricity forward price +10%								
Basslink net liability	25,609	-	25,609	-	19,283	-	19,283	-
Energy derivative - economic hedges net liability	145,298	-	145,298	-	107,978	-	107,978	-
Energy derivative - cash flow hedges net liability	(16,360)	(207,597)	(16,360)	(207,597)	-	-	-	-
Electricity forward price -10%								
Basslink net liability	(26,868)	-	(26,868)	-	(16,654)	-	(16,654)	-
Energy derivative - economic hedges net liability	(144,981)	-	(144,981)	-	(108,010)	-	(108,010)	-
Energy derivative - cash flow hedges net liability	4,501	219,456	4,501	219,456	-	-	-	-

The sensitivity of the fair value of the BSA 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 based on published three-year NEM electricity price curves. These prices are determined by market assessment of the many variables that may influence future prices including pending regulation and legislation. The price curves have been validated by comparison to other published price trend predictions in the NEM. Beyond the period when market prices are observable, the Corporation derives forecast prices from an internal model.

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(ae).

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 2018 fixed rate loans varied from 2.60% to 5.45% (2017: 2.60% to 5.45%). Floating rates were based on bank bill rates and these varied from 1.90% to 2.06% (2017: 1.72% to 1.74%).

The Government Guarantee Fee rate varied from 0.7% to 1.7% for this financial year (2017: 0.6% to 1.7%).

The Corporation uses cash flow hedges to mitigate the risk of variability of future cash flows attributable to Tasmanian electricity spot price fluctuations over the hedging period via contracting activities with major industrial clients.

For cash flow hedges, the portion of the gain or loss on the hedging instrument that is effective is recognised directly in equity, while the ineffective portion is recognised in profit or loss. The Corporation applies hedge accounting treatment to hedges of the energy derivatives as described in note 1.2(ae).

20. Financial instruments disclosures (continued)

(b) Financial risk management objectives and policies (continued)

Basslink

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

The BSA commenced upon successful commissioning of Basslink on 28 April 2006 and was for a term of 25 years, with an option for a further 15 years. Basslink effectively gives Tasmania, including Hydro Tasmania, physical access to the Victorian region of the NEM.

The Corporation entered into the BFFS in 2002 for a 25 year term 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. The inherent fixed interest rate is 7.83%.

Interest rates

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.

	2018				2017			
	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 +1 bps								
Financial assets	606	-	606	-	679	-	679	-
Financial liabilities	(1,246)	(20)	(1,246)	(20)	(1,397)	(26)	(1,397)	(26)
Forward interest rates -1 bps								
Financial assets	(606)	-	(606)	-	(679)	-	(679)	-
Financial liabilities	1,246	20	1,246	20	1,397	26	1,397	26

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 2018 for both the parent and consolidated entities is 4.90% (2017: 4.87%). This incorporates both loans and interest rate swaps as at the reporting date and also includes the average government guarantee fee of 1.14% (2017: 0.99%).

(C) Foreign currency rates

The Corporation owns and operates 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.

20. Financial instruments disclosures (continued)

(b) Financial risk management objectives and policies (continued)

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

	CONSOLIDATED		PARENT	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Receivables				
Not later than one year	3,763	2,979	3,763	2,979
Later than one year but not later than two years	876	1,209	876	1,209
Later than two years	164	857	164	857
Total	4,803	5,045	4,803	5,045
Payables				
Not later than one year	11,646	8,823	11,646	8,823
Later than one year but not later than two years	3,831	3,979	3,831	3,979
Later than two years	590	299	590	299
Total	16,067	13,101	16,067	13,101

(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 interest rate swaps. The majority of the unrated credit exposure relates to the Basslink service agreement.

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 AEMO, electricity, gas, treasury and environmental energy product counterparties, consulting service clients and retail energy 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.

Loan and receivables balance approximate fair value.

Basslink interest rate swaps

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

20. Financial instruments disclosures (continued)

(b) Financial risk management objectives and policies (continued)

	CONSOLIDATED		PARENT	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Credit risk exposure by instrument type				
Financial assets				
Investments and bank balances	65,890	117,057	63,469	114,550
Receivables	387,512	368,659	229,611	216,278
Basslink financial asset	-	-	-	-
Derivative financial instruments				
Interest rate swaps	-	-	-	-
Forward foreign exchange contracts	-	-	-	-
Energy price derivatives	76,296	15,677	76,296	15,677
Environmental product contracts	9,979	19,219	9,979	19,219
Total credit risk exposure	539,677	520,612	379,355	365,724
Credit risk exposure by entity ratings				
Australian-based entities				
AA+ to AA- ratings	86,278	85,523	72,508	70,155
A+ to A- ratings	1,955	944	1,955	944
BBB+ to BBB- ratings	2,682	3,589	2,682	3,589
Unrated	342,876	319,861	302,210	291,036
	433,791	409,917	379,355	365,724
Overseas-based entities				
AA+ to AA- ratings	54	85	-	-
A+ to A- ratings	12,337	10,923	-	-
BBB+ to BBB- ratings	93,494	99,447	-	-
Unrated	-	-	-	-
	105,885	110,455	-	-
Total credit risk exposure	539,676	520,372	379,355	365,724

(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 15.

The Corporation's exposure at 30 June 2018 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 monitors its liquidity risk on a daily basis. The following table details the Corporation's liquidity exposure.

20. Financial instruments disclosures (continued)

(b) Financial risk management objectives and policies (continued)

	2018 CONSOLIDATED				2018 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								
Amortised cost								
Cash	16,987	-	-	-	14,569	-	-	-
Receivables	387,512	-	-	-	229,611	-	-	-
Investments	48,903	-	-	-	48,900	-	-	-
Fair value through profit or loss								
Interest rate swaps	13,441	12,791	93,174	104,832	13,441	12,791	93,174	104,832
Forward foreign exchange contracts	113	86	1	-	113	86	1	-
Energy price derivatives - economic hedges	36,246	59,256	35,367	55,954	36,246	59,256	35,367	55,954
Basslink financial asset	27,375	27,375	219,516	438,217	27,375	27,375	219,516	438,217
Other assets	11,511	-	-	-	10,551	-	-	-
	542,088	99,508	348,058	599,003	380,806	99,508	348,058	599,003
Financial liabilities								
Amortised cost								
Accounts payable	340,953	-	-	-	269,594	-	-	-
Tascorp loans	74,408	103,053	414,619	295,396	74,408	103,053	414,619	295,396
Designated hedge accounting								
Interest rate swaps	784	808	4,650	-	784	808	4,650	-
Energy price derivatives - cash flow hedges	113,911	130,810	355,122	133,031	113,911	130,810	355,122	133,031
Fair value through profit or loss								
Interest rate swaps	13,406	12,737	92,740	104,021	13,406	12,737	92,740	104,021
Forward foreign exchange contracts	95	58	147	-	95	58	147	-
Basslink Services Agreement	43,962	43,962	366,775	797,361	43,962	43,962	366,775	797,361
Basslink Facility Fee Swap	10,693	10,245	80,985	156,160	10,693	10,245	80,985	156,160
Energy price derivatives - economic hedges	40,883	50,089	31,708	6,462	40,883	50,089	31,708	6,462
Other liabilities	4,517	-	-	-	4,429	-	-	-
	643,612	351,762	1,346,746	1,492,431	572,165	351,762	1,346,746	1,492,431

20. Financial instruments disclosures (continued)

(b) Financial risk management objectives and policies (continued)

	2017 CONSOLIDATED				2017 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								
Amortised cost								
Cash	17,054	-	-	-	14,550	-	-	-
Receivables	368,659	-	-	-	216,278	-	-	-
Investments	100,003	-	-	-	100,000	-	-	-
Fair value through profit or loss								
Interest rate swaps	14,709	14,725	102,221	151,406	14,709	14,725	102,221	151,406
Forward foreign exchange contracts	41	16	50	-	41	16	50	-
Energy price derivatives - economic hedges	159,112	209,815	199,386	32,327	159,112	209,815	199,386	32,327
Basslink financial asset	23,989	23,989	191,914	424,810	23,989	23,989	191,914	424,810
Other assets	42,442	-	-	-	7,910	-	-	-
	726,009	248,545	493,571	608,543	536,589	248,545	493,571	608,543
Amortised cost								
Loans and payables								
Accounts payable	311,898	-	-	-	249,364	-	-	-
Tascorp loans	60,579	54,832	479,146	398,650	60,579	54,832	479,146	398,650
Designated hedge accounting derivatives								
Interest rate swaps	928	850	6,156	439	928	850	6,156	439
Fair value through profit or loss								
Interest rate swaps	14,709	14,725	102,221	151,406	14,709	14,725	102,221	151,406
Forward foreign exchange contracts	324	197	171	-	324	197	171	-
Basslink Services Agreement	53,523	53,523	352,414	858,515	53,523	53,523	352,414	858,515
Basslink Facility Fee Swap	11,085	10,667	81,203	175,970	11,085	10,667	81,203	175,970
Energy price derivatives - economic hedges	257,678	271,008	590,034	215,674	257,678	271,008	590,034	215,674
Other liabilities	2,711	-	-	-	2,626	-	-	-
	713,435	405,802	1,611,345	1,800,654	650,816	405,802	1,611,345	1,800,654

20. Financial instruments disclosures (continued)

(c) Fair values

AASB 9 requires recognition of some financial assets and financial liabilities at fair value on the Balance Sheet.

Where possible this fair value is determined from prices quoted for the financial instrument on an active market.

In the event of a lack of quoted market prices, the fair value of financial instruments has been calculated using valuation models that make maximum use of available market inputs to produce a reasonable estimate of the price that would be determined by the market. In many cases this entails projecting future cash flows that are then discounted to present value using the appropriate discount rate, including the credit risk of the out of the money party to the agreement. The calculation of projected future cash flows requires, among other things, a forecast electricity price. Beyond the period when market prices are observable, the Corporation derives forecast prices from an internal model.

