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Achievements and Challenges for 2004/2005

Achievements

- Record after tax profit of \$44.4 million, a 25 per cent increase over the previous record of \$35.5 million in 2003/2004
- Capital expenditure of \$92.8 million, including \$63.8 million on asset refurbishment
- Returns to Government of \$74 million
 - dividend \$40 million
 - income tax equivalent \$30 million
 - loan guarantee fee \$4 million
- 5.5 per cent increase in sales revenue
- Formal entry to National Electricity Market on 29 May 2005
- Full year operation of Woolnorth Bluff Point Wind Farm
- Construction of 66-megawatt Cathedral Rocks Wind Farm in South Australia
- Project work for Hydro Tasmania Consulting in Papua New Guinea, South Korea, New Zealand, Malaysia, Sri Lanka and Fiji
- Restoration of meromictic Lake Fidler in World Heritage Area
- 29,000 visitors to Hydro Tasmania's information centres
- 8,000 visitors to Hands On Energy Discovery Centre

Challenges

- Prudent management of water resources, with 11 months of below average rainfall seeing inflows at 75.2 per cent of long-term average
- Greater than expected use of thermal support from the gas-fired Bell Bay Power Station
- Preparations for National Electricity Market entry
- Planning for the future of Renewables Development following the Federal Government's Mandatory Renewable Energy Target decision
- Pursuit of project approvals for the Musselroe and Heemskirk Wind Farms, and for the Smithton to Burnie transmission line
- Focused expansion of Hydro Tasmania Consulting's client base
- Revaluation of assets and impact of new accounting standards decreasing the value of assets
- Improved safety performance as measured by the Lost Time Injury Frequency Rate
- Development of systems to embed sustainability principles into business processes



*In the year Hydro Tasmania
continued to build on its
90-year history as a sustainable,
renewable energy generator*

Chairman's Review

The past year was one of considerable achievement for Hydro Tasmania as we progressed from a successful renewable energy producer to a producer and trader in the National Electricity Market, expanded our wind farm development in Tasmania and South Australia, and broadened our client base for specialist consulting.

In the year Hydro Tasmania continued to build on its 90-year history as a sustainable, renewable energy generator by introducing sustainability principles into its business. The Sustainability Policy articulates our commitment to continual improvement and leadership in sustainability and this year we present our first sustainability report within this annual report.

Hydro Tasmania produced an excellent financial result for the year with \$44.4 million profit after tax, an increase of 25 per cent on last year's figure. This was achieved through sales revenue increasing by 5.5 per cent, expanded Consulting activities, lower debt costs and lower depreciation. Returns to Government of \$74 million were 8 per cent lower than last year due to reduction in the special dividend, as agreed with Government, and to reduced tax equivalent payments. A 7 per cent increase in costs was brought about by

running Bell Bay Power Station longer than expected due to low water storages and poor rainfall, continued preparation for entry to the National Electricity Market, and funding of growth in the Consulting business.

Total capital investment of \$92.8 million was made in the hydro-generation assets upgrade and modernisation program and wind farm developments in Tasmania and South Australia.

A number of factors adversely affected the statement of financial position presentation of net assets. In particular, our generation assets are represented in the statement at fair value. This fair value was reassessed in 2005 to incorporate the latest revenue projections, resulting in a reduction in generation asset value by \$523 million to \$2.54 billion. These revised projections reflected lower than expected real electricity prices and current low pool prices.

This asset revaluation will not have any negative impact on the business cash flows, or net profit. The combined Basslink rights and obligations make a net positive contribution to the calculation of asset value.

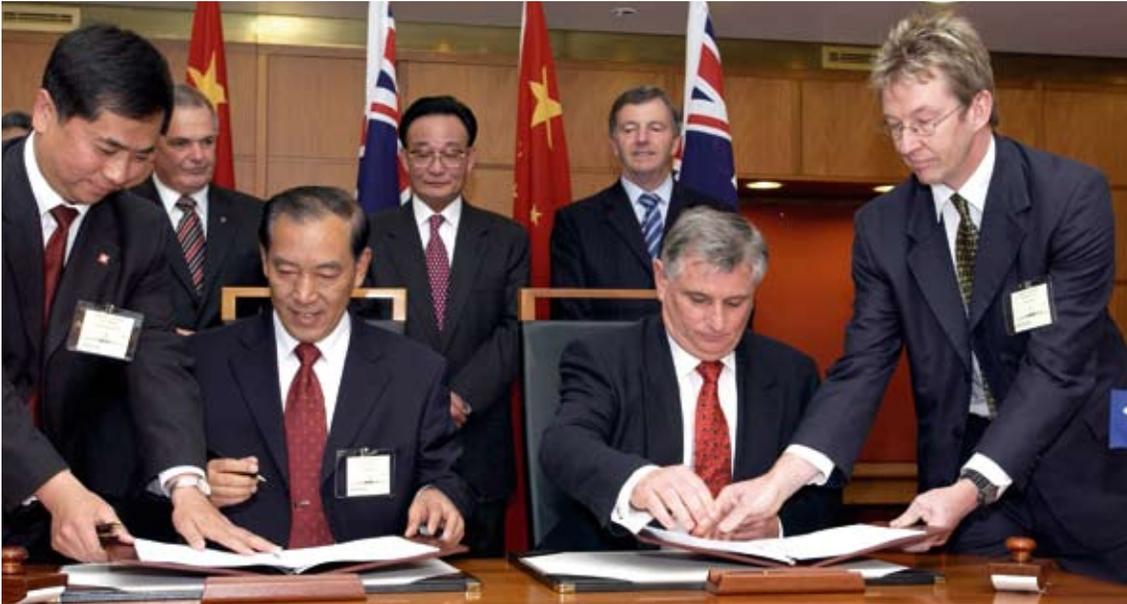
In addition, in 2005/2006 the Corporation is required to adopt new Australian Accounting Standards that are aligned to international standards. This will result in a further \$548.5 million reduction in net assets, due primarily to an increase in deferred tax liability and provision for retirement benefits.

We continue to progress our vision to be Tasmania's world-renowned renewable energy business, building on our skills and reputation to expand our horizons beyond Tasmania with increased business activities interstate and overseas. Underpinning this growth outside our traditional boundary is a philosophy of bringing the benefits back to Tasmania through increased revenue and returns to Government and enhanced skills and experience for our people.



Chairman
Dr David Crean





Signing a co-operation agreement with Chinese electricity generation company, China Datang Corporation in Canberra in May 2005

A major highlight of the year was Tasmania's entry to the National Electricity Market (NEM) on 29 May 2005, with Hydro Tasmania meeting all of its pre-conditions to become a participating market generator. When the Basslink interconnection is commissioned in April 2006, physically linking the Tasmanian electricity system to the national grid, we will begin to realise the value of the synergy of our wind and water generation as we take advantage of market conditions to fully implement our trading strategy.

The prolonged dry conditions and resulting low water storages posed a significant problem for Hydro Tasmania during the year, when 11 of the 12 months of the year recorded below average rainfall. This continued the previous sequence of seven years of inflows below average, creating a cumulative impact on Hydro Tasmania's water resources. However, prudent management and the integration of wind energy from Woolnorth and gas generation from Bell Bay Power Station ensured that Hydro Tasmania has been able to meet the growing demand for electricity. Contingency plans are in place to manage the situation if it continues over the coming summer and autumn period. The continuing low water situation, due to below average rainfall, underlines the strategic importance of Basslink, the wind farm developments and the investigation of alternative energy options into the future.

Hydro Tasmania is well positioned to continue its leadership role in the Australian renewable energy market in which it produces some 60 per cent of Australia's electricity from renewable energy sources. The renewable development and system enhancements now in hand will strengthen this position, significantly enhancing the long-term value of the business, expanding revenues and commercial returns to Tasmania.

In Tasmania, the 54-megawatt second stage of the Woolnorth Wind Farm was completed during the year and is providing valuable energy into the system. The design of the third stage, Woolnorth Studland Bay, is progressing and construction is expected to commence in 2006. The wind farms proposed for Musselroe, in Tasmania's north-east, and Heemskirk, on the west coast, still await the development approvals required for Hydro Tasmania's Board to consider the business cases for their construction.

Interstate, the 66-megawatt Cathedral Rocks Wind Farm in South Australia commenced operating during the year and is due to be completed in September 2005. Also in South Australia, we obtained development approval for a new wind farm at Waterloo. The pleasing aspect of this project was the relatively short time-frame taken for the development approvals to be given.



Work nears completion on Woolnorth Wind Farm Stage 2

The Renewables Development business is investigating the potential for developments in New Zealand and in the rapidly growing Chinese economy, where renewable energy is being recognised as an important element of China's energy 'mix'.

Our effort to remain at the forefront of research and development continued with emphasis on new and renewable energy sources. As well as supporting Hydro Tasmania's wind farm developments, we are researching renewable energy storage and hydrogen energy, and reviewing solar, geothermal and wave technologies.

The launch of the Hydro Tasmania hydrogen laboratory at the University of Tasmania in August 2004 was an exciting development and a program of valuable research has already begun.

Hydro Tasmania Consulting continued to enhance the organisation's reputation for providing high-standard consulting services in renewable energy, environmental and water management and associated sciences and technologies to clients in Tasmania, throughout Australia and overseas. Hydro Tasmania Consulting has secured important work in both Australia and overseas, winning projects in Queensland and Western Australia, Sri Lanka, South Korea, Malaysia, Fiji, Papua New Guinea and New Zealand.

The achievements of the year would not have been possible without the contribution of all employees, the senior management team, our Chief Executive Officer and my fellow Board Directors. Collectively, we have worked to build an organisation that is actively pursuing its vision to be a world-renowned renewable energy business.

Undoubtedly we are entering exciting and challenging times with great opportunities. Next year we will consolidate our entry into the National Electricity Market with the advent of Basslink. Without well above average rainfalls, we may face new challenges in managing the production of electricity and the protection of lake storages. We will see the continued expansion of our wind generation, both in Tasmania and interstate, and potentially in international markets. The Consulting business will grow further, both in Australia and overseas. We will meet all these challenges with our collective minds clearly and firmly on the quest to become a truly sustainable business that is able to provide for the needs of today without sacrificing the resources that will be required for the future.

I am confident that Hydro Tasmania has the people, resources, innovation and initiative to confidently and successfully meet all the challenges that will confront us and grasp the opportunities that will undoubtedly be revealed.





By any measure, the past year
has been one of great success
for Hydro Tasmania

Chief Executive's Report

By any measure, the past year has been one of great success for Hydro Tasmania, but with great challenges for the present and future arising from poor rainfall and resulting low water storages.

In financial terms, our energy sales increased in line with the growth in the Tasmanian economy, the Consulting business achieved higher sales to external customers and Renewables Development gained revenues from the full year of operations at the Woolnorth Wind Farm.

This all contributed to an extremely good financial result. The higher sales were reflected in improved profitability for the business and a very strong cash flow for the year. Importantly, we will be able to employ that revenue to create business opportunities that will enhance Hydro Tasmania's long-term sustainability.

Hydro Tasmania's capital program, designed to maintain and improve our assets and support growth opportunities such as wind power, is a demanding one. Because of the ongoing high capital requirements for wind power projects, Hydro Tasmania is unable to fund these projects on its own balance sheet and will be seeking 50 per cent equity partnerships in all future projects, as has occurred with the Cathedral Rocks Wind Farm in South Australia.

Future 50 per cent equity partnerships are not only important from a financial point of view but from a commercial point of view as well. Hydro Tasmania must consider the strategic and commercial advantages of any future equity partnerships.

The three lines of business model – Energy, Consulting and Renewables Development, supported by strong Corporate services – was well bedded in during the year. This structure has enabled the organisation to move forward at a good pace and to do so on a broad front.

The impact of the water situation on our business should not be underestimated. Eleven months of below average rainfall made 2004/2005 the eighth year in succession where inflows have been less than the average needed to meet electricity demand.

Accordingly, Hydro Tasmania has been obliged to make significant investment in both extensive operation of the gas-fired Bell Bay Power Station and supplementary generation to support the system in the period up to the commencement of Basslink. These steps will draw heavily on next year's cash flow.

In reporting our progress this year, we have chosen a new and more transparent approach. As well as reporting on the accomplishments of our business, we are also providing detail on our performance as a sustainable organisation.

As a generator of clean, green renewable energy, Hydro Tasmania produces sustainable energy from our water and wind resources. So it was a logical step forward for us to embrace sustainability in all our activities and combine sustainable practices with the production of sustainable energy products.

This year, for the first time, Hydro Tasmania's performance and activities across the business have been assessed against the principles of sustainability and our successes and shortcomings are reported in the sustainability report. Through the measurement and evaluation of the business' processes, activities and performance in accordance with a series of sustainability indicators, Hydro Tasmania is able to benchmark its performance against industry best practice.

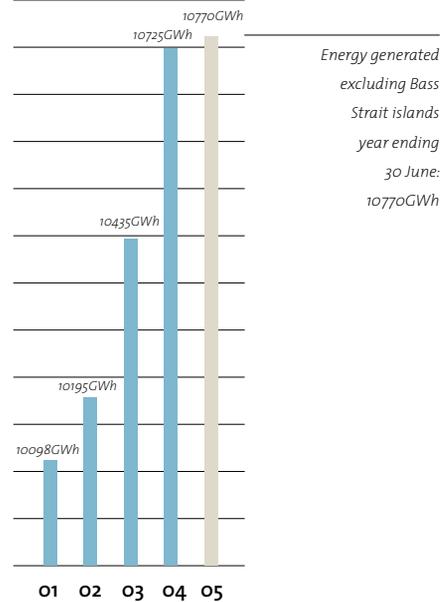
We have made considerable progress. Overall, the business achieved a level of performance that meets most sustainability criteria. However, the assessment did reveal that we are yet to achieve some aspects of hydropower industry best practice standards. The recommendations and opportunities flowing out of the examination of the past year's performance are now to be incorporated into the organisation's strategic planning process for the development of next year's Corporate Plan.

Hydro Tasmania views this as an issue of leadership.



CEO
Geoff Willis

**ENERGY
GENERATED**



We are determined to attain our goal and in doing so encourage others in our industry, our partners and suppliers, to take the same journey.

We should be under no illusions. This is a vital business initiative. Building a sustainable future for Hydro Tasmania is a proactive strategy that will enable us to achieve long-term business success and meet community and stakeholder expectations in a transparent, balanced application of economic, environmental and social tests to our business decisions and activities.

Our safety record for the year represented an improvement on the previous year, but we are still to reach best practice targets. A potentially serious diving incident at Lake Macintosh during power station operations resulted in a review of diving safety procedures. While the diver was fortunately not seriously affected, important lessons were learned such that safety procedures now require notification when underwater activity is taking place and power station operations are suspended for the duration of any dive.

A number of environmental incidents occurred during the year and we have put systems in place to prevent similar problems occurring in the future.

A review by the Auditor-General into corporate credit card use across a sample of Government businesses revealed some issues for Hydro Tasmania. As a result, we have tightened our processes to ensure we have appropriate management controls in place.

In March, Hydro Tasmania appeared before the Parliament’s annual Government Businesses Scrutiny Committee and provided detailed information on the operations of the business. These hearings are an important part of the public reporting of our business activities. They enable us to respond to the Parliament as representatives of our owners, the people of Tasmania, on issues such as the Basslink power cable project, Hydro Tasmania’s financial position, our business performance, wind power developments and our ability to continue to meet electricity demand in a time of poor rainfall and low water storages.

Undoubtedly, the major achievement for the Energy business during the year was the successful transition into the National Electricity Market. We met all our milestones and achieved the long-scheduled entry on 29 May 2005. We are now preparing for more vigorous national marketplace activity when Basslink is connected in April 2006.

Meanwhile, the major upgrade of our hydro generation assets progressed, with completion of the Trevallyn station project, albeit at a higher than budgeted cost. Work advanced at Gordon and Poatina, and new works were approved at Tungatinah. The delay in Basslink is unfortunate. In an environment of low water storages as a result of the dry autumn and lack of winter rains, the original schedule would have provided a valuable fallback. The unforeseen setback, as a result of transformer damage during shipment from Germany, brings an enormous challenge for the Energy business and all of Hydro Tasmania in that, with Basslink delayed, it will face an extra summer and autumn period when it will be required to meet Tasmania’s electricity demand from existing water, wind and thermal energy sources.

The Consulting business devoted considerable energy to enhancing business operations and taking our expertise out to new markets. The benefits of this work will be realised during the next few years, as improved systems streamline our workplace and the opening up of new markets provides an improved balance of internal and external projects.

The quality of consulting assignments reached an extremely high level with strong contributions from the Environmental Team on water management and wind farm approval projects, the Renewables Team on wind, hydrogen and research and development activities, and the Power Engineering team with innovative solutions on a range of projects for Hydro Tasmania, Transend Networks and the NEM entry program.



Work on hydro generation assets at Trevallyn Power Station

The Renewables Development business led Hydro Tasmania's wind project activity, with the Cathedral Rocks Wind Farm in South Australia coming on line, Waterloo in that State gaining development approvals and approvals progressing for Musselroe in Tasmania's north-east. The Commonwealth decision not to extend the Mandatory Renewable Energy Target program forced us to look beyond Australia for wind farm opportunities. In a positive and determined response to this adverse decision, we have identified opportunities for developments in Asia as well as several good prospects in New Zealand. This approach will continue, along with our current and planned projects in Tasmania and interstate.

The Corporate team provided important support for the business throughout the year. The gaining of the Australian Financial Services Licence, lower interest expense, adoption of new international accounting standards, improved purchasing procedures and enhancement of our information technology systems have combined to contribute to a stronger support structure for all our activities. The strengthened human resource processes have provided us with a clear people development agenda for the forthcoming year. This will ensure that we have the people and skills necessary to move forward with renewed confidence and determination.

The results of our employee survey and associated cultural audit were disappointing. The number of our people who reported they did not feel fully engaged in our business provides a clear indication that we have work to do across the organisation, listening and responding to our people. We remain committed to continuous improvement and are now placing a major focus, and devoting considerable effort, to lifting the level of internal communication and engagement of our people.

Hydro Tasmania's people achieved a great deal during 2004/2005 and contributed significantly to our success. Employees responded to the changes and realignment of our business in a very positive way as demonstrated by their ongoing commitment measured in the Staff Feedback Survey. I am confident that at all levels our people are well equipped and ready to confront the challenges of the future. The enhancements we are undertaking or have planned will ensure that Hydro Tasmania can move forward and continue to perform its essential and valuable role for Tasmania.

Hydro Tasmania is uniquely placed to build on a 90-year history as a renewable energy producer. In our quest for sustainability, we are now working to integrate sustainable practices with our sustainable production of electricity generated by water and wind. We have commenced the journey with a determination and confidence that this path will lead to a secure future for Hydro Tasmania, its people and the Tasmanian community.

Reporting Scope



Lake Burbury, part of the King River Power Development on Tasmania's west coast

The Annual Report for the financial year 2004/2005 incorporates a new approach to public reporting by Hydro Tasmania. The report has been compiled using sustainability reporting guidelines and stakeholder input, and fulfils the requirements of an annual report under the *Government Business Enterprises Act 1995*, including the audited financial statements and the Statement of Corporate Intent.

By adopting a Sustainability Policy and articulating our vision for a sustainable future, Hydro Tasmania has committed to wider reporting on the social, environmental and economic dimensions of the business. This change is in line with society's growing expectations that business will look beyond its profits for the year to contribute to the long-term wellbeing of the community in which it operates. Our community is principally Tasmania, with a growing responsibility through our wind farm developments and consulting services in mainland Australia and internationally.

Identification of what to include in this Annual Report presented a significant challenge. Traditionally, the Annual Report has reflected the main activities of each business area and fulfilled financial reporting requirements. These remain, as do reports from the Chair and the Chief Executive Officer, the annual accounts and the Statement of Corporate Intent. This report includes a separate section incorporating the Sustainability Report, an assessment of our performance and activities based on a policy initiated

by the Board and a framework developed by our own people. It sets the Corporation on the path to embedding sustainability reporting across the organisation.

It is important to emphasise that this is the first step in combining sustainability reporting with traditional reporting. It is based on our currently available information and approaches international sustainability reporting guidelines suggested by the Global Reporting Initiative (GRI), the International Hydropower Association (IHA) Sustainability Guidelines, IHA Compliance Protocols and stakeholder feedback.

As with all new initiatives there is a settling-in period and this report is no different. While the process has been thorough, it must be noted that it is not exhaustive and some areas of the business have not been fully assessed in the time available. These will be addressed in future reports. Hydro Tasmania makes a commitment to face the challenge and move forward towards fulfilling our corporate responsibility as we continue to incorporate sustainability reporting into our business strategy.

In line with our commitment to sustainability, we have engaged a qualified external assurance provider to assure our report against the AA1000 Assurance Standard for sustainability assurance and its three principles of materiality, completeness and responsiveness. The assurance report is provided on page 70.

The Business Profile

The Hydro-Electric Corporation is a registered business trading under the brand name Hydro Tasmania.

As a Government Business Enterprise operating under, and subject to, the *Government Business Enterprises Act 1995* and the *Hydro-Electric Corporation Act 1995*, Hydro Tasmania is 100 per cent owned by the State of Tasmania. Its water licence is issued pursuant to the *Water Management Act 1999*.

The Honourable Bryan Green MHA, Minister for Infrastructure, Energy and Resources, is the Tasmanian Government Minister with portfolio responsibility for Hydro Tasmania.

Hydro Tasmania operates in commercial markets and its principal business activities are:

- management and operation of major dams, infrastructure and equipment for the generation and trading of electricity and related products (Energy business)
- development of new renewable energy generation assets (Renewables Development business)
- provision of consulting and other services in renewable energy, environmental and water management and associated sciences and technologies (Consulting business).

Hydro Tasmania also provides concessional arrangements to its customers living on the Bass Strait islands. Aurora Energy Pty Ltd delivers these arrangements to those customers on behalf of Hydro Tasmania via a sub-contract, with net costs of the activity funded by the State Government as a declared Community Service Obligation (CSO).

Significant event

During the year under report, Hydro Tasmania met all its preconditions for Tasmania's entry to the National Electricity Market. Formal entry occurred on 29 May 2005.



Reece Dam



A 1.75MW wind turbine at Woolnorth Wind Farm



Hydro Tasmania's aquatic program

Organisational Chart

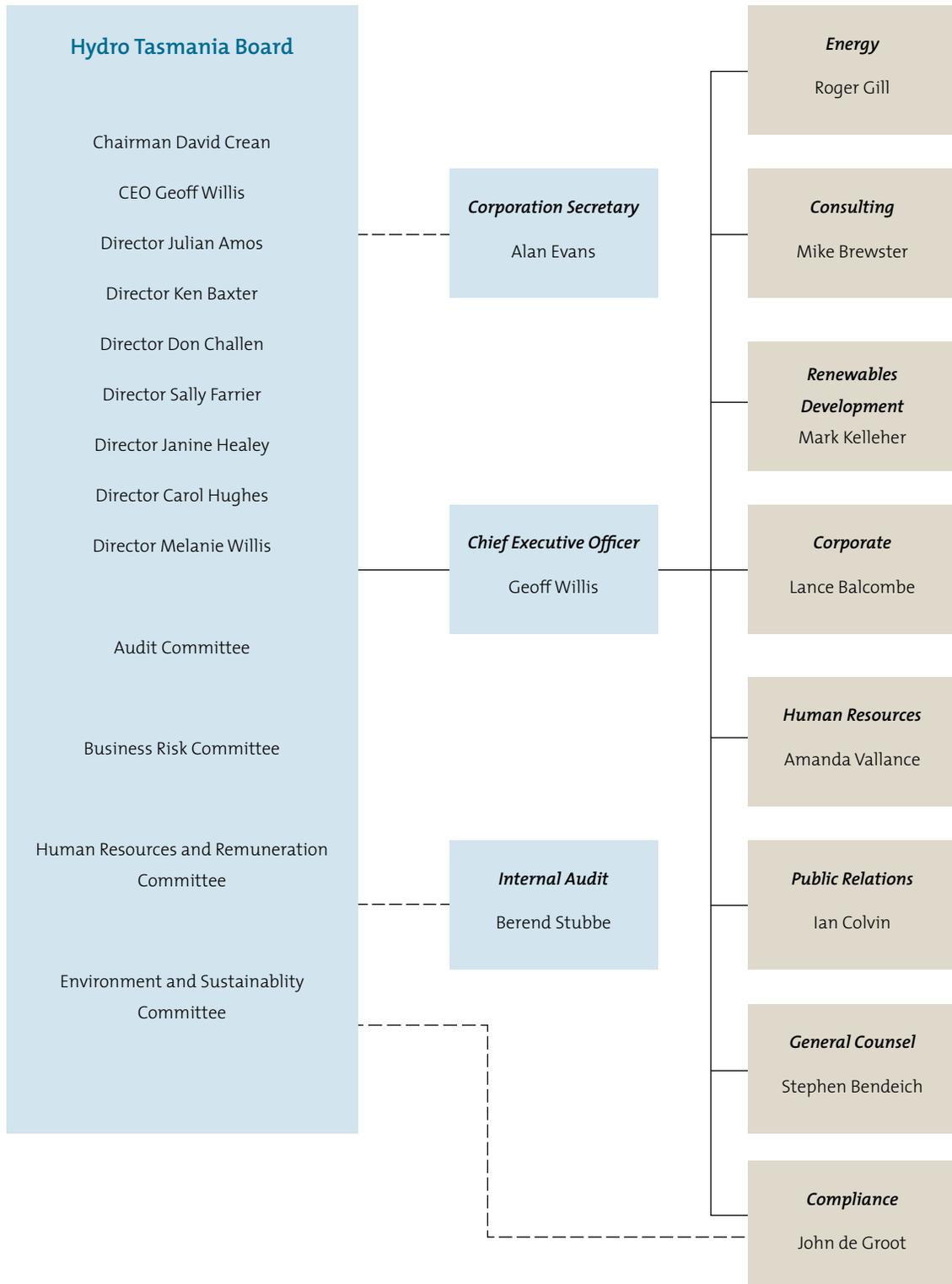


Figure 1: Organisational Chart

The business model adopted by Hydro Tasmania to undertake its principal activities is based on three interdependent lines of business, as depicted in the following diagram.