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

	CONSOLIDATED							
	2018				2017			
	Level 1 Quoted market prices $'000	Level 2 Valuation technique - market observable inputs $'000	Level 3 Valuation technique - non market observable inputs $'000	Total $'000	Level 1 Quoted market prices $'000	Level 2 Valuation technique - market observable inputs $'000	Level 3 Valuation technique - non market observable inputs $'000	Total $'000
Financial assets								
Fair value through profit or loss								
Interest rate swaps	-	188,011	-	188,011	-	200,476	-	200,476
Forward foreign exchange contracts	-	334	-	334	-	169	-	169
Basslink financial asset	-	-	305,106	305,106	-	-	333,402	333,402
Energy price derivatives - economic hedges	159,424	3,324	83,610	246,358	362,112	54,714	151,031	567,857
	159,424	191,669	388,716	739,809	362,112	255,359	484,433	1,101,904
Financial liabilities								
Designated hedge accounting derivatives								
Interest rate swaps	-	4,669	-	4,669	-	7,128	-	7,128
Energy price derivatives - cash flow hedges	-	-	593,281	593,281	-	-	-	-
Fair value through profit or loss								
Interest rate swaps	-	186,904	-	186,904	-	200,476	-	200,476
Forward foreign exchange contracts	-	161	-	161	-	541	-	541
Basslink Services Agreement	-	-	511,840	511,840	-	-	587,822	587,822
Basslink Facility Fee Swap	-	-	308,178	308,178	-	-	333,506	333,506
Energy price derivatives -economic hedges	93,564	3,364	28,439	125,367	330,036	102,148	825,125	1,257,309
	93,564	195,098	1,441,738	1,730,400	330,036	310,293	1,746,453	2,386,782

20. Financial instruments disclosures (continued)

(c) Fair values (continued)

	PARENT							
	2018				2017			
	Level 1 Quoted market prices $'000	Level 2 Valuation technique - market observable inputs $'000	Level 3 Valuation technique - non market observable inputs $'000	Total $'000	Level 1 Quoted market prices $'000	Level 2 Valuation technique - market observable inputs $'000	Level 3 Valuation technique - non market observable inputs $'000	Total $'000
Financial assets								
Fair value through profit or loss								
Interest rate swaps	-	188,011	-	188,011	-	200,476	-	200,476
Forward foreign exchange contracts	-	334	-	334	-	169	-	169
Basslink financial asset	-	-	305,106	305,106	-	-	333,402	333,402
Energy price derivatives - economic hedges	159,424	3,324	83,610	246,358	362,112	54,714	151,031	567,857
	159,424	191,669	388,716	739,809	362,112	255,359	484,433	1,101,904
Financial liabilities								
Designated hedge accounting derivatives								
Interest rate swaps	-	4,669	-	4,669	-	7,128	-	7,128
Energy price derivatives - cash flow hedges	-	-	593,281	593,281	-	-	-	-
Fair value through profit or loss								
Interest rate swaps	-	186,904	-	186,904	-	200,476	-	200,476
Forward foreign exchange contracts	-	161	-	161	-	541	-	541
Basslink Services Agreement	-	-	511,840	511,840	-	-	587,822	587,822
Basslink Facility Fee Swap	-	-	308,178	308,178	-	-	333,506	333,506
Energy price derivatives - economic hedges	93,564	3,364	28,439	125,367	330,036	102,148	825,125	1,257,309
	93,564	195,098	1,441,738	1,730,400	330,036	310,293	1,746,453	2,386,782

The following table shows a reconciliation of movements in the value of instruments included in Level 3 of the fair value hierarchy.

	CONSOLIDATED	PARENT
	2018 $'000	2018 $'000
Balance at the beginning of the period	(1,262,020)	(1,262,020)
Net gain recognised in other comprehensive income	41,793	41,793
Net gain from financial instruments at fair value	167,205	167,205
Balance at the end of the period	(1,053,022)	(1,053,022)

20. Financial instruments disclosures (continued)

(c) Fair values (continued)

Basslink financial instruments

The Basslink financial instruments comprise the BSA, FFFI and 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 IRRs under the BSA has been separately calculated based on experience to date and projected operating conditions and reported as a financial asset. The expected contractual payments under the BSA, FFFI and BFFS have been reported as financial liabilities. These represent the Basslink facility fees and interest rate swap settlements payable under these contracts.

The fair value of the BSA has been calculated using the pre-tax weighted average cost of capital as the nominal discount rate. The fair values of the FFFI and BFFS have been calculated using a 15 year forward market interest rate.

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

Energy price derivatives

The Corporation has entered into derivative contracts in the electricity 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 energy price curve.

The financial instruments above are valued using non-market unobservable inputs, the following table details the nature and sensitivities of those inputs. For a description of the valuation method relating to fair value and unobservable inputs refer to note 20(c).

The relationship of unobservable inputs to the fair value of energy price derivatives is as follows:

- The lower the electricity price, the smaller the fair value liability of energy price derivatives.

The relationship of unobservable inputs to the fair value of the BSA and FFS liability is as follows:

- The higher the weighted average cost of capital, the smaller the liability.
- The higher the price spread the smaller the liability.
- The higher the long term average generation forecast the smaller the liability.
- The higher the counterparty credit margin the larger the liability.
- The higher the long term interest rate the larger the liability.

Description	Fair value at end of year $'000	Valuation technique	Unobservable input	Range (weighted average)	Valuation change $'000
Energy price derivatives - economic hedges	59,131	Discounted cash flow	Long term flat electricity price	-10% to +10%	47,960 to (48,227)
Energy price derivatives - cash flow hedges	(593,281)	Discounted cash flow	Long term flat electricity price	-10% to +10%	223,957 to (223,957)
Basslink Services Agreement and Facilty Fee Swap	(514,912)	Discounted cash flow	Weighted average cost of capital	10% to 12% (11%)	(13,860) to 12,831
			average Victorian price spread	-10% to +10%	(26,868) to 25,609
			Long term average annual generation (GWh)	8,600 to 9,200 (8,900)	(36,802) to 36,802
			Counterparty credit margin	0.15% to 0.55% (0.35%)	9,200 to (9,036)
			Long term interest rate	2.20% to 2.60% (2.40%)	(3,303) to (3,397)

21. Commitments for expenditure

		CONSOLIDATED		PARENT	
		2018 $'000	2017 $'000	2018 $'000	2017 $'000
(a)	**Capital expenditure commitments**				
	Not later than 1 year	22,054	28,163	22,054	28,163
	Over 1 year and up to 2 years	4,211	7,840	4,211	7,840
	Later than 2 years	666	-	666	-
		26,931	36,003	26,931	36,003
(b)	**Operating lease commitments**				
	Future minimum lease payments				
	Not later than 1 year	5,138	5,157	3,930	3,693
	Over 1 year and up to 2 years	3,225	4,332	3,225	3,146
	Over 2 years and up to 5 years	9,674	9,438	9,674	9,438
	Later than 5 years	2,687	5,768	2,687	5,768
		20,724	24,695	19,516	22,045

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.

22. Contingent assets and liabilities

Under the terms of ASIC Instruments [15-0576] and [15-0577], AETV Pty Ltd and Momentum Energy Pty Ltd have been granted relief from the requirement to prepare audited financial statements. The Corporation has entered into an approved deed of indemnity for the cross-guarantee of liabilities with those controlled entities. The parties to the deed are the Hydro-Electric Corporation, AETV Pty Ltd and Momentum Energy Pty Ltd.

A consolidated statement of comprehensive income and retained profits, and a consolidated statement of financial position, comprising the company and controlled entities which are a party to the Deed of Cross Guarantee, after eliminating all transactions between parties to the Deed, at 30 June 2018, are set out in note 31.

The Corporation and Basslink Pty Ltd have made claims against each other in respect of contractual arrangements between them concerning the Basslink interconnector. The claims relate to the outages of the interconnector and are unresolved as at 30 June 2018.

23. Auditor's remuneration

	CONSOLIDATED		PARENT	
	2018 $	2017 $	2018 $	2017 $
Amounts received, or due and receivable, by the Auditor-General from the Corporation for auditing the financial statements of the Corporation	361,000	383,830	361,000	383,830
Amounts received, or due and receivable, for compliance audits	11,125	9,710	11,125	9,710
Amounts received, or due and receivable to Deloitte Touche Tohmatsu, for local and international tax matters	-	116,670	-	116,670
Amounts received, or due and receivable to KPMG, for other professional services	89,449	-	89,449	-
Amounts received, or due and receivable to Deloitte Touche Tohmatsu, for other professional services	-	70,244	-	70,244
	461,574	580,454	461,574	580,454

24. 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 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
- government wages and salaries expectations.

Remuneration packages include contribution to post-employment superannuation plans.

The Corporation has complied with Treasury guidelines in the presentation of the executive remuneration in 2018.

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 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 CEO is appointed by the Premier and portfolio Minister following selection and recommendation by the Board. The Board consults with the Government Business Executive Remuneration Advisory Panel when determining 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 and individual measures. The *CEO and Executive Remuneration Policy* is also aligned with guidelines issued by the Treasurer.

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.

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 in line with individuals' contracts prior to termination of the contract.

The aggregate compensation to key management personnel of the Corporation is:

	2018 $'000	2017 $'000
Short-term employee benefits	3,954	3,761
Post-employment benefits	434	402
Other long-term benefits	-	-
Termination benefits	71	-
	4,459	4,163

24. Key management personnel compensation (continued)

b) Director remuneration

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

	2018			
Director	Directors' fees $'000	Committee fees $'000	Super-annuation $'000	Total 2017-18 $'000
Mr G Every-Burns - Chairman	115	10	12	137
Mr S Eslake	53	14	6	73
Mr K Hodgson	53	2	5	60
Ms S Hogg	53	16	7	76
Ms T Matykiewicz (up to 24/05/18)	49	7	5	61
Total	323	49	35	407

	2017			
Director	Directors' fees $'000	Committee fees $'000	Super-annuation $'000	Total 2016-17 $'000
Mr G Every-Burns - Chairman	113	10	12	135
Mr S Eslake	52	14	6	72
Mr K Hodgson	52	2	5	59
Ms S Hogg	52	12	6	70
Ms T Matykiewicz	52	8	6	66
Total	321	46	35	402

24. Key management personnel compensation (continued)

c) Executive remuneration

The following table discloses the remuneration details of senior executives during the current financial year:

	2018							
Executive	Base salaries $'000	Short term incentive payments $'000	Termin-ation benefits $'000	Super-annuation $'000	Vehicles $'000	Other benefits $'000	Other non-monetary benefits $'000	Total 2017-18 $'000
Mr E Albertini Chief Operating Officer	393	56	-	20	6	-	4	479
Ms A Bird Acting Chief Information Officer	269	39	-	20	-	-	13	341
Mr V Borovac Chief Financial Officer (from 21/08/17)	258	42	-	16	-	-	15	331
Mr A Catchpole Director, Strategy & Market Development	344	47	-	20	3	-	18	432
Ms A Childs Acting Director Momentum (from 31/05/18)	24	3	-	2	-	-	3	32
Ms T Chu Managing Director Entura	295	47	-	20	6	-	16	384
Mr S Davy Chief Executive Officer	485	92	-	20	14	-	25	636
Mr A Evans GM Corporate Governance & Secretary (to 31/12/17)	140	25	71	11	3	-	14	264
Mr G Flack Director, Wholesale Markets	310	46	-	51	7	-	22	436
Mr P Geason Managing Director Momentum (to 23/05/18)	311	-	-	30	-	-	22	363
Ms K Gillies Acting Chief Financial Officer (to 20/08/17)	41	-	-	3	-	-	6	50
Ms K McKenzie General Counsel & Corporation Secretary (from 01/01/18)	126	14	-	12	-	-	(5)	147
Mr R Tanti Director People & Capability (from 4/12/17)	136	-	-	13	-	-	8	157
Total	3,132	411	71	238	39	-	161	4,052