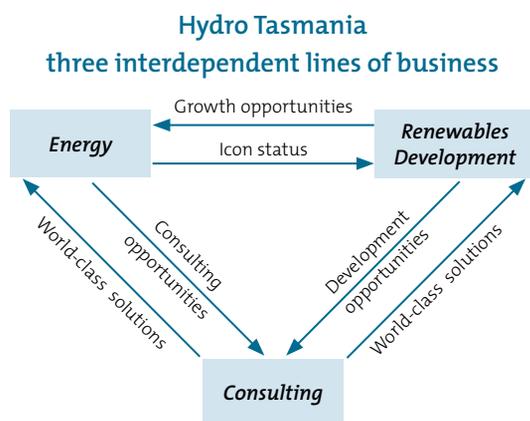


Figure 2: Three-business model

The three lines of business operate in different markets.

Energy provided wholesale electricity to Tasmania's electricity retailer, Aurora Energy Pty Ltd until 29 May 2005 when it commenced trading in the National Electricity Market.

Renewables Development identifies, designs, develops, constructs, manages and invests in wind farms and small hydro-electric plants, principally in Australia but with a development focus on New Zealand and China; it also researches and develops renewable energy, hydrogen and water solutions.

Consulting offers client solutions to customers in Australia and overseas in environment and catchment management, dams, hydropower, wind energy and power engineering.

Subsidiaries and joint ventures

The Hydro-Electric Corporation holds the following controlled entities:

	Country of Incorporation	Percentage of ownership	
		2005 %	2004 %
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
Roaring 40s Renewable Energy Pty Ltd ³	Australia	100	

1. Bell Bay Power Pty Ltd was registered on 20 December 2001.

2. Lofty Ranges Power Pty Ltd was registered on 26 April 2002.

3. Roaring 40s Renewable Energy Pty Ltd was registered on 29 November 2004.

Details of joint ventures in which Hydro Tasmania is involved can be found in the Financial Statements at page 112.

Countries where offices are located

Australia: Hobart, Melbourne, Adelaide

Papua New Guinea: Port Moresby

Organisation scale

891 employees as at 30 June 2005 (including directors)

Energy	384
Renewables Development	29
Consulting	370
Corporate Office	108
– energy generated	10,770 gigawatt hours
– total revenue	\$461.8 million
– total capitalisation (equity)	\$1537.6 million
– value added (economic profit)	\$36.3 million
– total assets	\$3.2 billion

Stakeholders

Board and senior management

Employees

Shareholder Ministers

Government and Departments – State and Federal

Parliamentarians

Recreational, industry and community groups where our activities meet

Media – national and local

Goods and services suppliers

Market customers (Energy, Renewables Development and Consulting)

Tasmanian community

Directors and Board Committees

The Hydro Tasmania Board

Clockwise from centre front:

Dr David Crean, Janine Healey,

Dr Julian Amos, Don Challen,

Ken Baxter, Sally Farrier,

Melanie Willis, Carol Hughes

and Geoff Willis



Dr David Crean (54) was appointed a director of the Hydro-Electric Corporation on 12 July 2004 and chairman on 24 September 2004. He was State Treasurer from August 1998 to his retirement from the position in February 2004.

He was also Minister for Employment from July 2002 to February 2004. He was a Member for Buckingham in the Legislative Council from 1992 to February 1999, and then for Elwick until May 2004. From 1989 to 1992 he was the Member for Denison in the House of Assembly. From 1993 to 1998 he held Shadow Portfolios of State Development, Public Sector Management, Finance and Treasury. He graduated from Monash University in 1976 with a Bachelor of Medicine and Bachelor of Surgery.

Geoff Willis (57) has been the Chief Executive Officer since 8 March 1999. Prior to this appointment, Mr Willis was Managing Director, Amcor Paper Group. He has a Bachelor of Commerce degree and a Masters degree in Business Administration, and has completed the Executive Program at Stanford University. Mr Willis is Chairman of the Energy Supply Association of Australia's Environment Committee, Deputy Chairman of the Tasmanian Symphony Orchestra and Chairman of Colorpak Limited. Mr Willis is a Member of the Australian Institute of Company Directors.

Dr Julian Amos (59) was appointed to the Board on 20 May 1999. He has a PhD in Botany and was a Cabinet Minister in the Tasmanian Parliament with the portfolios of Primary Industry, Energy and Forests. He was the founder of, and currently conducts, a business management consultancy

specialising in strategic positioning, negotiating skills and dispute resolution. He is Chairman of Sun Aqua Pty Ltd and EMerchants Holdings Pty Ltd (both Queensland-based companies) and chairs a Management Advisory Committee for NSW Fisheries. Dr Amos was also a director of the Office of the Minister for Agriculture, Forests and Lands in NSW and the inaugural executive officer for Salmon Enterprises of Tasmania (Saltas), the Tasmanian salmon industry's representative body.

Ken Baxter (61), appointed to the Board on 6 November 1996, is a Strategic Management Consultant. He has a Bachelor of Economics degree from the University of Sydney. He is a Fellow of the Australian Institute of Management, Fellow of the Australian Institute of Company Directors and a Member of the Academy of Political Science (New York). He is Chairman of AVT Bioplasma Ltd and Computronics Ltd. He has been senior policy adviser to the Chief Secretary of the Government of Papua New Guinea since 1999. He has held the positions of Chairman of the Australian Dairy Corporation and Chairman of the Australian Dairy Research and Development Corporation, Chairman of the Council of Australian Governments Electricity Reform Committee, member of the COAG Micro-Economic Reform Committee, Director-General of the NSW Premier's Department, Secretary of the Department of Premier and Cabinet in Victoria and Director of the Sydney Organising Committee for the Olympic Games (2000). He has held the positions of Commissioner of the Australian National Railways Commission and Director of the Baker Medical Research Institute.

Don Challen (55) was appointed to the Board on 22 March 1993. Currently Secretary of the Tasmanian Department of Treasury and Finance, Mr Challen has a Masters degree in Economics. He is a Fellow of the Australian Institute of Company Directors, a Fellow of CPA Australia and an Honorary Fellow of the Finance and Treasury Association. Mr Challen is Chairman of the Tasmanian Public Finance Corporation and is a member of the Financial Reporting Council. He previously held the positions of Reader in Economics at the University of Tasmania, Director, Office of the Economic Planning Advisory Council and Managing Director of the Tasmanian Development Authority.

Sally Farrier (41) was appointed to the Board on 13 December 2004. Ms Farrier is a director of Farrier Swier Consulting in Melbourne and a member of the Victorian Water Trust Advisory Council. She specialises in energy and water reform, regulation and governance. Her experience spans a broad range of Australian, New Zealand and international projects, including significant involvement in the Victorian electricity and gas reform processes. Ms Farrier has a Bachelor of Engineering, a Masters in Business Administration, and a Postgraduate Diploma in Applied Finance and Investment Analysis. She is a member of the Institute of Securities, Finance and Banking, the International Water Association and the Australian Institute of Company Directors.

Janine Healey (46) was appointed to the Board on 9 September 2002. Currently a Chartered Accountant with R.J. Ruddick & Co, Ms Healey has wide-ranging commercial experience, particularly in the areas of commercial taxation advice, business structures, and planning and cash flow management. Ms Healey has a strong history of community involvement in Tasmania which includes serving as a member of the University of Tasmania Audit and Finance Committee (including a term as Chair), Treasurer of the Launceston Chamber of Commerce, Director of the Inveresk Railyard Development Authority (including Chair of the Audit Committee), Director of the Female Factory Historic Site Ltd in Hobart and Director and Chair of the Audit Committee of the Port of Launceston Pty Ltd. Her professional memberships include Chairman of the Taxation Institute of Australia (Tas) and Fellow of the Institute of Chartered Accountants.

Carol Hughes (58) was appointed to the Board on 18 May 1999, and is a qualified lawyer. She has practised for a number of years as a barrister and solicitor, predominantly in the areas of commercial and family law, and more recently in administrative law as Tasmanian Director of

the Social Security Appeals Tribunal. Since 1979, Ms Hughes has been actively involved in community organisations, and has served on several boards, including Terrapin Puppet Theatre, the Australian Women's Education Coalition, Advocacy Tasmania and the Tasmanian Council on AIDS and Related Diseases. She is currently Manager of the Resource Planning and Development Commission, a Trustee of the Southern Regional Cemetery Trust, and a member of the Nomenclature Board.

Melanie Willis (40) was appointed to the Board on 13 December 2004. Prior to her current role, Ms Willis was Director Investment Banking with Deutsche Bank, Senior Vice President with BT Alex Brown, Manager Structured Finance with Westpac Corporate Finance and a senior consultant with Arthur Andersen. She has a Bachelor of Economics, a Diploma from the Securities Institute of Australia, a Master of Taxation and a Diploma from the Australian Institute of Company Directors. Ms Willis is also an associate member of the Institute of Securities, Finance and Banking, a member of the Australian Institute of Company Directors and the Taxation Institute of Australia.

Alan Evans (54) was appointed Corporation Secretary on 15 November 2004. He holds a corporate administration and law degree from Curtin University in Western Australia. Mr Evans has substantial Australian and international experience in the energy, minerals processing and mining industries. He is a Fellow of the Chartered Secretaries Australia and the Institute of Corporate Managers, and a member of the Australian Institute of Company Directors.

Board Meetings attended year ended 30 June 2005

	Ordinary meetings held while a Board member	Attended
Hon D M Crean	12	12
Hon P E Rae	3	3
G L Willis	12	12
J J Amos	12	11 *1
K P Baxter	12	8 *3
D W Challen	12	12
S M Farrier	7	7
J M Healey	12	12
C A Hughes	12	11 *1
G A Kennedy	5	5
M V R Willis	7	7

* Leave of absence granted for non-attendance

Board Committee Structure

Committees play an important part in guiding the Corporation on specific governance issues. Committees are able to give full attention to important corporate issues and make informed recommendations to the full Board, which makes the final decisions.

The following is the current membership and a brief overview of the responsibilities of each committee.

Audit Committee

JM Healey (Chair), KP Baxter, DM Crean, MVR Willis, with management support from B Stubbe.

The Committee operates under an Audit Committee Terms of Reference with responsibilities including to:

- oversee the external financial reporting by the Corporation and provide an independent review of financial information presented by management to regulators
- oversee the scope and quality of audits conducted by the internal auditor
- meet with the external auditors to discuss their audit scope and results
- determine the adequacy of the Corporation's systems of internal controls and risk management
- receive reports and assurances on matters of compliance with laws, regulations and internal policy and review corrective actions taken.

The Committee meets at least quarterly and reports quarterly to the Board.

Business Risk Committee

DW Challen (Chair), SM Farrier, GL Willis, MVR Willis, with management support from L Balcombe, S Halliday and J Minchin.

The Committee's responsibilities are to:

- ensure constant development of risk management principles throughout the organisation and advise the Board on risk management issues and strategies
- sponsor the Integrated Business Risk Management (IBRM) program
- review and consider the consolidated profile of Hydro Tasmania's major risks
- review and endorse IBRM, Treasury, Marketing and Trading, and Dam Safety risk management policies for Board approval
- on behalf of the Board, monitor overall risk management performance.

The Committee meets at least quarterly.

Human Resources and Remuneration Committee

JJ Amos (Chair), KP Baxter, CA Hughes, GL Willis, with management support from A Vallance.

The Committee's responsibilities include:

- reviewing and advising the Board on human resources management policies and strategies
- overseeing the annual safety plan and safety reports
- reviewing and advising the Board on employee relations
- monitoring the effectiveness of performance and development programs
- reviewing the performance and effectiveness of the Corporation's remuneration, benefits and succession planning strategies.

The Committee meets at least quarterly.

Environment and Sustainability Committee

JJ Amos (Chair), DW Challen, SM Farrier, GL Willis, with management support from R Gill, H Locher and A Scanlon.

The Committee's responsibilities are to:

- advise the Board on Hydro Tasmania's environmental and sustainability policies
- review the performance of Hydro Tasmania's Environment and Sustainability Management System
- review Hydro Tasmania's environmental and sustainability programs and performance
- examine strategic environmental issues including relations with stakeholders, new legislation and new government and industry initiatives
- commission environmental audits and studies to address issues of concern or to verify information
- endorse for the Board the approved annual Sustainability Report.

The Committee meets at least quarterly.

Corporate Governance Committee

DM Crean (Chair), JM Healey, CA Hughes and GL Willis, with management support from L Balcombe, S Bendeich and A Evans.

The Committee's responsibilities are to:

- review and advise the Board in relation to the Terms of Reference of Board Committees
- monitor and report to the Board as appropriate on developments in duties of Hydro Tasmania directors and in corporate governance practices generally
- monitor the application of Hydro Tasmania's constituent legislation (the *Government Business Enterprises Act 1995* and the *Hydro-Electric Corporation Act 1995*)
- maintain and review, as necessary, Hydro Tasmania's Statement Identifying the Guidelines for the Roles and Responsibilities within the Corporation
- conduct and review, as necessary, Hydro Tasmania's processes for assessing whole of Board, Board Committee and individual director performance
- sponsor continuous improvement in Board procedures and practices

- monitor and review reporting of governance matters in Hydro Tasmania's Annual Report
- develop for the consideration of the Board, corporate governance standards which will compare favourably with current best practice.

The Committee meets at least quarterly.

Compliance

A senior officer of the Corporation oversees performance in relation to all compliance obligations. This role reports to the Chief Executive Officer and has direct access to the Board.

CEO Performance

The Board also maintains a formal process for the evaluation of the Chief Executive's performance. The formal evaluation is based on specific criteria, including the Corporation's business performance, the extent to which longer-term strategic objectives are being achieved and the development of the Corporation's people at all levels of the organisation. This assessment is structured and conducted by the Board and includes the requirements under the *Government Business Enterprises Act 1995*.

Board Processes

The Board conducts a self assessment process through an annual evaluation questionnaire to ensure an overall continuous improvement process in Board procedures and practices.

Energy



*The Energy business is transforming
itself into a sustainable, competitive,
market-oriented business*



Roger Gill

“The hydro operations delivered a very strong cash flow contribution to Hydro Tasmania in a year which demanded careful storage management.”

*Roger Gill
Executive General Manager Energy*

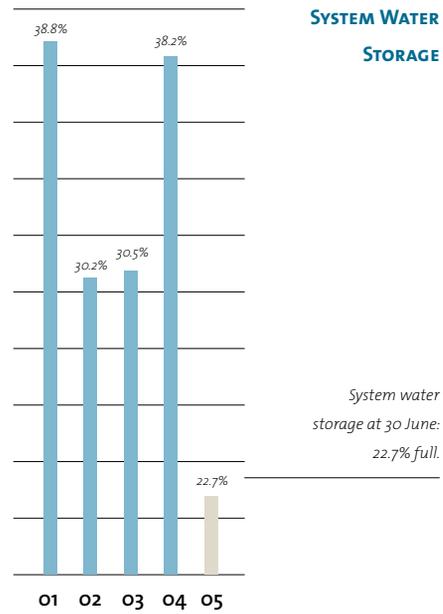
The Energy business takes care to improve and grow Hydro Tasmania’s capability in hydro-generation by managing the hydro assets, including 29 power stations and 54 major dams, and trading electricity and energy products.

This was a successful year for the Energy business with the highlight being the successful entry to the National Electricity Market (NEM). Other successes included building trading capability, continued asset upgrades and modernisation and managing its water resource in challenging conditions.

The Energy business is transforming itself into a sustainable, competitive, market-oriented business and, with this focus, is concentrating on consolidating its market activities and continuing asset refurbishment, while managing risks to maintain long-term opportunities. To this end our next big goal is to be a profitable competitor in the NEM.



Oliver Jessup of the Trading Portfolio Group analysing energy supply graphs



National Electricity Market entry

After three years of preparation, entry to the NEM occurred on schedule and without incident on 29 May. Handing over generation control to the National Electricity Market Management Company (NEMMCO) went smoothly, as did the start of trading in the spot market. Systems have been performing well and continue to be refined awaiting connection to the national electricity grid through the Basslink interconnector.

Trading

The trading portfolio group was well prepared for the start of spot market trading at NEM entry, with a capable team working well with the production team to manage scheduling and bidding in this challenging time of low storage and inflow. The prices posted in the market are indicative of the value of our water in low yield times. Contract trading has commenced, and the group is preparing for more activity after Basslink commissioning. Renewable Energy Certificates continued to sell although this year the prices have drifted lower.

Sales revenue

Despite the storage challenges, a 5.5 per cent increase in sales on last year provided good returns to the Tasmanian Government and strong cash flow to fund the ongoing asset upgrade and modernisation program and Hydro Tasmania's growth.

Generation

The continuing low rainfall has seen the business record its eighth driest system yield on record. This followed seven consecutive years of below average rainfall. Storages ended the year at a low 22.7 per cent, 15.5 per cent lower than at the same time last year. The Energy business has faced this challenge with a range of improved generation and water management systems and mitigating actions, including reassessing and rescheduling maintenance work and increased generation from the gas-fired Bell Bay Power Station. Cloud seeding added valuable capacity, although opportunities for cloud seeding were diminished this year in line with the low rainfall.



The successfully recommissioned Tungatinah No. 5 transformer

Asset program

Energy continued to implement the 10-year asset upgrade and modernisation program. During 2004/2005, Energy invested \$63.8 million in its capital expenditure program and made significant progress on the upgrade and modernisation of Gordon station, Trevallyn station, Tungatinah switchyards and the Poatina Re-regulation Pond. Internal approval was received to commence a \$36 million upgrade program for Tungatinah station over the next four years. Key alliances have been established for the upgrade and modernisation program to ensure that Energy achieves the best performance from its suppliers and hence the best outcome for its stations.

A significant cost over-run on the Trevallyn refurbishment has resulted in a full review of project management practices and changes to management systems.

The Environmental Management System, certified this year to ISO 14001 standard, has been implemented and has increased environmental responsibility and awareness on all projects and successfully reduced operational risks to the environment.

Safety

The safety and wellbeing of our staff remains a prime driver for the Energy business. Our goal is “no harm to anyone, anytime”. Although a decrease in workplace injuries was reported over the last 12 months, the number of injuries remains above the target but below industry average. Hence, considerable effort will take place over the coming year by implementing the new safety plan and continuing to raise safety awareness.

Future business challenges

The particular challenges for the Energy business in the forthcoming year are to continue to manage water storages to meet electricity demand, trade successfully in the National Electricity Market and progress the asset management program on schedule and on budget.

Basslink



The Basslink cable comes ashore

The Basslink interconnector project will provide the means for Hydro Tasmania to supply renewable energy to the national electricity grid and to maximise trading opportunities in the National Electricity Market. It will enable:

- substantial drought-proofing of Tasmania's electricity system
- stimulation of business growth in Tasmania via access to a more secure electricity system
- further development of Tasmania's world-class renewable energy resources
- Tasmania to make a major contribution to Australia's greenhouse gas abatement responsibilities.

Basslink is being developed by Basslink Pty Ltd, a subsidiary of British company National Grid, which will own and operate the link. Basslink Pty Ltd has contracted the engineering, procurement and construction (EPC) of Basslink to a consortium comprising Siemens Limited and Pirelli Cavi e Sistemi Energia S.p.A.

The project suffered a major setback this year, when the transformers for the converter stations were damaged in transit from Germany. This led to the commissioning date being revised from November 2005 to April 2006.



NEM team inspection of Basslink Converter Station at George Town

Manufacture of the six replacement converter transformers started in April with delivery expected in December. The remaining Basslink construction program was not affected by the transformer damage and remained on schedule. The delay in Basslink commissioning means potential earnings are lost over a crucial summer period when increased demand in Victoria could raise the market spot price. It will, importantly, mean an extended period in which to manage low water levels as Hydro Tasmania continues to meet the full demand of the Tasmanian market in the period until Basslink is commissioned.

At the end of the reporting year the last of the three lengths of cable was being laid in Bass Strait, the land cable installation in Tasmania and Victoria was completed, jointing and sealing was nearly complete and manufacturing of the six replacement converter transformers was 50 per cent complete.

Three construction incidents occurred during undersea cable installation operations, requiring replacement of three sections of the cable. Two of these incidents occurred in the reporting period. Testing on the repaired cable sections was undertaken to ensure the integrity of the cable for operations.

Renewables



*Over the past six months
we have put significant effort
into investigating and
assessing new markets*

Renewables **Development**



Mark Kelleher

“The Woolnorth Wind Farm paid off handsomely in its first year of operation and based on this experience we are confident in the growth prospects further afield.”

Mark Kelleher

General Manager Renewables Development

Hydro Tasmania’s Renewables Development business is committed to profitably developing and operating renewable energy projects in competitive and growing markets, with a strong focus on wind and hydro technology. It is also involved in research and development with projects covering wind-grid stability, energy storage, hydrogen and other emerging renewable energy or related technologies.

Its business goals are :

- growth – to achieve a portfolio of investments in 1000 megawatts (MW) of wind and hydro generation assets in our chosen markets
- financial – to provide commercial returns to shareholders commensurate with risk
- environment – to develop and operate projects in a manner that reflects best practice environmental management
- social – to deliver benefits to the communities in which we operate, including clean energy, employment opportunities, industry development, infrastructure investment, community consultation and support.



The 66MW Cathedral Rocks Wind Farm in South Australia

The 2004/2005 financial year saw considerable progress as well as some difficult challenges for the Renewables Development Business.

Woolnorth Stage 2 was completed on time and on budget and, at a time of low water storages, has been an important source of renewable energy to the Tasmanian grid over the past twelve months.

Woolnorth Stages 1 and 2 are now known as Woolnorth Bluff Point Wind Farm, it is now 64.75MW, and is world-class in terms of wind resource, performance and the application of environmental practices. In 2005, Hydro Tasmania received the Tasmanian Award for Environmental Excellence in the Business Environmental Responsibility and Leadership section for the approaches it used in developing and operating the Woolnorth Bluff Point Wind Farm.

Construction of the 66MW Cathedral Rocks Wind Farm in South Australia, owned by a 50/50 joint venture between Hydro Tasmania and world-leading Spanish wind developer EHN, is in its final stages, with all 33 Vestas 2MW turbines erected, and on track for final commissioning by September 2005.

Approvals have been gained for a number of our other major Australian wind farm developments, including Woolnorth Studland Bay in Tasmania and Waterloo in South Australia. The Musselroe and Heemskirk Wind Farms are in the final stages of approval consideration.

Commencement of construction of these projects however is dependent upon securing revenue agreements for

Renewable Energy Certificates with retailers. The market for these has been difficult following the Federal Government's decision during the year not to extend the Mandatory Renewable Energy Target beyond existing 2010 levels.

Over the past six months we have put significant effort into investigating and assessing new markets in which to apply our world-leading renewable energy capability, and have identified very good prospects for growth outside Australia in countries where there is strongly growing demand and policy support for renewable energy. As part of this process we also identified a number of potential partners who are keen to partner Hydro Tasmania in developing and operating renewable energy assets.

We have been firming up prospects in New Zealand, and work over the past twelve months has confirmed that the market environment in New Zealand is attractive for renewable energy. Two joint venture opportunities with local partners are now well advanced.

Asia has been identified as the most substantial market opportunity, and our initial activities have been focused on China. Until recently China has had little wind generation technology, however it has now enacted a new renewable energy law targeting 20,000MW of wind development. Therefore Hydro Tasmania has found itself very well placed to make an important contribution to China's emerging industry. One example of this was demonstrated by signing a co-operation agreement between Hydro Tasmania and the largest Chinese electricity generation company, China Datang Corporation in Canberra in May 2005.



Construction work at Cathedral Rocks Wind Farm

In addition to the main wind farm development program, we have been at the forefront of a range of innovative research and development activities over the past year. The research and development program focuses on support for the wind program, research into renewable energy storage and hydrogen technologies, and has also included a review of solar, geothermal and wave technologies.

The support for the wind program has addressed key technical issues to facilitate maximum potential for Hydro Tasmania's wind farm development.

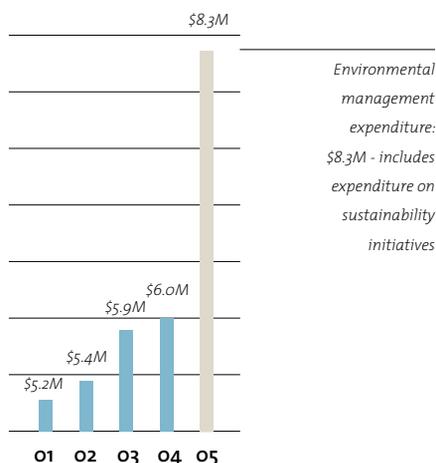
Three key projects are currently in progress :

- a joint venture with Lloyd Energy Systems for the provision of a wind/thermal energy storage (carbon block) solution to meet growing demand for renewable energy on King Island
- the Cape Barren Island wind and hydrogen system which has now been selected by the Federal Government as the preferred option for the island
- a hydrogen vehicle program for Tasmania which has support from the Federal Minister for the Environment and the Tasmanian Government.