24. Key management personnel compensation (continued)

c) Executive remuneration (continued)

The following table discloses the remuneration details of senior executives during the previous financial year:

	2017							
Executive	Base salaries $'000	Short term incentive payments $'000	Termin-ation benefits $'000	Super-annuation $'000	Vehicles $'000	Other benefits $'000	Other non-monetary benefits $'000	Total 2016-17 $'000
Mr E Albertini Chief Operating Officer	379	54	-	20	9	-	18	480
Ms A Bird Acting Chief Information Officer (from 27/02/17)	91	10	-	7	1	-	12	121
Mr A Catchpole Director, Strategy & Market Development	338	43	-	20	4	1	(17)	389
Ms T Chu Managing Director Entura	286	47	-	20	7	1	23	384
Mr S Davy Chief Executive Officer	480	80	-	20	13	-	16	609
Mr A Evans GM Corporate Governance & Secretary	259	34	-	20	7	2	30	352
Mr G Flack Director, Wholesale Markets	300	40	-	33	11	-	28	412
Mr P Geason Managing Director Momentum	331	49	-	31	-	-	24	435
Ms K Gillies Acting Chief Financial Officer (from 23/12/16)	127	16	-	8	4	-	14	169
Mr M Smith Chief Financial Officer (to 22/12/16)	168	-	-	10	4	-	13	195
Mr L Stow Chief Information Officer (to 26/02/17)	198	-	-	19	-	-	(2)	215
Total	2,957	373	-	208	60	4	159	3,761

The Directors of the Corporation as at 30 June 2018 were:

Mr S Davy

Mr S Eslake

Mr G Every-Burns

Mr K Hodgson

Ms S Hogg

During the year no non-executive Directors of the Corporation undertook any overseas trips (2017: $0).

Employees undertook overseas travel on 199 occasions during the year at a cost of $977,005 (2017: $992,842). Of these 130, at a cost of $637,312 (2017: $538,107), were made while undertaking work for clients. The cost of Entura travel on client business was recovered from these clients.

25. Related party information

	Sales to related parties		Purchases from related parties		Amounts owed by related parties		Amounts owed to related parties	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000
CONSOLIDATED								
Woolnorth Wind Farm Holding Pty Ltd	27,517	10,570	3,413	2,058	317	1,222	-	-
Cathedral Rocks Construction and Management Pty Ltd	-	-	-	-	-	-	-	-
Kakamas Hydro Electric Power (Pty) Ltd	-	-	-	-	-	-	-	-
PARENT								
HT Wind Operations Pty Ltd	-	-	-	-	-	-	158,766	155,423
Cathedral Rocks Construction and Management Pty Ltd	-	-	-	-	-	-	-	-
Bell Bay Power Pty Ltd	84	30	-	-	1,143	917	-	-
Bell Bay Three Pty Ltd	-	-	-	-	-	-	1,424	1,424
Lofty Ranges Power Pty Ltd	-	-	-	-	433	494	-	-
Hydro Tasmania Consulting (Holding) Pty Ltd	-	-	-	-	-	-	-	-
Hydro Tasmania Consulting India Pty Ltd	-	-	-	-	-	-	-	-
Hydro Tasmania Wind Developments Pty Ltd	-	-	-	-	-	-	421	327
RE Storage Project Holding Pty Ltd	-	-	22	13	765	806	-	-
Heemskirk Windfarm Pty Ltd	-	-	-	-	-	-	-	-
Studland Bay Holdings Pty Ltd	-	-	-	-	-	-	-	-
Bluff Point Holdings Pty Ltd	-	-	-	-	-	-	-	-
Momentum Energy Pty Ltd	82,507	72,665	-	-	37,548	-	-	-
AETV Pty Ltd	-	-	20,570	7,404	274,946	317,288	-	-
Hydro Tasmania South Africa (Pty) Ltd	-	-	-	-	5,403	5,403	-	-
Hydro Tasmania Neusberg (Pty) Ltd	-	-	-	-	1,337	1,337	-	-

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.

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

Amounts owed by AETV to the parent are fully provided for.

26. Events subsequent to balance date

Other than the dividend of $80m proposed for approval on 14 August 2018, after due enquiry, there have not been any matters or circumstances since the end of the financial year that have significantly affected or may have significantly affected the operations of the Corporation, the results of those operations or the state of affairs of the Corporation in subsequent financial years.

27. Government grants

The Corporation has recognised $12.8m of grant revenue during the year (2017: $17.3m) 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 2018, the State paid the Corporation $10.0m (2017: $9.9m) as reimbursement of the cost of providing CSOs.

Department of Resources, Energy and Tourism – Flinders Island Hybrid Energy Hub

During the year ended 30 June 2015, the Commonwealth Government entered into a $5.5m funding agreement through the Australian Renewable Energy Agency (ARENA) for the development of a modular hybrid energy solution on Flinders Island to displace more than 60% of the island's diesel generated electricity. The total project value is $12.88m, of which ARENA will fund up to $5.5m.

During the year ended 30 June 2018, the Corporation received $0.73m (2017: $3.96m) for the Flinders Island Hybrid Energy Hub project.

ARENA has currently committed to providing a further $0.2m in funding up to 31 August 2018, with an additional $0.5m contingency grant available.

Department of Resources, Energy and Tourism – Rottnest Island Renewable Energy & Water Nexus Project

In May 2015 the Commonwealth Government entered into a funding agreement with ARENA to reduce diesel fuel usage by the introduction of solar energy and to demonstrate the ability to desalinate water at times of high renewable energy availability. The total project value is $6.51m, of which ARENA will fund $4.01m.

During the year ended 30 June 2018, the Corporation received $0.6m (2017: $3.45m) for the Rottnest Island Renewable Energy & Water Nexus project.

Regional Development Australia – Waddamana Power Station Heritage Site Improvement Project

During the year ended 30 June 2016 the Commonwealth Government entered into a $50k funding agreement through the Tourism Demand Driver Infrastructure (TDDI) Fund to improve the accessibility and tourism experience at the Waddamana Power Station Heritage Site and Great Lake Power Scheme. The original total project value is $100k, of which the Corporation has received $50k in funding.

In 2018, the project value increased to $200k, which TDDI agreed to fund in its entirety. During the year ended 30 June 2018, the Corporation received $150k(2017: $5k).

***Battery of the Nation* Project**

On 20th April 2017, the Prime Minister and Federal Energy Minister met in Tasmania to announce the plan for Tasmania to become the *'Battery of the Nation'* (BoTN). Over the next 3 years, ARENA has initially agreed to fund $3.8m in relation to a number of projects, including pumped hydro, Tarraleah redevelopment and the future state NEM.

During the year end 30 June 2018, ARENA paid $1.3m (2017:$0m) for BoTN funding.

28. Controlled entities

	Footnote	Country of incorporation	Percentage of share held by Hydro-Electric Corporation 2018 %	2017 %
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	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 (9,999 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.
9. AETV Pty Ltd was transferred to Hydro Tasmania by Ministerial direction on midnight 1 June 2013.

29. Interest 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	2018 %	2017 %	2018 %	2017 %	2018 %	2017 %	2018 %	2017 %
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	-	-	-	-
Woolnorth Wind Farm Holding Pty Ltd	Wind farm operation	30 June	25	25	25	25	-	-	-	-
Kakamas Hydro Electric Power (Pty) Ltd	Hydro operation	30 June	25	25	25	25	-	-	-	-

The Corporation holds a 50% interest in a dormant joint venture (Cathedral Rocks Construction and Management Pty Ltd) with Acciona Energy Oceania Pty Ltd. The joint venture was previously engaged in managing 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.

A subsidiary of the Corporation, HT Wind Operations Pty Ltd, became a partner in the Woolnorth Wind Farm Holdings Pty Ltd joint venture with Shenhua Clean Energy Holding Pty Ltd in February 2012 and holds a 25% interest in the joint venture. The principal activity of the joint venture is to operate wind farms.

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 2013 and holds a 25% interest in the joint venture. The principal activity of the joint venture is to develop and operate a hydro scheme in Neusberg South Africa.

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%	Cathedral Rocks Construction and Management Pty Ltd 50%	Kakamas Hydro Electric Power Pty Ltd 25%	Total
	2018 $'000	2018 $'000	2018 $'000	2018 $'000
Income statement				
Revenue	103,819	-	6,433	110,252
Expenses	75,990	-	10,362	86,352
Profit/(loss) before income tax benefit	27,829	-	(3,929)	23,900
Income tax expense	(8,363)	-	-	(8,363)
Net profit after tax	19,466	-	(3,929)	15,537
Balance Sheet				
Current assets	76,440	54	8,210	84,704
Non-current assets	519,063	-	44,221	563,284
Total assets	595,503	54	52,431	647,988
Current liabilities	49,834	-	2,737	52,571
Non-current liabilities	355,727	-	51,201	406,928
Total liabilities	405,561	-	53,938	459,499
Net assets	189,942	54	(1,507)	188,489
Share of accumulated profits/(losses)				
Share of accumulated profits/(losses) at the beginning of the year	16,760	(21)	(2,338)	14,402
Share of profit after income tax expense	4,866	-	(982)	3,884
Share of accumulated profits/(losses) at the end of the year	21,626	(21)	(3,320)	18,286
Movements in carrying amount of investment in joint ventures				
Carrying amount at the beginning of the year	58,036	17	1,209	59,262
Dividends received	(4,775)	-	-	(4,775)
Impairment of investment	-	-	(227)	(227)
Share of profit after income tax for the year	4,866	-	(982)	3,884
Carrying amount at the end of the year	58,127	17	-	58,144

30. Incorporated joint ventures (continued)

	CONSOLIDATED			
	Woolnorth Wind Farm Joint Venture 25%	Cathedral Rocks Construction and Management Pty Ltd 50%	Kakamas Hydro Electric Power Pty Ltd 25%	Total
	2017 $'000	2017 $'000	2017 $'000	2017 $'000
Income statement				
Revenue	97,193	-	4,212	101,405
Expenses	76,603	-	9,298	85,901
Profit/(loss) before income tax benefit	20,590	-	(5,086)	15,504
Income tax expense	(7,050)	-	-	(7,050)
Net profit after tax	13,540	-	(5,086)	8,454
Balance Sheet				
Current assets	78,016	54	8,302	86,372
Non-current assets	541,727	-	47,438	589,165
Total assets	619,743	54	55,740	675,537
Current liabilities	48,648	-	3,093	51,741
Non-current liabilities	393,391	-	47,745	441,136
Total liabilities	442,039	-	50,838	492,877
Net assets	177,704	54	4,902	182,660
Share of accumulated profits/(losses)				
Share of accumulated profits/(losses) at the beginning of the year	13,375	(21)	(1,066)	12,288
Share of profit after income tax expense	3,385	-	(1,272)	2,114
Share of accumulated profits/(losses) at the end of the year	16,760	(21)	(2,338)	14,402
Movements in carrying amount of investment in joint ventures				
Carrying amount at the beginning of the year	60,526	17	3,261	63,804
Dividends received	(5,875)	-	-	(5,875)
Impairment of investment	-	-	(781)	(781)
Share of profit after income tax for the year	3,385	-	(1,272)	2,114
Carrying amount at the end of the year	58,036	17	1,209	59,262

The fair value of the Corporation's investment in joint ventures is equivalent to its carrying value in the absence of a quoted market price for investment shares in joint venture.

The Woolnorth Wind Farm joint venture has finance agreements in place which impose conditions on it making distributions in the form of dividends or loan repayments.

31. Deed of cross guarantee

The following consolidated statement of comprehensive income and retained profits, and the statement of financial position comprises the Corporation and its controlled entities which are party to the Deed of Cross Guarantee (refer note 22), after eliminating all transactions between parties to the Deed.

	CONSOLIDATED	
	2018 $'000	2017 $'000
Consolidated statement of comprehensive income and retained profits		
Revenue	2,034,352	1,521,043
Expenses	1,823,243	1,845,086
(Loss)/profit before income tax equivalent expense	211,109	(324,043)
Income tax equivalent (benefit)/expense	47,875	(86,951)
(Loss)/profit for the period	163,234	(237,092)
Other comprehensive income	(90,139)	40,848
Total comprehensive (loss)/income for the period	73,095	(196,244)
Retained earnings at the beginning of the period	992,092	1,082,146
Dividends paid	-	-
Net (loss)/profit	163,234	(237,092)
Other movements	9,862	147,038
Retained earnings at the end of the period	1,165,188	992,092

31. Deed of cross guarantee (continued)

	CONSOLIDATED	
	2018 $'000	2017 $'000
Current assets		
Cash and cash equivalents	14,768	14,721
Receivables	383,851	365,529
Investments	48,903	100,003
Inventories	3,088	2,932
Other financial assets	319,892	518,799
Current tax asset	-	3,160
Other	14,863	46,567
Total current assets	785,365	1,051,711
Non-current assets		
Investments	184,410	184,410
Property plant and equipment	4,364,270	4,558,073
Other financial assets	361,782	537,109
Intangible assets	97,579	75,329
Goodwill	16,396	16,396
Other	2,775	1,537
Total non-current assets	5,027,212	5,372,854
TOTAL ASSETS	5,812,577	6,424,565
Current liabilities		
Payables	344,578	320,571
Interest-bearing liabilities	150,757	85,838
Provisions	191,465	120,944
Other financial liabilities	455,438	768,549
Other	134,354	175,247
Total current liabilities	1,276,592	1,471,149
Non-current liabilities		
Interest-bearing liabilities	618,447	768,995
Deferred tax liability	375,441	476,774
Provisions	459,640	376,251
Other financial liabilities	1,087,896	1,417,214
Total non-current liabilities	2,541,424	3,039,234
TOTAL LIABILITIES	3,818,016	4,510,383
NET ASSETS	1,994,561	1,914,182
EQUITY		
Contributed equity	678,206	678,206
Reserves	151,167	243,884
Retained earnings	1,165,188	992,092
TOTAL EQUITY	1,994,561	1,914,182

32. Dividend

	CONSOLIDATED		PARENT	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Declared and paid during the year				
Statutory dividend	-	-	-	-
Proposed for approval (not recognised as a liability as at 30 June)				
Statutory dividend	80,000	-	80,000	-

33. Segment information

Identification of reportable segments

The Corporation has identified its material 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 material 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 NEM from hydro generation assets and provides consulting services.

(ii) AETV

AETV Pty Ltd generates and sells wholesale energy into the NEM 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 NEM.

Basis of accounting for purposes of reporting by operating segments

Unless stated otherwise, all financial information reported to the CEO with respect to individual segments is 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.

33. Segment information (continued)

	YEAR ENDED 30 JUNE 2018					
	Hydro Tasmania $'000	AETV $'000	Momentum Energy $'000	Total segments $'000	Adjustments/ eliminations $'000	Consolidated $'000
Revenue						
External customers	751,231	202,748	938,947	1,892,926	(123,230)	1,769,696
Fair value gains	227,229	17,621	-	244,850	-	244,850
Share of joint venture	3,884	-	-	3,884	-	3,884
Other revenue	21,604	-	174	21,778	-	21,778
Total revenue	1,003,948	220,369	939,121	2,163,438	(123,230)	2,040,208
Segment results						
Depreciation & amortisation	108,455	1,958	6,108	116,521	-	116,521
Finance expenses	53,715	-	664	54,379	-	54,379
Fair value losses	213,182	30,557	-	243,739	-	243,739
Net revaluation and impairment	(51,244)	-	-	(51,244)	51,471	227
Other expense	446,955	212,581	920,250	1,579,786	(123,230)	1,456,556
Total expense	771,063	245,096	927,022	1,943,181	(71,759)	1,871,422
Profit/(loss) before income tax equivalent expense	232,885	(24,727)	12,099	220,257	(51,471)	168,786
Comprising:						
Result before fair value movements and revaluation	167,594	(11,791)	12,099	167,902	-	167,902
Net fair value gains/(losses)	14,047	(12,936)	-	1,111	-	1,111
Revaluation and impairment (expenses)/gains	51,244	-	-	51,244	(51,471)	(227)
Profit/(loss) before income tax equivalent expense	232,885	(24,727)	12,099	220,257	(51,471)	168,786
Income tax equivalent expense	51,590	(7,405)	3,679	47,864	-	47,864
Segment profit/(loss) after tax	181,295	(17,322)	8,420	172,393	(51,471)	120,922
Total assets	5,399,849	113,985	211,687	5,725,521	(19,416)	5,706,105
Total liabilities	3,514,394	385,428	123,220	4,023,042	(312,493)	3,710,549
Other disclosures						
Investment in joint venture	58,144	-	-	58,144	-	58,144
Capital expenditure	124,168	1,165	768	126,101	(1,165)	124,936

Inter-segment revenues are eliminated on consolidation.

33. Segment information (continued)

	YEAR ENDED 30 JUNE 2017					
	Hydro Tasmania $'000	AETV $'000	Momentum Energy $'000	Total segments $'000	Adjustments/ eliminations $'000	Consolidated $'000
Revenue						
External customers	513,038	203,130	836,436	1,552,604	(112,201)	1,440,403
Fair value gains	5,734	41,245	-	46,979	-	46,979
Share of joint venture	2,114	-	-	2,114	-	2,114
Other revenue	68,024	8	143	68,175	(29,048)	39,127
Total revenue	588,910	244,383	836,579	1,669,872	(141,249)	1,528,623
Segment results						
Depreciation & amortisation	104,775	1,781	2,538	109,094	-	109,094
Finance expenses	55,961	-	707	56,668	-	56,668
Fair value losses	375,001	-	-	375,001	-	375,001
Net revaluation and impairment	11,130	-	-	11,130	(10,349)	781
Other expense	386,316	218,205	803,468	1,407,989	(112,202)	1,295,787
Total expense	933,183	219,986	806,713	1,959,882	(122,551)	1,837,331
Profit/(loss) before income tax equivalent expense	(344,273)	24,397	29,866	(290,010)	(18,698)	(308,708)
Comprising:						
Result before fair value movements and revaluation	36,123	(16,848)	29,866	49,141	(29,047)	20,094
Net fair value gains/(losses)	(369,267)	41,245	-	(328,022)	-	(328,022)
Revaluation and impairment (expenses)/gains	(11,130)	-	-	(11,130)	10,349	(781)
Profit/(loss) before income tax equivalent expense	(344,274)	24,397	29,866	(290,011)	(18,698)	(308,709)
Income tax equivalent expense	(102,391)	7,295	9,001	(86,095)	-	(86,095)
Segment profit/(loss) after tax	(241,883)	17,102	20,865	(203,915)	(18,698)	(222,613)
Total assets	6,027,959	158,259	155,174	6,341,392	(19,416)	6,321,976
Total liabilities	4,188,326	412,380	75,127	4,675,833	(318,396)	4,357,437
Other disclosures						
Investment in joint venture	59,262	-	-	59,262	-	59,262
Capital expenditure	131,193	-	20	131,213	-	131,213

33. Segment information (continued)

	YEAR ENDED	
	2018 $'000	2017 $'000
Reconciliation of profit		
Segment profit	172,393	(203,915)
Energy sales	123,230	112,202
Purchased energy	(123,230)	(112,202)
Other income	-	(29,047)
Interest expense	-	-
Intercompany loan impairment	(51,471)	10,349
Income tax	-	-
Consolidated profit	120,922	(222,613)
Reconciliation of assets		
Segment total assets	5,725,521	6,341,392
Elimination of investment in subsidiary	(19,416)	(19,416)
Corporation total assets	5,706,105	6,321,976
Reconciliation of liabilities		
Segment total liabilities	4,023,042	4,675,833
Elimination of intercompany revaluation and balances	(312,493)	(318,396)
Corporation total liabilities	3,710,549	4,357,437

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
Chief Executive Officer
14 August 2018

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 2018 and the financial position at 30 June 2018 of the Corporation and the Consolidated entity;

  (ii) complying with the Australian Accounting Standards and Interpretations, and with the Treasurer's instructions.

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

c) there are reasonable grounds to believe that the Corporation, AETV Pty Ltd and Momentum Energy Pty Ltd will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between those entities pursuant to ASIC Instruments [15-0576] and [15-0577].

This declaration has been made after receiving the following declaration from the Chief Executive Officer and Chief Financial Officer of the Corporation:

a) the financial records of the Corporation for the year ended 30 June 2018 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 2018 have been prepared in accordance with Section 52 of the *Government Business Enterprises Act 1995;* and

c) the financial statements and notes for the year ended 30 June 2018 give a true and fair view.

Signed in accordance with a resolution of the directors:

G Every-Burns
Chairman
14 August 2018

S Hogg
Director
14 August 2018

Auditor's independence declaration

Tasmanian
Audit Office

Level 8, 144 Macquarie Street, Hobart, Tasmania, 7000
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14 August 2018

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

Dear Board Members

Auditor's Independence Declaration

In relation to my audit of the financial report of Hydro-Electric Corporation for the financial year ended 30 June 2018, 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

(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

Rod Whitehead
Auditor-General

To provide independent assurance to the Parliament and Community on the performance and accountability of the Tasmanian Public sector.
Professionalism I Respect I Camaraderie I Continuous Improvement I Customer Focus

Strive I Lead I Excel I To Make a Difference

Tasmanian Audit Office

Independent Auditor's Report

To the Members of Parliament

Hydro-Electric Corporation

Report on the Audit of the Consolidated Financial Report

Opinion

I have audited the financial report of the Hydro-Electric Corporation (the Corporation) and its subsidiaries (the Group), which comprises the consolidated balance sheet as at 30 June 2018, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies and the statement of certification by the directors.