The two hydrogen projects are being undertaken as part of an important alliance between Hydro Tasmania and the University of Tasmania.

Hydro Tasmania's Renewables Development business has also continued to play an important renewable energy industry role through our substantial involvement in a

ENVIRONMENTAL MANAGEMENT EXPENDITURE



number of major industry associations. Renewable Energy Generators of Australia (REGA) has provided high-level representation for Australia's major renewable generators and participation in international bodies such as the World Wind Energy Association (WWEA), International Hydropower Association (IHA) and the International Solar Energy Society (ISES). The Renewable and Sustainable Energy ROUNDTABLE has facilitated greater industry collaboration within Australia as well as receiving Australian Greenhouse Office support for its presence at the World Energy Congress. We continue to provide the policy and governance directorate for the Australian Wind Energy Association (Auswind) which provides industry leadership on the technical, regulatory and environmental issues that are shaping the Australian wind industry.

Future business challenges

The immediate and ongoing challenge for the Renewables Development business is to adopt and develop a business model which will progress its renewable energy development program and take the business into new markets.

Consulting



*Hydro Tasmania Consulting
recognises it is important
to remain focused on enhancing
business outcomes for its clients.*



Mike Brewster

“Our people delivered a number of unique and innovative solutions in places as far apart as Tungatinah switchyard in Tasmania and the shores of South Korea”.

Mike Brewster

General Manager Consulting

Hydro Tasmania Consulting is the knowledge engine of the Corporation, committed to providing innovative and sustainable solutions to clients locally, across Australia and increasingly overseas.

With a staff of 370 experienced and dedicated people, the business offers services in renewable energy, catchment and environmental management and power engineering. Its key business objectives are to:

- operate a line of business which delivers a sustainable commercial return
- enhance business outcomes for clients
- pursue growth opportunities consistent with the above two aims.

During the past year, Hydro Tasmania Consulting continued to enhance its reputation through its ability to win work in a diverse range of locations against strong national and international competition, from Queensland and Western Australia to Sri Lanka and Papua New Guinea (PNG).



Hydro Tasmania's aquatic program

The business delivered a sound financial contribution, and undertook several major change projects aimed at ensuring its long-term sustainable success through such things as broadening its customer base, expanding its national and international operations, improving the effectiveness of its systems and developing its people.

Hydro Tasmania Consulting continues to provide a significant level of services to clients within Hydro Tasmania and aims to achieve a 50/50 balance between external and internal clients.

Growing the revenue base

One of Hydro Tasmania Consulting's key aims for the year was to diversify its client base. External revenue from consulting services grew by \$2.4 million from last financial year, thereby exceeding its target by over \$1.4 million. Other external revenue grew by \$700,000 over the year. This additional revenue has come from a combination of new local, national and international clients, as well as growth from a number of existing clients.

Specific growth-related achievements included:

- opening an office in Papua New Guinea which has exceeded expectations in the first eight months of operations
- winning a number of international projects for new clients in a range of locations such as Sri Lanka, South Korea, Malaysia and Fiji

- the expansion of the Melbourne and Adelaide offices to meet increased customer demand
- increased use of Consulting services in the Tasmanian electricity industry, in particular by Transend Networks Pty Ltd.

Global consultant

The demand for clean, green renewable energy solutions in Asia in particular has opened up a number of business opportunities for Hydro Tasmania Consulting in addition to the projects being undertaken in Australia.

Tsunami response

After the devastation caused by the tsunami of Boxing Day 2004, Hydro Tasmania Consulting, on behalf of the Tasmanian Government, undertook a three-week study in Sri Lanka to assess where the State's commitment of \$1 million could best be deployed in the rebuilding effort.

Continued support for Energy and Renewables Development

Hydro Tasmania Consulting continues to deliver a number of programs for the other lines of business in Hydro Tasmania. These include:

- major infrastructure upgrade and maintenance program (Gordon and Trevallyn dam refurbishment projects)



Local officials and Hydro Tasmania Consulting's Tsunami Relief Project Team near Hambantota in Sri Lanka

- dam safety program
- Environment & Sustainability Management System and Sustainability Program
- aquatic program
- cultural heritage program
- renewable energy policy advice.

Enhancing business outcomes for clients

Hydro Tasmania Consulting recognises it is important to remain focused on enhancing business outcomes for its clients. Prime examples of this include:

- design services for the Cathedral Rocks Wind Farm, enabling the continued expansion of Hydro Tasmania's portfolio of renewable energy generation
- NEM compliant metering and Frequency Control Ancillary Services for the Energy business to enable Hydro Tasmania to enter the National Electricity Market
- providing training to senior PNG power engineers to equip them with the expertise to operate their hydropower stations more efficiently as part of the Rouna 2 upgrade project
- in partnership with Parsons Brinckerhoff, management of the environmental studies undertaken for the Port of Melbourne's Channel Deepening Project, and preparation of the Environment Effects Statement. The

business also managed the community consultation and stakeholder communications program for the Port of Melbourne

- advice to Melbourne Water on low greenhouse technology options to support water desalination systems
- design, installation and commissioning of a number of systems for Transend Networks substations to create an innovative distributed SCADA system. The new system provides a number of efficiencies including significant reductions in the time required for outages.

Business improvements

The year has also involved the delivery of a number of improvement projects aimed at setting the business up for long-term success.

The Strategic Linkages program enables staff to link their roles to the key strategic aims of Hydro Tasmania and the Consulting business.

The development of a distinct Hydro Tasmania Consulting brand assists in market positioning as a global niche consultant. The brand is supported by an advertising campaign and a suite of new promotional material.

The Dupont Safety Program raises the awareness of responsibility that all staff carry for each other's safety and the need to be proactive in safety matters. The positive result of this program is evident in the improved general attitude of the business towards safety. The business recognises, however, that these challenges will increase as it undertakes further work overseas.

Future business challenges

The challenges for Hydro Tasmania Consulting are to grow its business and to progress towards a goal of 50/50 proportion of its revenue from internal and external work.

Corporate

Services



Corporate **Support Services**



General Manager Corporate, Lance Balcombe

Corporate **Division**

2004/2005 proved a rewarding year for Corporate in its role of supporting governance and providing advice and support to the lines of business. Highlights were the contributions made to the National Electricity Market entry and the Efficiency and Effectiveness Program. Each of the groups within Corporate - Finance, Treasury and Business Risk, Legal Services, Procurement and Information Technology - made significant contributions to preparing Hydro Tasmania for increasing activity in competitive markets for energy products, renewable energy developments and consulting services.

NEM entry

The contribution by Corporate to National Electricity Market (NEM) entry was significant and included attaining Australian Financial Services Licences for Hydro Tasmania and Bell Bay Power Station to trade financial instruments in the electricity market; establishing a robust compliance framework to monitor and audit compliance with all Australian Financial Services Licence requirements; implementing the IT infrastructure, support, governance and disaster recovery planning required for NEM operations; establishing a Middle Office for managing market risk; and implementing new financial trading contracts to replace previous energy supply contracts.

Capital structure

During the reporting year, Corporate undertook a critical review of Hydro Tasmania's balance sheet and financial structure. Significant changes arising from the review of asset valuation and from implementing new

internationally-compliant Australian accounting standards were of particular relevance in this review. Corporate is continuing to work to ensure that Hydro Tasmania's financial structure remains suitable for competitive activities.

Efficiency & Effectiveness Program

Work commenced on this Corporation-wide program to review Hydro Tasmania's expenditure with the aim of achieving more efficient use of resources. This review involves the critical evaluation of current expenditure and will benchmark our costs against similar-sized organisations. In addition, current expenditure programs are being assessed to ensure priorities align with current strategic objectives. The program will continue into 2005/2006.

Finance group

The Finance group played a critical role in implementing new accounting standards and gaining the Australian Financial Services Licence. Other noteworthy achievements were the review and improvement of performance reporting to the Board, integration of new maintenance and inventory systems and a new payroll system into the financial system and redefining taxation arrangements between Hydro Tasmania and each wholly owned subsidiary. Corporate Finance also participated in the external financing of the Woolnorth Bluff Point Wind Farm project.

Treasury & Business Risk group

Important to NEM entry was the establishment of a Middle Office to monitor trading activities and progressing the implementation plan for new accounting standards on financial instruments and derivatives contracts. Additional achievements included establishing a Compliance Plan, improved processes and savings on insurance placements and probabilistic work on the Integrated Business Risk Management system.

Legal Services group

Legal Services recruited additional staff to supplement existing resources and skills. Support to the business focused on contractual arrangement for NEM entry, major strategic projects and compliance, as well as managing dispute-related matters affecting the Corporation. Legal Services provides on-going governance support through review of the Corporation's activities and the provision of advice to the Board and Executive Leadership Team.

Significant legal input to NEM entry included the acquisition of the Australian Financial Services Licence,

the shift from energy supply contracts to financial derivative contracts, revised contracts for the electricity grid connection agreements, contractual arrangements covering the future operation of Basslink and increased legal compliance requirements.

Other strategic projects progressed during the year were the contracts for refinancing the Woolnorth Bluff Point Wind Farm and the contracting models for the generation asset upgrade and modernisation projects.

Information Systems group

A significant contribution was made through the installation and integration of IT infrastructure requirements for NEM entry, along with IT support arrangements, governance and disaster recovery plans. Other important contributions were made in commencing an Electronic Document Management system rollout, improving regional IT and interstate office networks, commencing disaster recovery plans and security audits for the computer networks and revising the PC Asset Management policy to contain costs. The biennial revision of the IT Strategy was approved by the Board.



Executive Advisor Human Resources, Amanda Valance

Human Resources

Safety and Healthy Hydro Tasmania Program

Significant progress has been made in attaining our safety vision of “no harm to anyone at anytime”, with the organisation continuing to promote and drive positive safety behaviour throughout the year. Importantly, the Lost Time Injury Frequency Rate (LTIFR) of 3.2 lost time injuries per million man hours is a reduction from 3.3 last

year and is an indication that the ongoing safety effort during the year continues to have a positive effect.

The Healthy Hydro Tasmania Program (HHTP) has increased its participation rate to approximately 73 per cent and continues to deliver a variety of health, fitness and well-being programs throughout all regions of Tasmania.

Leadership program

The leadership program continues to deliver a comprehensive syllabus of activities focused on the development of people capabilities in our leaders. The program was reviewed in early 2005 to ensure it remains relevant to the current and future business needs of Hydro Tasmania, as well as contemporary leadership development practices. The review resulted in the program being extended to incorporate a course for high potential individuals identified through the succession planning process.

Employee survey

Our annual survey was held in September 2004 with a fresh approach including regular pulse checks to monitor improvement progress. Our people tell us that overall they are committed and proud of what we do, however we need to do more at an individual level about how we communicate and provide opportunities for career development. Most importantly, we need to ensure they feel valued for their personal contribution to the organisation.

Workforce planning

A full cycle of our newly developed workforce planning system was recently completed. The system was developed in early 2004 to make sure we have the right skills and capability to achieve our business goals now and into the future. The major components include a job family review undertaken by designated job family leaders and completion of formal workforce plans against set criteria at a group and line of business level. The process has given us a clear view of what we now need to do to address the critical challenges ahead.

Graduate development

The recruitment and development of graduates is essential to the long-term success of Hydro Tasmania. The Graduate Development Program (GDP) has 37 participants from a range of disciplines, nine of whom joined the program in 2005. The GDP is a three-year developmental program that enables graduates to obtain the level of knowledge, skills and experience necessary to achieve full professional recognition, in their respective fields, within three years.



Manager Public Relations, Ian Colvin

Public Relations

Hydro Tasmania undertakes a variety of activities and initiatives locally, interstate and overseas to promote the business, reinforce its pre-eminent position as Australia's leading renewable energy producer and constantly improve and emphasise through actions its commitment to being a responsible corporate citizen.

These are primarily managed by the Public Relations group and focus on five key areas:

- protecting and enhancing Hydro Tasmania's overall brand and reputation
- promoting the activities and initiatives of the Energy, Consulting and Renewables Development businesses, as well as the skills and expertise of their people
- ensuring that the Tasmanian community is kept informed of Hydro Tasmania's activities and continues to support its strategic direction
- developing and enhancing our engagement with key stakeholders, including the Government and people of Tasmania, the Tasmanian power industry, business, local government, irrigators and communities associated with our activities and developments
- ensuring Hydro Tasmania's own people are supported, informed and involved in the future development of the organisation.

Building community partnerships

Hydro Tasmania is committed to informing the Tasmanian community of its activities and supporting organisations and events that best reflect its strategic priorities and its desire to be more widely recognised as a responsible corporate citizen.

It holds functions around the State to inform business, local government and community representatives of Hydro Tasmania activities, to ensure they are aware of the Corporation's strategic direction and to discuss current issues. The principal event for the year was the Corporation's Annual Meeting, held in Hobart in November.