In my opinion, the accompanying financial report:

(a) presents fairly, in all material respects, the Group's financial position as at 30 June 2018 and its financial performance and its cash flows for the year then ended

(b) is in accordance with the *Government Business Enterprises Act 1995* and Australian Accounting Standards.

Basis for Opinion

I conducted the audit in accordance with Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report. I am independent of the Group in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the financial report in Australia. I have also fulfilled my other ethical responsibilities in accordance with the Code.

The *Audit Act 2008* further promotes the independence of the Auditor-General. The Auditor-General is the auditor of all Tasmanian public sector entities and can only be removed by Parliament. The Auditor-General may conduct an audit in any way considered appropriate and is not subject to direction by any person about the way in which audit powers are to be exercised. The Auditor-General has for the purposes of conducting an audit, access to all documents and property and can report to Parliament matters which in the Auditor-General's opinion are significant.

I confirm that the independence declaration was provided to the directors of the Corporation on the same date as this auditor's report.

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

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial report of the current period. These matters were addressed in the context of my audit of the financial report as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

Why this matter is considered to be one of the most significant matters in the audit	Audit procedures to address the matter included
Fair value of generation assets *Refer to notes 1.2(i) and 9*	

As at 30 June 2018, the Group's generation assets of $4 135.99m recognised at fair value, represented 73% of the total assets on the balance sheet.
 	
Significant management judgment was required in determining the value of the generation assets, based on underlying assumptions which included long-term electricity prices, generation capacity, and inflation and discount rates.
 	
Changes in the underlying assumptions can significantly impact the valuation of the generation assets.
	• Obtaining an understanding of the preparation of the valuation model used to assess the fair value of the generation assets.
	• Assessing management's methodology and basis for assumptions used in the valuation model.
	• In conjunction with corporate finance/valuation specialists:
	  o Assessing and challenging the key model assumptions relating to long term electricity prices.
	  o Assessing and challenging the key model assumptions relating to generation capacity, and inflation and discount rates.
	  o Performing sensitivity analysis in relation to the key model assumptions.
	• Testing on a sample basis, the mathematical accuracy of the discounted cash flow model.
	• Assessing the appropriateness of the related disclosures to the financial statements.

Energy price derivatives
Refer to notes 1.2(k), 1.2(s), 3, 11, 17 and 20

As at 30 June 2018 the Group's energy price derivative assets totalled $246.36m and energy price derivative liabilities totalled $718.65m.

Significant management judgment was required in determining the value of the energy price derivative assets and liabilities due to the highly technical and complex nature of the valuations, which included management estimation of future electricity prices, inflation and discount factors.

Changes in the underlying estimates can significantly impact the value of energy price derivative assets and liabilities.

- In conjunction with trading/derivative specialists:
    - Obtaining understanding of valuation and recording of the energy price derivative assets and liabilities.
    - Assessing and challenging management's assumptions within the long term energy price curve, including consideration of the historical curve, publicly available industry information and current practice by other industry participants.
    - Agreeing on a sample basis, management's inputs into the valuation models to relevant underlying agreements.
    - Independently recalculating the valuations of the Group's energy price derivatives and evaluate these in comparison with the carrying values determined by management.
    - Assessing the appropriateness of related disclosures to the financial statements.

Basslink financial assets and liabilities
Refer to notes 1,2(k), 1.2(s), 3, 11, 17 and 20

As at 30 June 2018 the Group's Basslink financial assets totalled $305.11m and Basslink financial liabilities totalled $820.02m.

Significant management judgment was required in valuing the Basslink financial assets and liabilities as they are sensitive to inputs within the discounted cash flow model such as electricity prices, forecast sales of electricity over the Basslink cable and inflation and discount factors.

Changes in the underlying inputs can significantly impact the valuation of the Basslink financial assets and liabilities.

- In conjunction with trading/derivative specialists:
    - Obtaining an understanding of the valuation and recording of Basslink's financial assets and liabilities.
    - Assessing management's valuation methodology, the basis for assumptions used and compliance with relevant accounting standards.
    - Assessing and challenging management's assumptions with the long term energy price curve, including consideration of the historical curve, publicly available industry information

and current practice by other industry participants.

- Evaluating and challenging key model assumptions such as import/export volume forecasts, cash flow assumptions, and inflation discount rates including performing a look-back assessment of historical actuals.
- Performing sensitivity analysis in relation to the key model assumptions.
- Testing, on a sample basis, the mathematical accuracy of the discounted cash flow model.
- Assessing the appropriateness of related disclosures.

Responsibilities of the Directors for the Financial Report

The directors of the Corporation are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards, and the *Government Business Enterprises Act 1995* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

My objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. My conclusion is based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. I am responsible for the direction, supervision and performance of the Group audit. I remain solely responsible for my audit opinion.

I communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide the directors with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with the directors, I determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Rod Whitehead
Auditor-General

Tasmanian Audit Office

14 August 2018
Hobart

Above: Public tour of Meadowbank Power Station, October 2017

Statement of Corporate Intent

The following Statement of Corporate Intent was agreed upon between Hydro Tasmania's Board and Shareholding Ministers during 2017–18 and includes performance targets which are updated each year. The 2018–19 Statement of Corporate Intent, including updated performance targets, will be published on Hydro Tasmania's website.

Hydro Tasmania is the trading name of the Hydro-Electric Corporation, an integrated energy business owned by the State of Tasmania. The Minister for Energy has portfolio responsibility for Hydro Tasmania. Hydro Tasmania operates under the *Government Business Enterprises Act 1995* (GBE Act) and the *Hydro-Electric Corporation Act 1995.* The GBE Act requires Hydro Tasmania to prepare a Statement of Corporate Intent each year which provides an overview of the business and our strategic direction.

Our business

Hydro Tasmania's primary purpose is to 'efficiently generate, trade and sell electricity and environmental energy products in the National Electricity Market (NEM).'

Hydro Tasmania is Australia's largest producer of renewable energy and largest water manager. For more than a century, Tasmanians have relied on our hydropower to grow and support the state's communities and economy. We have led clean energy innovation in Australia, building 55 major dams, 30 hydropower stations and some of the nation's largest wind farms. We employ more than 1100 people, mostly in Tasmania.

Hydro Tasmania sells energy into the NEM. Our retail business Momentum Energy sells energy and energy services to businesses and residential customers on mainland Australia and provides retail services to the Bass Strait islands. Hydro Tasmania also offers world-renowned expertise through our specialist consulting firm Entura.

Today, Hydro Tasmania stands ready to help realise the full potential of Tasmania as the *Battery of the Nation.* We have the skills, experience and passion to help create an energy future that's clean, reliable and affordable.

We care, we collaborate, we innovate, we achieve. We are powering generations.

The primary activities of the Hydro-Electric Corporation are shown in Figure 1 and the ownership structure (active entities) is shown in Figure 2.

Figure 1: Primary activities

Wholesale Energy Services	Retail Energy Services	Professional Services

Figure 2: Ownership structure (active entities)

State of Tasmania

Hydro-Electric Corporation trading as Hydro Tasmania

100% owned or controlled entities:

- Bell Bay Three Pty Ltd
- Bell Bay Power Pty Ltd
- Hydro Tasmania Consulting (Holding) Pty Ltd
- Entura India Pty Ltd
- Hydro Tasmania South Africa (Pty) Ltd
- Hydro Tasmania Neusberg (Pty) Ltd (92% owned entity)
- HT Wind Developments Pty Ltd
- HT Wind Operations Pty Ltd
- Lofty Ranges Power Pty Ltd
- Momentum Energy Pty Ltd
- RE Storage Project Holding Pty Ltd
- AETV Pty Ltd

50% joint venture entities:

- SA Water Corporation and Lofty Ranges Power Pty Ltd (unincorporated joint venture)

Indirect 25% ownership:

- Kakamas Hydro Electric Power (RF) (Pty) Ltd
- Woolnorth Wind Farm Holding Pty Ltd

Operating environment

Hydro Tasmania operates in the highly dynamic and competitive NEM, which is undergoing a period of significant transformation. The need for clean energy in the NEM has never been greater, after a series of fossil fuel power stations closing in the past few years. Tasmania is uniquely placed to help lead Australia through its energy challenges. Large storage devices like batteries and pumped storage hydro will become much more important as Australia seeks to replace coal-fired power and get more energy from other sources, including solar and wind.

Aspects affecting Hydro Tasmania's operating environment include the following:

- An illiquid wholesale market due to the high degree of vertical integration and closure of Hazelwood Power Station in Victoria.
- A highly competitive national electricity retail market.
- Changes in the way that electricity is produced, sold, bought and consumed due to developments in technology and enhanced customer awareness.
- Uncertainties and change in national renewable energy and climate change policies.
- The review of the Tasmanian energy security settings.

Our strategic direction

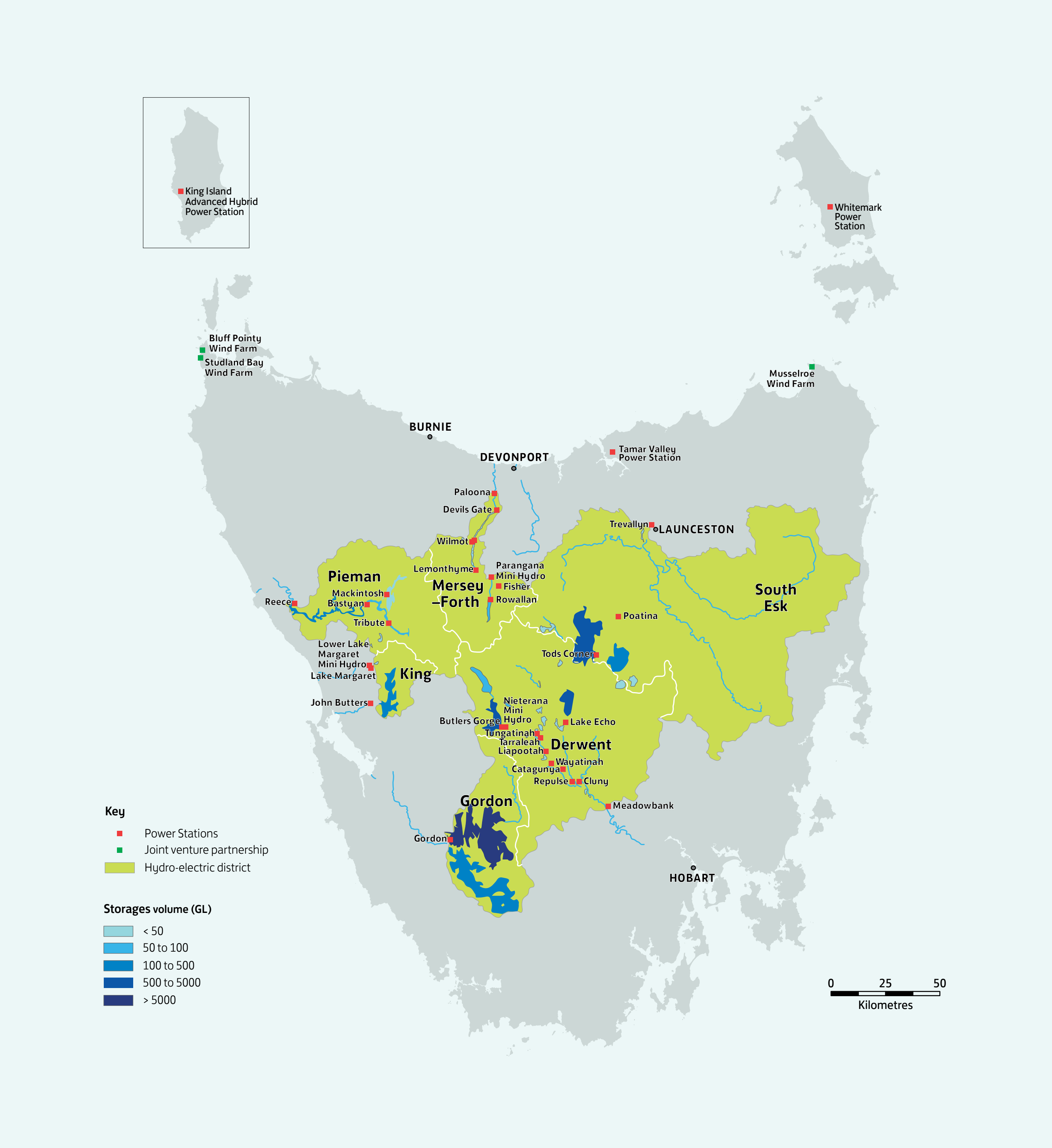
Our vision is to be Australia's leading clean energy business, inspiring pride and building value for our owners, our customers and our people. Our strategy seeks to deliver on this vision by providing profitable revenue growth, ensuring a customer-first approach and maintaining our renewable energy generation assets for future generations.

We will continue to work closely with the Tasmanian Government to ensure we are as efficient as possible to assist the government achieve its vision of restoring energy as a competitive advantage for Tasmania, as outlined in the government's Tasmanian Energy Strategy. This includes working with the recommendations of the Tasmanian Energy Security Taskforce to help ensure Tasmania's energy security.

Our mainland retail brand Momentum Energy will continue to create value for all Tasmanians as we grow customer numbers on the mainland by strengthening and diversifying revenue sources and mitigating exposure to strategic risks in the NEM. Our strategy continues to evolve to ensure we can respond flexibly to the rapidly changing operating environment. We will pursue revenue growth by increasing our customer base in electricity, gas, and energy services, and by reducing costs while continuing to manage business risks. In addition, the technological advancements developed for the King Island Renewable Energy Integration Project have positioned Hydro Tasmania to continue pursuing emerging opportunities in hybrid energy solutions.

The success of our business is underpinned by our people, the effective management of Hydro Tasmania's water resource and generation assets, and the systems and processes in place to support our business operation. Efficiencies in each of these areas are an essential part of our strategy and we are committed to making improvements in each of these areas so Hydro Tasmania can be Australia's leading clean energy business.

Figure 3: Hydro Tasmania's Tasmanian operations



Performance against the Statement of Corporate Intent

Table 1 presents results for key financial and non-financial performance indicators and associated targets for 2017–18.

Table 1: Results against key performance indicators for 2017–18

Key performance indicators (KPIs)	Target 2017–18	Results
Financial indicators		
Results before fair value movements and revaluations	$41 million	$167.9 million
Core gross borrowings	$765 million	$765 million
Return on equity	1.30 per cent	8.4 per cent
Capital expenditure [a]	Satisfactory external validation of the ten-year asset management plan	Satisfactory external validation of the ten-year asset management plan
	For capital expenditure projects greater than $500,000: 100 per cent on time 100 per cent on budget	66.7 per cent of projects on time [b] 94.4 per cent of projects on budget [c]
Cost savings target	Momentum Energy operating costs per account less than budget	Momentum Energy operating costs per account were over budget, due to higher costs and lower average customers sites
	Net general operating expenses $146.5 million	Net general operating expense $144.3 million
Retail earnings before interest tax and depreciation (EBITDA)	Retail EBITDA equal to or greater than budget	$19.6 million
Non-financial indicators		
Lost time injury	Zero	Four [d]
Portfolio availability	Availability target of 80 per cent achieved	Availability of 86.52 per cent achieved
Regulatory compliance obligations	Zero breaches resulting in enforced regulatory undertakings or penalties	Zero breaches resulting in enforced regulatory undertakings or penalties
Storage levels - preferred minimum operating level	Consistent with the Prudent Storage Level (PSL)	Consistent with the PSL. Storages remained above the PSL throughout the year
Returns to government (accrual)		
Ordinary dividend	$0 million	$0 million
Total other returns to government	$24 million	$55.1[e] million
Total returns to government	$24 million	$55.1 million

[a] Measured against the targets approved via the Investment Management Team process.

[b] Of the six projects that were not delivered on time, all were largely complete by their original due date but experienced a combination of commissioning issues and extended finalisation works that delayed administrative closure.

[c] The one project flagged as not completed on budget needed access to contingency funds due to unforeseen technical and legacy issues. The project was delivered within its original budget inclusive of contingency.

[d] The target of zero lost time injuries was not met for 2017–18 due to four lost time injuries occurring during the reporting period: a cut finger; a slip on wet concrete; a leech bite that became infected; and a shoulder injury. Hydro Tasmania was actively engaged in ensuring a prompt return to work for the injured people and undertook corrective actions including but not limited to reinforcement of site personal protective equipment requirements, reviewing access and drainage for wet areas at Tamar Valley Power Station, and ensuring the provision of suitable personal protective equipment for protection against leech bites.

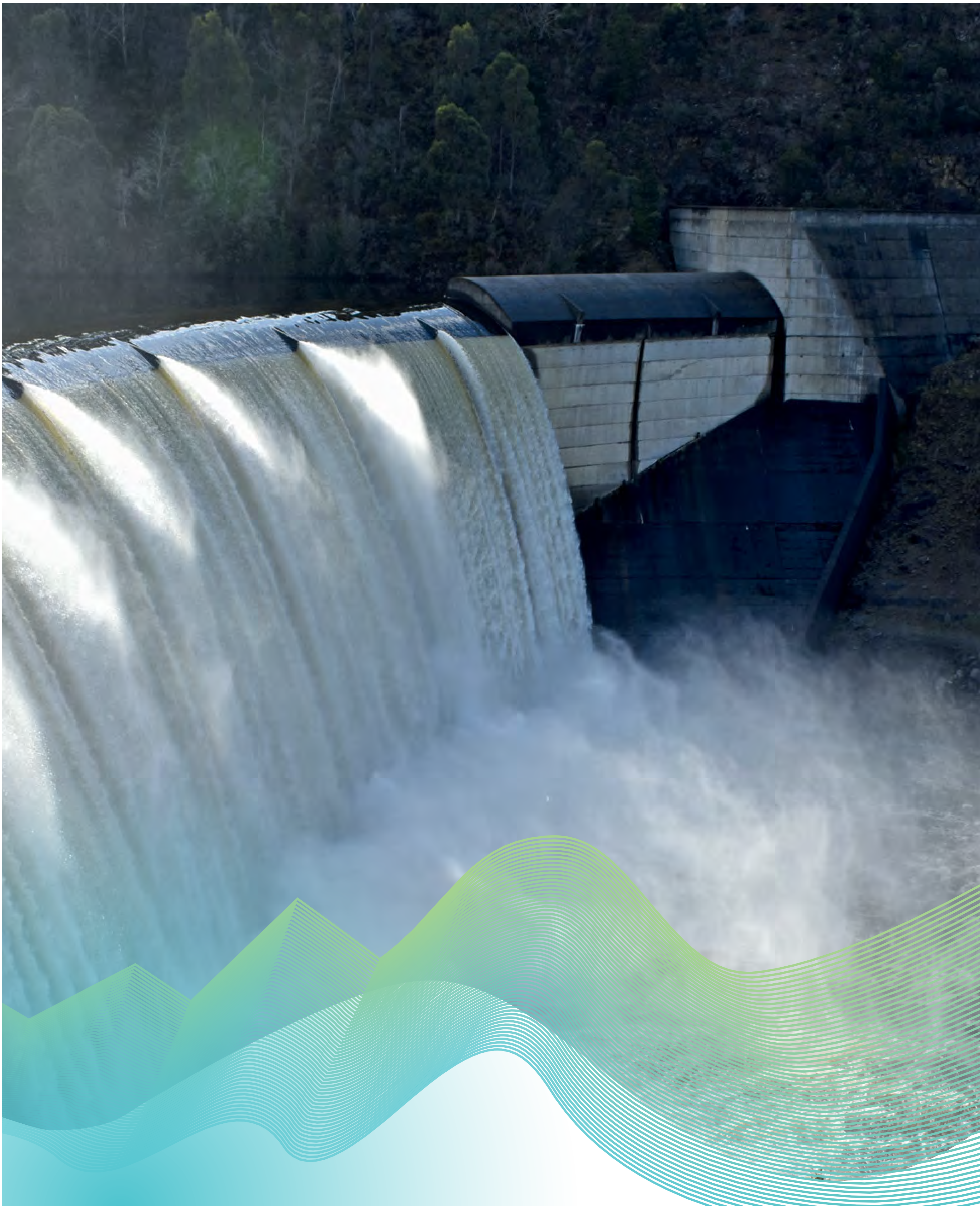
[e] Returns to government include $42.6m worth of income tax equivalent paid relating to the 2017–18 financial year. The operating result for 2017–18 was $167.9m before fair value movements compared to the target of $41.3m. The increase in profit has led to a substantially higher income tax equivalent payment during the year.

Gordon Power Station, Strathgordon

Community Service Obligations: Directions issued over the reporting year

This section details directions issued by the Energy Minster and Treasurer to Hydro Tasmania to perform Community Service Obligations (CSO) pursuant to section 65(1) of the *Government Business Enterprises Act 1995 (Tas)*.