Hydro Tasmania, through the Public Relations group, undertakes a sponsorship program primarily focused on Tasmanian activities. These include the long-standing commitment to the Tasmanian Symphony Orchestra through support for the Australian Music Program, extending our support as naming rights sponsor to 2007 for the annual Three Peaks Race held every Easter and on-going partnerships with the Back to Pedder fishing competition, the Tullah Challenge, the Southern Cross Young Achievers Awards and the Cancer Council Relay for Life.

In 2004, Hydro Tasmania became the sole State sponsor for the Clean Up Australia campaign for the next three years and has agreed to support junior lifesaving and junior rowing.

Education

The Hands On Energy Discovery Centre continues to build its reputation for providing an exciting educational experience, with students from 116 schools from around the State visiting the Centre in 2004/2005. Centre staff also visited schools across the State and spoke to students in Port Lincoln in South Australia as part of the community information program related to the Cathedral Rocks Wind Farm project.

The Sustainability Report



The organisation has adopted a Sustainability Policy and is committed to measuring its sustainability performance on an annual basis.

Hydro Tasmania **Sustainability Policy**

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

A sustainable future is proactively ensuring long-term business success by meeting community and stakeholder expectations through the transparent and balanced application of economic, environment and social tests to business decisions and activities.

This will enable us to contribute to a healthy environment and economic and social development, thus improving the quality of life for future generations.

Sustainability at Hydro Tasmania

Renewable energy provides one of the solutions for overcoming the global reliance on fossil fuels and the adverse environmental, social and economic impacts of global warming. Building on its proud 90-year history as a renewable energy generator, Hydro Tasmania has begun to integrate sustainable practices into its operations.

The organisation has adopted a Sustainability Policy and is committed to measuring its sustainability performance on an annual basis. The ethic of sustainability in the organisation is strengthened by engaging stakeholders and employees in sharing the sustainability vision. Employees were involved in conducting the performance assessment. Long-term objectives and targets for sustainability are being developed which will underpin the planning and implementation of activities to improve overall performance.

Sustainability Policy

Hydro Tasmania's commitment to sustainability is articulated in its Sustainability Policy. The policy was initiated by the Board and developed through a consultative process with external stakeholders, employees and management, and is based on Hydro Tasmania's vision and values and a commitment to public reporting of performance. The Sustainability Policy integrates social, economic and environmental issues and forms the basis of the sustainability self assessment report according to nine Sustainability Elements.

Sustainability self assessment

The principles of the Sustainability Policy outline nine Sustainability Elements to apply to Hydro Tasmania's business activities and decision-making procedures. Table 1 (page 47) lists the elements, and for each one, the indicators used for reporting and assessing. This framework was developed by our own people following a lengthy internal process. In addition, external stakeholders from community and business interests provided feedback on the reporting framework through a process conducted by an independent consultant. This feedback was incorporated into the framework.

An internal scoring system was developed to measure the business performance and processes against each indicator, which enables assessment of business practices against best practice sustainability requirements. Indicator-specific assessment criteria were developed based upon the International Hydropower Association Compliance Protocol.



Lake Pedder

The sustainability scoring scale ranges from zero to five, with zero being extremely poor performance and five being outstanding. A business with a very poor performance or failure to address fundamental issues, with little or no compliance with regulations and commitments, ineffective or absent planning or management systems and a failure to meet objectives and measurable targets would score a zero. Conversely, a business showing evidence of being at or very near international best practice, with suitable, adequate, and effective planning and management systems in place and meeting or exceeding objectives and measurable targets would achieve a score of five.

Evidence in the form of reports, synthesised information and data was provided for the time frame 1 July 2004 to 30 June 2005. Both qualitative and quantitative evidence was collected through various data collection and reporting processes. Based on the evidence, a sustainability score was allocated for each indicator with performance, gaps and opportunities highlighted. Each indicator was then weighted within each element to reflect its importance to the organisation, stakeholders and sustainability objectives. The results of the self assessment are graphically represented in a webgram (see Figure 3, page 46).

The next step is to use information from the self assessment process to develop short and long-term sustainability objectives and targets. These will be integrated at the strategic level to facilitate alignment, credibility and transparency.

Sustainability Performance

Summary

This is Hydro Tasmania's first annual sustainability report. This section outlines issues and comments for each of Hydro Tasmania's nine sustainability elements.

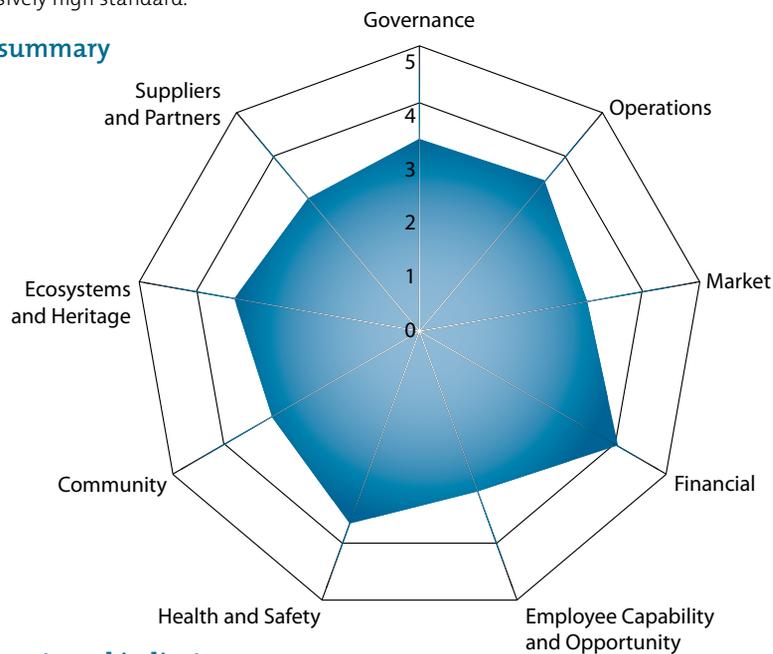
The results of the sustainability self assessment are presented in Figure 3 below and Table 1 on page 47. For this reporting period Hydro Tasmania has achieved a satisfactory performance for most elements, indicating performance which is in compliance with regulations and commitments, has some gaps in planning and management systems and some gaps in meeting objectives and measurable targets.

Self assessment

In summary, the 2005 sustainability assessment for Hydro Tasmania resulted in an average score of 3.3, which is satisfactory but not yet at a comprehensively high standard.

Sustainability results summary

Figure 3: Hydro Tasmania Sustainability Performance Assessment for 2004/2005



Legend to scoring elements and indicators

PERFORMANCE / PROCESS	DESCRIPTION
5 Outstanding / Strong / Comprehensive	<ul style="list-style-type: none"> At or very near international best practice Suitable, adequate, and effective planning and management systems Meets or exceeds objectives and measurable targets
4 High / Good to Very Good	<ul style="list-style-type: none"> High standard / above average performance Generally suitable, adequate, and effective (minor gaps only) planning and management systems Meets most objectives and measurable targets including all critical ones
3 Satisfactory / Average / Moderate	<ul style="list-style-type: none"> Average performance Generally compliant with regulations and commitments (minor exceptions only) Some gaps in planning and management systems Some gaps in meeting objectives and measurable targets
2 Below Average / Limited	<ul style="list-style-type: none"> Below average performance Some gaps in compliance with regulations and commitments Significant gaps in planning and management systems Significant gaps in meeting objectives and measurable targets
1 Poor / Very Limited	<ul style="list-style-type: none"> Poor performance (well below average) Major gaps in compliance with regulations and commitments Major gaps in planning and management systems Major gaps in meeting objectives and measurable targets
0 Very Poor	<ul style="list-style-type: none"> Very poor performance or failure to address fundamental issues Little or no compliance with regulations and commitments Ineffective or absent planning or management systems Fails to meet objectives and measurable targets

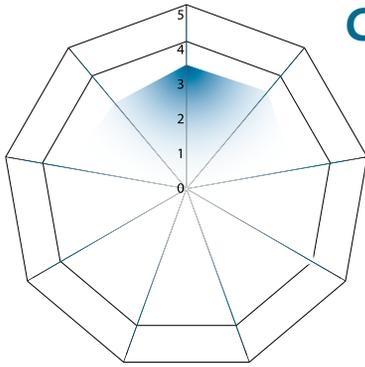
Table 1: Summary of Element and Indicator Performance

	Indicators	04/05 Score	Weight	Explanation	Page Link
Governance	Ethical Business Practice Measures the application of business values in the delivery of its vision and strategy.	3	33%	<ul style="list-style-type: none"> Board commitment to Values Program and incorporation of the program into key business processes. Application and implementation of the Values Program throughout the business delayed by organisational restructuring. 	50
	Regulatory Compliance Measures compliance against regulatory requirements and implementation of processes to achieve best practice industry standards.	4	33%	<ul style="list-style-type: none"> Compliance Program was introduced. Implemented in Energy and Corporate Groups. Compliant entry into National Energy Market. There were two breaches reported to the appropriate authorities, one environmental and one financial. Compliance Program requires implementation throughout the organisation. 	49
	Principles, Structure and Reporting Measure of management planning instruments to provide leadership and direction for sustainable business activities.	3	33%	<ul style="list-style-type: none"> Structures, policies and reporting mechanisms are in place to meet aims of good governance. Sustainability Policy was introduced. An Integrated Business Risk Management Program manages and monitors risk. Sustainability framework needs to be embedded in decision-making. 	49
	Weighted Score	3.3			
Operations	Energy Efficiency and Greenhouse Gas Emissions Measures energy efficiency and greenhouse gas emissions (GHG).	3	10%	<ul style="list-style-type: none"> Hydro Tasmania is a member of the Greenhouse Challenge Program. Emissions of 56t CO₂-e/GWh of energy generated are well below the Australian national average for electricity of approximately 1000 tonnes CO₂-e/GWh. An energy efficiency program has recently been initiated. 	52
	Network Service Providers Measure of network service providers' performance and relationships.	3	10%	<ul style="list-style-type: none"> Key contracts are in place with Transend Networks and Aurora Energy and a services agreement with Basslink Pty Ltd. Solid relationships exist and parties meet business requirements. 	52
	Operational Short- and Long-Term Reliability Measures Hydro Tasmania's ability to sustain required asset capability to best meet the needs of the business.	4	20%	<ul style="list-style-type: none"> Comprehensive asset management strategies, management systems and maintenance operations have facilitated the short- and long-term reliability of the entire system. The development of Basslink and the wind farms will ensure long-term energy reliability. 	51
	Operational Efficiency Measure of energy production practices and performance and optimisation of operational efficiency of an individual power station or group of power stations in the context of the broader system.	4	20%	<ul style="list-style-type: none"> Overall systems efficiency and individual power station efficiency have been maximised and optimised through real time management and extensive monitoring and modelling of the system Significant progress on upgrade and modernisation of Gordon and Trevallyn power stations, Tungatinah switchyards and the development of the Poatina re-regulation pond. 	51
	Resource Use, Waste and Emissions Measure of waste and air emissions and reuse of consumables.	2	10%	<ul style="list-style-type: none"> Hydro Tasmania has significantly reduced its use of PCB contaminated oils, lubricating and transformer oils are reused as fuel, all waste discharges are in compliance with regulations and a moderate quantity of wastes is produced. A lack of waste stream data has led to estimates of quantity of waste and there has been a limited focus on waste recycling. No overall management program is in place. 	53
	Wind Operations – Availability and Capacity Measure of wind farm energy production and performance.	4	20%	<ul style="list-style-type: none"> Woolnorth Bluff Point Wind Farm provided power to the Tasmanian grid for the full year. Cathedral Rocks Wind Farm in South Australia began generating energy in April 2005. Musselroe and Heemskirk Wind Farms in Tasmania are awaiting approval. ISO 14001 certification for Woolnorth was confirmed with zero non-conformances. 	52
	Sustainable Office Measure of sustainable management and performance of office environments. Includes sustainable resource consumption and waste emission from the office space as well as the involvement of office employees in improving performance.	2	10%	<ul style="list-style-type: none"> A Sustainable Office Plan is to be undertaken in the coming year. There is minimal measurement and assessment of resource use within the Hobart office and only limited programs related to waste minimisation and efficient use of resources. 	53
Weighted Score	3.4				
Market	Marketing Consulting Services Measure of marketing practices associated with marketing of consultancy services.	3	25%	<ul style="list-style-type: none"> Hydro Tasmania Consulting is diversifying its client base, growing in new local, national and international markets. It has a satisfactory understanding of its customer requirements, short and likely long-term demand for its products and social and environmental impacts of products. There are significant opportunities for developing more robust marketing and market research measures and supporting information systems. 	54
	Marketing Energy Products Measure of marketing practices associated with energy products.	3	50%	<ul style="list-style-type: none"> Successful entry into the National Electricity Market. Significant effort into evaluating international markets for renewable energy developments. There are opportunities for developing more robust marketing and market research measures and supporting information systems including work on a customer sustainable approach to business and the environment. 	54
	Innovation and Research Measure of investment in innovation and research. Ensures that the business is positioned to meet the needs of the future.	3	25%	<ul style="list-style-type: none"> Research is being undertaken by Hydro Tasmania in strategic areas and the organisation has good linkages with universities and research centres. The business requires a more strategic framework for research and development and an annual audit of research and development activities. 	55
	Weighted Score	3.0			
Finance	Short-Term Financial Performance and Distribution Measures short-term financial performance based upon traditional financial accounting methods. Demonstrates the value of the business (profits, sales revenue and ability to service debt etc) to the wider community and provides early warning of any need for corrective action.	4	40%	<ul style="list-style-type: none"> Strong profit and liquidity outcomes indicate that short-term financial performance has been impressive over the past year. Sales revenue increased as did overall costs, partly due to the need to run Bell Bay Power Station for longer than expected as a result of low water storages. Successful National Electricity Market entry preparation and growth in the Consulting business. 	56
	Long-Term Business Value Captures the sustainability of the business through time. Demonstrates the long-term business value, long-term sustainability and the contribution Hydro Tasmania makes to the Tasmanian economy.	4	60%	<ul style="list-style-type: none"> Significant investments have been made and there is a comprehensive plan in place to improve the performance of existing assets. Numerous initiatives during the year to improve the Corporation's systems and processes. 	56, 57
	Weighted Score	4.0			