- Bass Strait islands – The Hydro Tasmania group provides electricity services on the Bass Strait islands under a CSO funded by the Tasmanian Government. Retail services are provided by Momentum Energy. The CSO ensures that consumers on the Bass Strait islands receive electricity at a concessional and regulated price. In 2017–18 the net cost of the CSO to the Tasmanian Government was $10 million.
- Wholesale electricity price (WEP) order – On 21 June 2018 Hydro Tasmania was directed to offer load-following (whole-of-meter) wholesale contracts if requested to do so by retailers, for load relating to small customers in Tasmania for 2018–19 (or part thereof) at the price published in a WEP order made by the Treasurer. A direction was also issued to Hydro Tasmania in 2017 which related to 2017–18 and was on similar terms. No retailers requested load-following (whole-of-meter) wholesale contracts in 2017–18 which fell within that direction so that direction had no financial impact on Hydro Tasmania. The financial impact to Hydro Tasmania of the direction for 2018–19 will be reported in the 2018–19 annual report. The WEP order price for 2018–19 is $79.68 per MWh.
- Granville Harbour Wind Farm – On 5 September 2017 Hydro Tasmania was directed to enter a power purchase agreement with Westcoast Wind to facilitate the construction of the Granville Harbour Wind Farm. The power purchase agreement does not take effect until the wind farm is operational. If the wind farm becomes operational in 2018–19, the financial impact to Hydro Tasmania will be reported in the 2018–19 annual report.
- Gas – On 26 October 2017 Hydro Tasmania was directed to reach an agreement on gas transportation arrangements. However, that direction was revoked on 16 November 2017, and had no financial impact on Hydro Tasmania. The matter subsequently proceeded to arbitration.



Above: ***Repulse Dam on spill during major refurbishment of Repulse Power Station, Ouse***

Summary information

Governance summary

The directors of the Corporation at any time during or since the end of the financial year were:

Mr Grant Every-Burns Chairman	Mr Every-Burns was appointed to the Board in August 2012 and is a member of the Corporation's Audit Committee, Risk Management Committee and Human Resources and Remuneration Committee. **Appointed:** 27 August 2012 Current term: 13 October 2017 to 12 October 2020
Mr Saul Eslake Independent Director	Mr Eslake was first appointed to the Board in March 2008. He served as a member of the Audit Committee and as Chair of the Risk Management Committee until the expiration of his term. **Appointed:** 17 March 2008 Current term: 18 March 2017 to 17 September 2018
Ms Samantha Hogg Independent Director	Ms Hogg was appointed to the Board in August 2015. She is a member of the Risk Management Committee and Human Resources and Remuneration Committee. She also serves as Chair of the Audit Committee. **Appointed:** 24 August 2015 Current term: 24 August 2018 to 23 August 2021
Mr Kenneth Hodgson Independent Director	Mr Hodgson was appointed to the Board in June 2016 and has recently been appointed as the Chair of the Human Resources and Remuneration Committee. **Appointed:** 13 June 2016 Current term: 13 June 2016 to 12 June 2019
Ms Theresa Matykiewicz Independent Director	Ms Matykiewicz was appointed to the Board in August 2012 and was a member of the Audit Committee and Chair of the Human Resources and Remuneration Committee. She resigned in May 2018. **Appointed:** 27 August 2012 Most recent term: 24 August 2015 to 23 August 2018 – resigned 24 May 2018
Mr Carlo Botto Independent Director	Mr Botto was appointed to the Board in July 2018. **Appointed:** 31 July 2018 Current term: 31 July 2018 to 30 July 2021
Ms Selina Lightfoot Independent Director	Ms Lightfoot was appointed to the Board in July 2018. **Appointed:** 31 July 2018 Current term: 31 July 2018 to 30 July 2021
Mr Stephen Davy Executive Director and CEO	Mr Davy was appointed as an Executive Director in December 2014. **Appointed:** 16 December 2014 Current term: 28 December 2017 to 4 September 2020 (CEO)

Governance summary (continued)

Board and executive performance evaluation

Each director, including the Chairman, undergoes a formal performance evaluation, conducted by their peers, when their term of office is under consideration and they are seeking re-appointment. The Chairman provides continuous individual feedback on performance to each director and is also subject to periodic assessment by the directors.

The Board committees undertake self-assessment of their performance in accordance with their terms of reference, generally on an annual basis. In 2017–18, the Board's Audit and Risk Management committees carried out self-assessments.

External performance evaluations are undertaken by the Board on a four-yearly cycle. The performance of the Chief Executive Officer and other senior executives is reviewed annually using robust, measurable and qualitative key performance indicators.

Director induction, education and training

Each new Board member receives a Board induction pack and meets with the executive including the Corporation Secretary for introductory briefings. Access to the main governance, Board administration and reference materials is available through a secure web-based application used by Hydro Tasmania directors. The information made available to directors includes content suggested by the *Guidelines for Tasmanian Government Businesses on Director Induction, Education and Training.*

Ongoing training and education for directors is provided through a combination of in-house presentations and site visits as well as through external providers as required. Training is structured to enable directors to be informed of and understand all key developments relating to Hydro Tasmania's business, and the industry and environment in which we operate.

Table 2: Board committee membership

Audit Committee	Risk Management Committee	Human Resources and Remuneration Committee
Samantha Hogg[a]	Saul Eslake[a]	Theresa Matykiewicz[ab]
Grant Every-Burns	Grant Every-Burns	Kenneth Hodgson[a] (Chair from 27 June 2018)
Saul Eslake	Stephen Davy	Grant Every-Burns
Theresa Matykiewicz[b]	Samantha Hogg	Stephen Davy
		Samantha Hogg

a Committee Chair
b Theresa Matykiewicz resigned from the Board 24 May 2018

Table 3: Directors' attendance at Board and committee meetings during 2017–18

	Board (regular and special meetings)		Audit Committee		Risk Management Committee		Human Resources and Remuneration Committee	
Director	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**
Grant Every-Burns	15	15	5	5	4	4	1	1
Stephen Davy	15	14*	5†	4*	4	4	1	0*
Saul Eslake	15	15	5	4*	4	4		
Theresa Matykiewicz	13	11*	4	4				
Samantha Hogg	15	15	5	5	4	4	1	1
Kenneth Hodgson	14	14	1	1			1	1

A Maximum number of meetings the director could have attended

B Number of meetings attended

* Leave of absence granted

† The CEO is not a member of the Audit Committee, but has a standing invitation under the terms of reference to attend.

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 public interest disclosures 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.

Generation statistical summary

Table 4: Generation summary 2014–2018

		As at 30 June				
	Units	2014	2015	2016	2017	2018
Mainland Tasmania						
Power stations						
Hydro	Number	30	30	30	30	30
Thermal (gas)	Number	1	1	1	1	1
Thermal (diesel)	Number	0	0	2[a]	0	0
Total	**Number**	**31**	**31**	**33**	**31**	**31**
Installed capacity[b]						
Hydro	MW	2281	2281	2281	2281	2283[c]
Thermal (gas)	MW	372	372	372	372	372
Thermal (diesel)	MW	0	0	123	0	0
Total	**MW**	**2653**	**2653**	**2776**	**2653**	**2655**
Energy generated[d]						
Hydro	GWh	11932	8176	8038	8305	9178
Thermal (gas)	GWh	866	4	769	767	820
Thermal (diesel)	GWh	0	0	55	0	0
Total	**GWh**	**12798**	**8180**	**8862**	**9072**	**9998**
Generation peak	MW	2168	2187	2161	2038	2160
Generation load factor[e]	%	67	43	47	51	53
Bass Strait islands						
King Island						
Diesel	MWh	7220	7430	6587	7482	6010
Wind[f]	MWh	4974	4144	4907	4497	5679
Flinders Island						
Diesel	MWh	3734	3536	3539	4038	2721
Wind/solar[g]	MWh	0	0	0	65	1108
Total Bass Strait islands	**MWh**	**15928**	**15110**	**15033**	**16082**	**15518**

Generation statistical summary (continued)

Table 4: Generation summary 2014–2018 (continued)

[a] Temporary diesel generation of up to a maximum registered capacity of 236 MW was installed at six sites during the latter part of 2015-16. As at 30 June 2016 diesel generation was still installed at Bell Bay Power Station and Que River Substation.

[b] Power station registered capacity.

[c] From 2 May 2018 installed capacity increased by 2 MW due to Cluny Power Station upgrade.

[d] Mainland Tasmania energy generated is calculated as the net energy measured at the power station market and distribution connection points.

[e] Calculated as average MW divided by peak MW. Average MW calculated from total energy divided by hours in the year.

[f] King Island wind generation is calculated as the net wind output for the year from Hydro Tasmania's wind generators.

[g] Net energy from Hydro Tasmania's 900 kW wind turbine and 200kW solar installation at Flinders Island.

Table 5: Basslink imports and exports at 30 June 2013–2018

	Financial year ending 30 June					
	2013	2014	2015	2016	2017	2018
Export (GWh)	2293	3113	725	479	977	1074
Import (GWh)	251	20	2141	1067	1342	865
Net[a] (GWh)	2042	3093	-1417	-588	-365	209

[a] Positive numbers indicate net export, negative numbers indicate net import

Financial summary

Financial results

Table 6: Financial results 2014–2018

	Financial year ending 30 June				
	2014 $m	2015 $m	2016 $m	2017 $m	2018 $m
Result before fair value, impairment and tax	241.1	62.4	(65.4)	20.1	167.9
Profit/(loss) before tax[a]	182.7	191.5	(292.3)	(308.7)	168.8
Comprehensive income/(loss)	147.9	169.2	(3.6)	(181.8)	30.7
Cash flow from operating activities	243.0	25.5	17.5	117.6	357.1
Net debt	851	839	827	738	703
Weighted average cost of debt	7.39%	6.67%	5.32%	4.87%	4.90%
Capital expenditure	118.7	100.7	109.1	131.0	124.9
Total assets	5,025	5,198	5,886	6,322	5,706

[a] Profit/(loss) before tax is impacted by movements in the fair value of energy derivatives, and by the impairment of generation assets.

Five-year summary

Table 7: Financial statistics 2014–2018, year ending 30 June

	Financial year ending 30 June				
	2014 $'000's	2015 $'000's	2016 $'000's	2017 $'000's	2018 $'000's
Five-year Profile — Statement of Comprehensive Income					
Income					
Sales of goods and services	1,978,012	1,467,161	1,335,863	1,440,403	1,769,696
Other income	15,125	17,062	21,580	41,241	25,662
TOTAL INCOME	**1,993,137**	**1,484,223**	**1,357,443**	**1,481,644**	**1,795,358**
Less expenses					
Labour	149,941	126,060	124,821	129,311	140,791
Direct operating expenses	1,319,456	1,034,271	1,022,785	1,048,215	1,196,666
Depreciation and amortisation of non-current assets	88,230	92,918	100,666	109,094	116,521
Impairment of non-current assets	220,492	(232,066)	(58,697)	781	227
Finance costs	79,840	71,927	58,219	56,668	54,379
Net fair value movements	(162,110)	102,927	285,565	328,022	(1,111)
Other operating expenses	114,557	96,695	116,387	118,261	119,099
TOTAL EXPENSES	**1,810,406**	**1,292,732**	**1,649,746**	**1,790,352**	**1,626,572**
NET PROFIT/(LOSS) BEFORE TAX	**182,731**	**191,491**	**(292,303)**	**(308,708)**	**168,786**
Five-year Profile — Balance Sheet					
Assets					
Cash and cash equivalents	13,012	15,694	82,698	117,057	65,890
Investments	68,939	68,556	63,804	59,262	58,144
Receivables	241,086	250,476	380,872	368,659	387,512
Property, plant and equipment	3,969,795	4,208,087	4,628,625	4,646,203	4,474,381
Financial and other assets	731,972	654,720	730,487	1,130,795	720,178
TOTAL ASSETS	**5,024,804**	**5,197,533**	**5,886,486**	**6,321,976**	**5,706,105**
Liabilities					
Payables	176,073	164,283	315,839	318,713	347,891
Provisions	559,090	501,707	579,499	517,920	571,401
Interest bearing liabilities	864,003	855,015	910,100	854,833	769,204
Tax liabilities	555,087	569,678	564,199	472,997	470,350
Financial liabilities	1,054,837	1,052,495	1,421,142	2,192,974	1,551,703
TOTAL LIABILITIES	**3,209,090**	**3,143,178**	**3,790,779**	**4,357,437**	**3,710,549**
NET ASSETS	**1,815,714**	**2,054,355**	**2,095,707**	**1,964,539**	**1,995,556**
EQUITY	**1,815,714**	**2,054,355**	**2,095,707**	**1,964,539**	**1,995,556**
Five-year Profile — Capital Works					
Expenditure					
Generation assets	71,034	73,182	77,029	83,837	88,314
Bass Strait islands	1,164	1,461	1,676	2,883	2,592
Land and buildings	686	624	2,110	4,082	4,534
Fleet	3,646	3,905	1,818	1,931	2,748
Information systems	36,329	20,811	17,619	32,031	24,555
Renewable developments	412	334	7,680	4,662	280
Other assets	5,426	381	1,146	1,567	1,913
TOTAL CAPITAL EXPENDITURE	**118,697**	**100,698**	**109,078**	**130,993**	**124,936**

Procurement summary

Table 8: Consultancies valued at more than $50,000 (ex GST), 2017–18

Name of consultant	Location	Description	Period of engagement	Total paid (AUD)
Clayton Utz	Sydney, NSW	Legal advisors	1 July 2017 – 30 June 2018	$3,934,855
Pitt & Sherry Operations Pty Ltd	Launceston and Hobart, TAS	Engineering consultants	1 July 2017 – 30 June 2018	$799,267
AECOM Australia Pty Ltd	Melbourne, VIC	Engineering consultants	1 July 2017 – 30 June 2018	$530,330
Pitcher Partners Consulting Pty Ltd	Melbourne, VIC	Compliance and risk consultants	1 July 2017 – 30 June 2018	$503,715
Ernst & Young	Sydney, Melbourne and Brisbane	Financial consultants	1 July 2017 – 30 June 2018	$473,423
LDS Consulting	Melbourne, VIC	Marketing consultants	1 July 2017 – 30 June 2018	$465,163
Price Waterhouse Coopers	Melbourne, VIC	Financial consultants	1 July 2017 – 30 June 2018	$437,106
GHD Pty Ltd	Hobart, TAS	Engineering consultants	1 July 2017 – 30 June 2018	$345,811
DNV GL Energy	Arnhem, Netherlands	Engineering consultants	1 July 2017 – 30 June 2018	$330,219
Synergies Economic Consulting	Brisbane, QLD	Financial consultants	1 October 2017 – 30 June 2018	$304,300
COVA	Hobart, TAS	Environmental consultants	1 July 2017 – 30 June 2018	$298,983
Walsh & Company Corporate Advisory	Sydney, NSW	Financial consultants	1 July 2017 – 30 June 2018	$285,686
Parsons Brinckerhoff	Newcastle upon Tyne, UK	Engineering consultants	1 July 2017 – 31 March 2018	$265,786
Gartner Australasia Pty Limited	Melbourne, VIC	Information technology consultants	1 July 2017 – 30 June 2018	$250,875
SICC Services	Devonport, TAS	Engineering consultants	1 July 2017 – 30 June 2018	$244,499
Biosis Pty Ltd	Victoria	Environmental consultants	1 July 2017 – 30 June 2018	$212,970
Howarth Fisher and Associates	Sandy Bay, TAS	Engineering consultants	1 July 2017 – 30 June 2018	$209,659
Celsius Graphic Design	Collingwood, VIC	Marketing consultants	1 July 2017 – 30 June 2018	$205,108
Herbert Smith Freehills	Melbourne, VIC	Legal advisors	1 July 2017 – 30 June 2018	$198,467
DamWatch Engineering Ltd	Wellington, New Zealand	Engineering consultants	1 July 2017 – 30 June 2018	$189,914
KPMG Australia – Victoria	Melbourne, VIC	Financial consultants	1 July 2017 – 30 June 2018	$176,780
Bawn Consulting Group	Collingwood, VIC	Information technology consultants	1 September 2017 – 30 June 2018	$170,000
WMA Water Pty Ltd	Hobart, TAS	Environmental consultants	1 July 2017 – 30 June 2018	$168,900
BluPrint Consulting	Hobart, TAS	Stakeholder management consultants	1 July 2017 – 30 June 2018	$168,359
ESS Earth Sciences Pty Ltd	Richmond, VIC	Engineering consultants	1 July 2017 – 30 June 2018	$160,870
Page Seager	Hobart, TAS	Legal advisors	1 July 2017 – 30 June 2018	$133,033

Procurement summary (continued)

Name of consultant	Location	Description	Period of engagement	Total paid (AUD)
Martang Pty Ltd	Halls Gap, VIC	Heritage consultant	1 July 2017 – 30 June 2018	$122,360
AECOM Services Aust PL	Melbourne, VIC	Engineering consultants	1 July 2017 – 30 June 2018	$122,224
Gondwana Heritage Solutions	Oatlands, TAS	Heritage consultants	1 July 2017 – 30 June 2018	$108,191
Oakley Greenwood Pty Ltd	Margate, QLD	Financial consultants	1 October 2017 – 28 February 2018	$105,482
Woodland Management Pty Ltd	Prospect Vale, TAS	Environmental consultants	1 July 2017 – 30 June 2018	$100,150
Injury Prevention Services Pty Ltd	Hobart, TAS	Safety consultants	1 July 2017 – 30 June 2018	$95,447
Aquenal Pty Ltd	Kingston, TAS	Environmental consultants	1 November 2017 – 30 June 2018	$94,896
White Legal Pty Ltd	Brisbane, QLD	Legal advisors	1 July 2017 – 30 June 2018	$94,629
Jones Day	Sydney, NSW	Legal advisors	1 August 2017 – 30 June 2018	$90,610
E3 International Pty Ltd	Surfers Paradise, QLD	Strategic advisory services	1 July 2017 – 30 June 2018	$85,000
Quest Integrity AUS Pty Limited	Varsity Lakes, QLD	Engineering consultants	1 July 2017 – 30 June 2018	$77,920
WSP UK Limited	London, UK	Engineering consultants	1 April 2018 – 30 June 2018	$68,434
Re-Generate	Christchurch, NZ	Engineering consultants	1 November 2017 – 30 June 2018	$67,070
Risk & Emergency Management Solutions Pty Ltd	Franklin, ACT	Workplace health and safety consultants	1 July 2017 – 30 June 2018	$65,568
Deloitte Growth Solutions Pty Ltd	Hobart, TAS	Financial consultants	1 July 2017 – 30 November 2017	$64,869
Eastern Maar	Collingwood, VIC	Heritage consultant	1 July 2017 – 30 June 2018	$64,244
The20	Hobart, TAS	Advertising and marketing services	1 July 2017 – 30 June 2018	$61,911
Deloitte Touche Tohmatsu	Melbourne, VIC	Financial consultants	1 July 2017 – 30 June 2018	$59,367
Quantitative Research Group	New Town, TAS	Heritage consultants	1 July 2017 – 30 June 2018	$50,350
Total				$13,000,890
Total expenditure on 68 other consultants engaged for $50,000 or less				$1,345,405
In addition to the consultants listed in the table above, Entura engaged consultants for specialist advice in the delivery of services to external clients and Hydro Tasmania engaged other consultants on a confidential basis for specialist advice				$685,329
Total payments to consultants				**$15,031,623**

Procurement summary (continued)

Table 9: Proportion of spending on local suppliers

	2012–13	2013–14	2014–15	2015-16	2016-17	2017-18	Explanatory notes
Proportion of spending on local suppliers for the Hydro Tasmania group (%)	Mainland Australia: 68.2 Tasmania: 28.9 Overseas: 2.9	Mainland Australia: 51 Tasmania: 41 Overseas: 8	Mainland Australia: 32.4 Tasmania: 56.7 Overseas: 10.9	Mainland Australia: 48.1 Tasmania: 40.0 Overseas: 11.9	Mainland Australia: 40.6 Tasmania: 45.7 Overseas: 13.7	Mainland Australia: 31.5 Tasmania: 57.9 Overseas: 10.6	Includes Entura and TVPS
Proportion of spending on local suppliers at Momentum Energy (%)	Mainland Australia: 93.8 Tasmania: 0.6 Overseas: 5.5	Mainland Australia: 98.6 Tasmania: 0.2 Overseas: 1.2	Mainland Australia: 97.2 Tasmania: 0.7 Overseas: 2.1	Mainland Australia: 99.7 Tasmania: 0.2 Overseas: 0.1	Mainland Australia: 97.9 Tasmania: 1.4 Overseas: 0.7	Mainland Australia: 98.6 Tasmania: 0.8 Overseas: 0.6	

Table 10: Accounts due or paid within each year for Hydro Tasmania and subsidiary companies

Measure	
Creditor days: 1718 creditors with the following payment terms:	
7 days	424
14 days	322
21 days	12
30 days	1,362
Total number of accounts due for payment	28,365
Number of accounts paid on time[a]	25,722
Amount due for payment	$215,888,910.91
Amount paid on time	$187,979,521.19
Number of payments for interest on overdue accounts	0
Interest paid on overdue accounts	$0

[a] Reasons for delays include manual processing required for subsidiaries payments and identification of disputed invoices. Actions taken to improve performance include:

- Account reviews with suppliers to address payment terms and dispute processes
- Increased use of automated features in invoice system to streamline processing
- Improved reporting developed for disputed invoices

About this report

Hydro Tasmania's annual report covers the financial year from 1 July 2017 to 30 June 2018.

The report complies with the requirements of the *Government Business Enterprises Act 1995* and the associated Treasurer's instructions and guidelines for Tasmanian Government businesses.

A measure of our performance against a range of business sustainability indicators is presented on our website www.hydro.com.au/annual-report.

The Statement of Corporate Intent is an integral part of the report, providing background information about Hydro Tasmania, our operating environment and strategic direction. See page 89.

Hydro Tasmania

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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.

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Back cover image: Water travelling down Tarraleah Canal, before reaching the power station


Hydro
Tasmania