Table 1: Summary of Element and Indicator Performance (continued)

	Indicators	04/05 Score	Weight	Explanation	Page Link
Employee Capability and Opportunity	Opportunity and Equity Measure of the organisational effort to ensure employees are provided with equal employment opportunity and an equitable working environment.	3	33%	<ul style="list-style-type: none"> There are high-level employee opportunity and equity programs in place. 25 per cent or one in four of the organisation's employees are female, which is above the Australian benchmark for utilities. 	58, 59
	Employee Satisfaction Measure of the organisational effort to ensure employee satisfaction in working for Hydro Tasmania.	3	33%	<ul style="list-style-type: none"> Hydro Tasmania provides a number of services and facilities to support its employees. The annual Staff Feedback Survey has indicated employees are committed to the organisation but a number of issues need to be addressed, including employee engagement. 	59
	Workforce Planning Measure of the organisational effort to ensure the elements of workforce planning, including recruitment, induction, training and development.	3	33%	<ul style="list-style-type: none"> Workforce planning processes have been established to progressively ensure employee engagement, improve our capabilities and enhance workforce skills to meet the demands of a sustainable and commercially competitive business. These processes need to be established throughout the business. Staff retention requires further investigation. There are opportunities for monitoring and reporting on the implementation and performance of processes. 	58
	Weighted Score	3.0			
Health and Safety	Employee Safety Measure of the organisational effort to provide a safe and healthy working environment to ensure employees are healthy, safe and free of harm.	3	40%	<ul style="list-style-type: none"> Hydro Tasmania takes considerable effort to assure the safety and wellbeing of its people by modelling and demanding good safety behaviour, applying standards, providing training, education and encouraging continual improvement in workplace safety and wellbeing. Certain key safety indicators did not fully meet targets. HydroSafe is currently not an independently certified or audited management system. 	60
	Employee Health and Wellbeing Measure of the organisational effort to promote general health and wellbeing throughout the organisation.	4	20%	<ul style="list-style-type: none"> Hydro Tasmania has high-level processes and programs in place to promote employee health based upon nationally accepted determinants of health. There is a need to establish processes for determining the impact of the programs. 	60
	Public Safety Measure of the organisational effort to ensure Hydro Tasmania's assets, facilities and operations pose no unacceptable threat to public safety.	4	40%	<ul style="list-style-type: none"> Various policies, procedures, management plans and project management guidelines are in place that enable the organisation to maintain a high-level public safety record. There are management policies and plans that still require development. 	61
	Weighted Score	3.6			
Community	Community Capacity Building Measure of the organisational effort to assist with capacity building within the community and enhancement of corporate citizenship and social responsibility.	3	30%	<ul style="list-style-type: none"> There are numerous processes in place to build capacity with the community in education, joint research, corporate philanthropy and capacity building. There is a need to strengthen the sponsorship assessment strategy and process. 	63
	Stakeholder and Community Engagement Measure of the organisational effort to communicate with and involve stakeholders and the community in business operations that affect them.	3	40%	<ul style="list-style-type: none"> Formal and informal processes are in place for engaging stakeholders and the community, though with the exception of new development projects, it is difficult to determine the suitability, adequacy and effectiveness of the processes. An overall stakeholder program is being developed. 	63, 64
	Multiple Use Benefits Measure of the organisational effort to ensure Hydro Tasmania's assets provide multiple use benefits for the community.	3	30%	<ul style="list-style-type: none"> Hydro Tasmania has made a significant contribution to the economic and cultural development of the State. Its assets and operations have become integral to ongoing community wellbeing and regional economic development. There are asset management policies and plans that still require development. 	62
	Weighted Score	3.0			
Ecosystems and Heritage	Aquatic Ecosystems Measure of performance and management of aquatic ecosystems.	3	35%	<ul style="list-style-type: none"> Sound monitoring programs are in place. Legislative requirements have been fulfilled and significant progress made in strategic areas. Additional work is required to establish more effective mechanisms for communicating with stakeholders, and the need for program benchmarking and external review. 	65, 66
	Environmental Impact Assessments / Environmental Management Plans (New Projects) Measure of the application of environmental impact assessment and environmental management plans to capital projects.	4	30%	<ul style="list-style-type: none"> Comprehensive and effective work undertaken on environmental impact assessments and environmental management plans for new projects rated to a high standard. Application of the Environmental Management System has reduced operational environmental risks for the organisation. 	65
	Heritage Measure of performance and management practices for Aboriginal heritage, historic cultural heritage and the World Heritage Area.	3	15%	<ul style="list-style-type: none"> Hydro Tasmania is proactively managing for heritage values. An inventory of Hydro Tasmania's assets and infrastructure, including maintenance activities and frequency, has been compiled. There is collaboration and communication with Aboriginal and government agencies. Training and awareness programs need to be implemented. 	66, 67
	Terrestrial Ecosystems Measure of the performance and management of terrestrial ecosystems.	3	20%	<ul style="list-style-type: none"> Comprehensive risk assessment and Geographic Information System database facilitates land management activities. Additional work is required to establish more effective mechanisms for communicating with stakeholders regarding environmental issues. 	67
	Weighted Score	3.3			
Suppliers and Partners	Suppliers and Partners Measure of suppliers', service providers' and partners' performance, sustainability practices and relationships.	3	100%	<ul style="list-style-type: none"> Hydro Tasmania has excellent relationships with its suppliers and service providers in Tasmania, interstate and overseas. Gaps in understanding how Hydro Tasmania can influence sustainability issues in purchasing goods and services were identified, with limited guidelines and measurements for assessing supplier, contractor and vendor performance. 	68
	Weighted Score	3.0			

Governance



The Board of Hydro Tasmania is committed to high standards of corporate governance and is continually assessing improvements in its activities to reach the desired levels of ethical standards and efficiency. The structure and reporting mechanisms are designed to meet its obligations to stakeholders, including the Government of Tasmania, employees and the wider community.

Key governance issues for the year were compliant entry to the National Electricity Market, firm risk management in business undertakings and a strategic focus in reporting to the Board by the lines of business.

The organisation adopted its Sustainability Policy with the commitment to continual improvement and leadership in sustainability.

The Board acts on behalf of the owner, the State of Tasmania, to fulfil its responsibilities to set Hydro Tasmania's strategic direction and monitor its implementation. The committee structure and reporting system ensures monitoring of progress against the strategic direction and compliance with legislative obligations.

Further information on the structure and responsibilities of the Board Committees is contained in this report in *Directors and Board Committees* on page 16.

With its underlying principle of ethical business practice, the Board continues to strongly support the organisation's values program. The Board members have requested a refresh of the values to ensure that they reflect Hydro Tasmania's entry into the competitive market.

The Board's commitment to ensuring engagement with the community is demonstrated by meeting with community and business stakeholders to coincide with Board meetings at various locations in Tasmania. This reporting year a meeting was also held at Loy Yang, Victoria, to meet stakeholders in Hydro Tasmania's extended electricity market area.

Compliance

Following the introduction of the revised Compliance Policy last year, the Compliance Program was introduced to lift compliance capability to the level required by our strategic direction. The program includes an online system with a controls framework to review and report on activities listed in the compliance plans of the Energy and Corporate groups. This system was operational on 30 May 2005. Year two of the compliance strategy will see this program strengthened by the development of further compliance plans for the other lines of business and the operation of the online system. The Board receives monthly reports on compliance performance. The Australian Financial Services Licence compliance arrangements are subject to external audit twice a year. The first of these audits was in May 2005 and no major issues were raised by the auditor.

The organisation has, as far as can be ascertained, met all its legislative obligations in the year under review. Two previous breaches, involving the unintentional over-creation of RECs in 2001, were discovered in this reporting period. These were reported to the Office of the Renewable Energy Regulator which imposed no penalty. The Corporation implemented changes to its processes to prevent any recurrence.

One environmental breach was recorded under the Commonwealth *Environment Protection and Biodiversity Conservation Act 1999* and the South Australian *Development Act 1999* and *Native Vegetation Act 1991*. This occurred during the construction of the Cathedral Rocks Wind Farm when the vegetation clearance for a small section of road construction exceeded the width permitted under the Environmental Management Plan. Regulatory authorities were informed, a thorough investigation was immediately undertaken and remedial measures put in place.

Fourteen minor environmental incidents were recorded in the environmental management system, and eight incidents relating to administrative procedures were recorded in the compliance system for the year. These were not reportable under legislation.

Values

The Corporation continues to promote a strong ethical culture which is underpinned by its values and the Code of Conduct. Values have been incorporated into business procedures this year, including the new online employee induction process, employment contracts and role descriptions where there is accountability for alignment with, and modelling of, the values. The structural change within the overall organisation has delayed the application of the values behaviours program in some workplaces where new teams have not yet developed behaviour models. However, these are expected to be completed in the coming year.

Risk management

Hydro Tasmania manages, monitors and reports risk within an Integrated Business Risk Management (IBRM) program. The IBRM is based on the Australian/NZ Risk Management Standard, AS/NZS 4360:2004. Lines of business and “Special Projects” provide reports on their business risks and these are aggregated into the annual IBRM report, which is endorsed by the Business Risk Committee and provided to the Board. These reports are updated quarterly. In 2005, the IBRM report began using the sustainability elements as a means of categorising the risks and displaying the organisation’s risk profile.

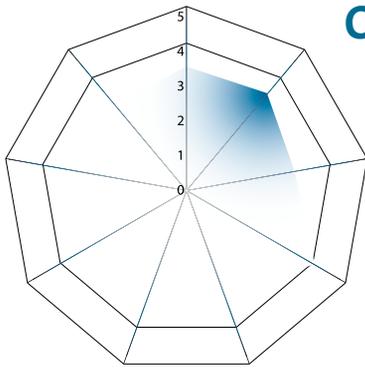
Self assessment

Compliant entry to the National Electricity Market, attention to improving compliance and sustainability reporting and the high compliance rate were commended. An opportunity for improvement is the continued implementation of the values behaviours program across those parts of the organisation where this has not yet occurred.

The assessment rated governance as 3.7 which is *satisfactory*, but close to a comprehensively high standard.



Operations



The greatest challenge for the year has been managing electricity production in this eighth consecutive year of less than average rainfall. At the end of the report period, the 12-month rolling storage yield was 7345 gigawatt hours (GWh) or 75.2 per cent of long-term average. Total energy in hydro storages at 30 June 2005 was 22.7 per cent, some 15.5 per cent lower than at the same time last year. Production was maintained by prudent use of water with additional gas generation from Bell Bay Power Station and cancellation of non-essential maintenance.

Generation

The Energy business has a range of methods to manage low water levels, including a comprehensive hydrological resource monitoring network and management system. An improved energy control system was recently implemented for the real-time management of the generation system. Levels of emergency management plans are in place should the system reach a situation of critically low water storage levels.



The Poatina re-regulation pond under construction

Hydro Tasmania's major effort to enhance operational reliability (see Table 2) through the asset upgrade and modernisation program continued during the year. Overall capital expenditure in the Energy business was \$63.8 million, with significant progress on the upgrade and modernisation of Gordon and Trevallyn power stations, Tungatinah switchyards and the development of the Poatina re-regulation pond. The Poatina re-regulation pond will mitigate the impact of different water flows from Poatina Power Station during Basslink operation. A \$36 million upgrade program was approved by the Board for Tungatinah station to be undertaken over the next four years.

The environmental management of assets and facilities is undertaken within the Energy business. Based on the environmental risks to the business, as identified in the Power Schemes Assets and Impacts Register, the program has plans and sets targets to mitigate issues identified as high to medium environmental risk.

	Key Performance Indicator	Performance	Target
Asset Condition	Equivalent Availability Factor	90.71%	95%
	Equivalent Forced Outage Factor	1.48%	0.4%
	Start Success – 12 month average	98.3%	100%

Table 2: Hydro asset performance and targets

Cloud seeding

Cloud seeding is an integral part of Hydro Tasmania's supply capability to meet Tasmania's electricity demand. Hydro Tasmania has been involved in both operational and experimental cloud seeding for over 40 years and has developed world-class knowledge and expertise. In the past year, the program involved a total of 48 flights of which 11 were seeding flights. This is lower than previous years due to the absence of suitable cloud seeding conditions. The program has been estimated by Hydro Tasmania to deliver approximately 20MW average per annum.

Dam safety

The Energy business has a well-established Dam Safety Program, underpinned by a Dam Safety Risk Management Policy designed to meet the requirements of both the Tasmanian dam safety legislation and the Australian National Committee on Large Dams (ANCOLD) guidelines. The program is divided into two distinct streams - the Sustainability Program, which manages the ongoing safe performance, operation and maintenance of the dams, and the Risk Management Program that identifies, analyses, assesses and mitigates 'intolerable' risks.

Wind farms

The development of Hydro Tasmania's wind generation continued as a priority during the year. In Tasmania, Woolnorth Bluff Point Wind Farm provided power to the Tasmanian grid for the full year. The overall production from Bluff Point for the year was slightly below the output target due to lower than projected wind resources. Woolnorth Studland Bay Wind Farm is progressing well. The design process has commenced, with construction expected to begin in 2006.

Continuous measurement of performance at Woolnorth Bluff Point indicates that the wind farm has exceeded the commissioning 'availability' KPI target of 92.4 per cent for the initial 12 months of operations with an excellent result of 95.6 per cent. ISO 14001 certification was confirmed with zero non-conformances. An Operational Environmental Management Plan is in place to address adverse impacts concerning environmental and social issues.

At the Cathedral Rocks Wind Farm in South Australia, 33 two-megawatt generators were erected with the majority of turbines in operation at year's end. Cathedral Rocks began generating energy in April 2005. Construction is expected to be completed by September 2005.

The implementation of the Renewables Development business' strategic plan for wind developments will continue with appropriate management and environmental controls for design and construction. More detail on environmental issues for wind farm developments is contained in the Ecosystems and Heritage section of this report.

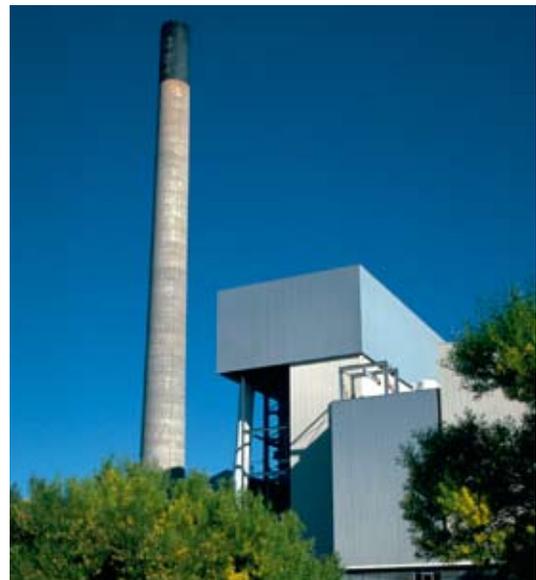
Basslink

Hydro Tasmania has established an internal team to manage the technical, regulatory and commercial aspects of Basslink commissioning, working closely with Basslink Pty Ltd, the developer, owner and operator of the link, and with Transend Networks Pty Ltd. Work is ongoing to integrate Basslink operations with Hydro Tasmania's operating system and to develop closer co-operation with network service providers, Transend Networks Pty Ltd, Aurora Energy Pty Ltd and Basslink Pty Ltd.

Following damage to transformers in transit from Germany, the commissioning date of Basslink was revised from November 2005 to the end of April 2006.

Greenhouse gas emissions

Hydro Tasmania is a member of the Commonwealth Government's Greenhouse Challenge Program and a signatory to the Greenhouse Challenge Plus. Hydro Tasmania's emissions for 2004/2005 were 56 tonnes of carbon dioxide equivalent per gigawatt hour (CO₂-e / GWh) of energy generated, well below the Australian national average for the greenhouse gas intensity of the National Electricity Market of approximately 1000 tonnes CO₂-e/GWh. The Bell Bay gas-fired power plant continues to be the single largest source of Hydro Tasmania's greenhouse gas emissions, contributing over 97 per cent of emissions in this reporting period. Hydro Tasmania has also embarked on a climate change study to understand long-term hydrological variability.



Bell Bay Power Station

The Energy and Greenhouse Program has been established to investigate and implement additional energy efficiency and greenhouse gas emissions abatement measures across all of Hydro Tasmania's activities and facilities. The goal is to reduce Hydro Tasmania's greenhouse gas emissions while increasing revenue through savings and/or additional generation.

Air emissions

A well-established protocol is in place for determining emissions to air. Emissions of sulphur dioxide (SO₂), carbon monoxide (CO), nitrogen oxides (NO_x), particulate matter (PM₁₀), volatile organic compounds (VOC) and polyaromatic hydrocarbons (PAHs) are reported publicly in the National Pollutant Inventory. Air emission rates are considered low compared to Australian electricity industry averages due to the high proportion of non-emitting hydro and wind energy sources. Principal sources of emissions are the gas-fired Bell Bay Power Station, and the King Island and Flinders Island diesel power stations.

Waste

A range of waste is generated from maintenance and construction programs and to a lesser extent office activities. Major waste streams include waste lubricating and insulating (transformer) oils, maintenance and construction waste such as packaging, timber, scrap metal and concrete, and general waste from office and domestic activities. The majority of general solid waste is sent to landfill. Significant quantities of waste oil, paper and scrap metal are recycled or reused. Hydro Tasmania has significantly reduced its use of

insulating oils contaminated by Poly Chlorinated Biphenyl (PCB). This contaminated oil is sent to the mainland for reuse as fuel, with remaining stocks now limited to 40,000 litres of non-scheduled oil (<50 mg/kg PCB) at two sites. 127,000 litres of waste lubricating oils were also removed from sites and re-used as fuel in Tasmania.

Limited data on solid waste quantities is available but this is not presented here due to the unreliability of some figures and gaps in the data. Processes for improving the extent and reliability of data collected are being implemented. Opportunities to improve performance in the reduction of office waste will be undertaken in the coming year as part of a Sustainable Office Plan.

Self assessment

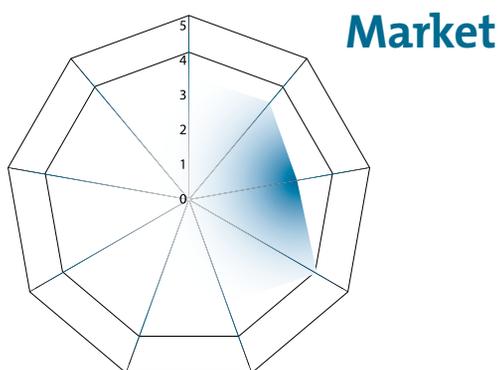
System efficiency and power station efficiency have been enhanced through maximisation and optimisation of real-time management and extensive monitoring and modelling. Production reliability is maintained and improved by comprehensive asset management strategies and maintenance plans and the increased production from wind farms.

Greenhouse gas emissions are minimal and the use of PCBs has decreased, however, further work is required to effectively address waste, resource use and energy efficiency.

Overall, the rating of sustainability performance for Hydro Tasmania's operations was *satisfactory*, with a score of 3.4.

		Units	Total
Greenhouse Gas Emissions	Carbon dioxide equivalent emissions (tonnes CO ₂ -e / GWh)	tonnes	56
Atmospheric Emissions	SO ₂	kg	12,805
	CO	kg	384,454
	NO _x	kg	1,335,337
	PM ₁₀	kg	40,467
	VOC	kg	15,638
	PAHs	kg	6
Waste	Waste lubricating oil	litres	127,000
	Non scheduled PCB contaminated oil	litres	102,000
Consumption	Diesel	litres	4,393,209
	Natural gas	PJ	9,268
	Unleaded petrol	litres	452,806
	LPG (fleet only)	litres	8,400
	Electricity	GWh	150.64

Table 3: Summary of greenhouse gas emissions, air emissions, waste and consumption for 2004/2005



This year has seen significant changes in marketing activities for Hydro Tasmania, particularly with entry to the National Electricity Market. Renewables Development and Hydro Tasmania Consulting are operating in broader markets and Hydro Tasmania has continued to build on its research and development activities.

National Electricity Market

A highlight of the year was Hydro Tasmania's entry to the National Electricity Market on schedule and without incident. This followed the lengthy development of complex systems to achieve the handover of Hydro Tasmania's generation dispatch to the National Electricity Market Management Company (NEMMCO). The Tasmanian regional spot price reflected the value of water due to the low storage levels after a prolonged period of below average rainfall.

As a National Electricity Market generator, the Energy business continues to develop close relationships with retailers and generators to support energy product transactions, including spot sales and derivative contracts. Renewable Energy Certificates (RECs) continued to be traded although market prices were lower than in previous years.

With appropriate licences in place, standard contract arrangements have been signed with a number of National Electricity Market participants. Hydro Tasmania has commenced trading derivative contracts with Victorian counterparties. In Tasmania, Hydro Tasmania continued to make offers to Aurora to meet customer load growth.

New markets

The limited life of the Mandatory Renewable Energy Target scheme requires Hydro Tasmania to investigate other markets in order to create a sustainable business in renewable energy activities. Renewables Development has undertaken an evaluation of international markets to identify the countries most suitable for applying the organisation's renewable energy development capabilities. Promising prospects have been identified in countries where there is increasing demand for energy, legislative support for renewable energy, and potential partners seeking Hydro Tasmania's involvement. These geographically diverse and promising markets create many opportunities. Over the last year the main effort to create these opportunities has been centred on New Zealand, China and South Korea.

A key aim this year for Hydro Tasmania Consulting was to diversify its client base. Revenue from clients external to Hydro Tasmania grew by \$2.4 million from consulting services (exceeding the target by \$1.4 million) and by \$700,000 from other revenue generating activities over the last financial year.

To meet this increased customer demand, Hydro Tasmania Consulting has opened an office in Papua New Guinea and expanded the Melbourne and Adelaide offices. Hydro Tasmania Consulting will continue to be focused on enhancing business outcomes for its clients.

Services provided by Hydro Tasmania Consulting within the organisation include design and environmental management services for the Cathedral Rocks Wind Farm, Gordon and Trevallyn power station refurbishment projects, dam safety projects, NEM compliant metering and Frequency Control Ancillary Services, hydrological data collection and monitoring, delivery of the suite of environment and sustainability programs and technical advice on Basslink cable construction issues.

A branding program, developed and implemented this year to enhance the consistency and professionalism of marketing Hydro Tasmania Consulting, is anticipated to be a key influence on future results.

Projects	Location
Burnett Water detailed design services for new Roller Compacted Concrete dam	Queensland
Western Australia Water Corporation dam upgrade work	Western Australia
PNG Power Sirinumu Dam Safety assessment; PNG Power Rouna 2 - Hydro power station rehabilitation options;	PNG
Tidal project detailed design	South Korea
Horizon Regional Council flood forecasting system	New Zealand
Kuala Lumpur stormwater management and road tunnel	Malaysia
Rural network expansion	Sri Lanka
Fiji Electricity Authority – electrical system review	Fiji

Table 4: Examples of projects undertaken by Hydro Tasmania Consulting outside Tasmania

Industry leader

Hydro Tasmania is established as a renewable energy industry leader in Australia, contributing significantly to the Renewable and Sustainable Energy ROUNDTABLE, the Renewable Energy Generators of Australia and the Australian Wind Energy Association (Auswind). Internationally, Hydro Tasmania has built a strong international profile through participation in forums and industry associations covering renewable and sustainable energy, energy efficiency, wind and solar energy, and energy research. The organisation has been particularly active in developing and promoting sustainability, compliance protocols and due diligence guidelines for the International Hydropower Association and the World Wind Energy Association.

Research and Development

Hydro Tasmania is pursuing strategic research and development projects supporting energy production and environmental management, wind energy development, renewable energy storage and hydrogen research. Examples include:

- technology research to support Hydro Tasmania's wind farm developments
- carbon block thermal energy storage with Lloyd Energy Systems
- hydrogen program with the University of Tasmania
- climate change, catchment inflow forecasts, plant testing, maintenance and scheduling and cloud seeding
- ecology and threatened bird species associated with wind farm developments
- aquatic ecosystems, fish passage, threatened species and rehabilitation strategies.

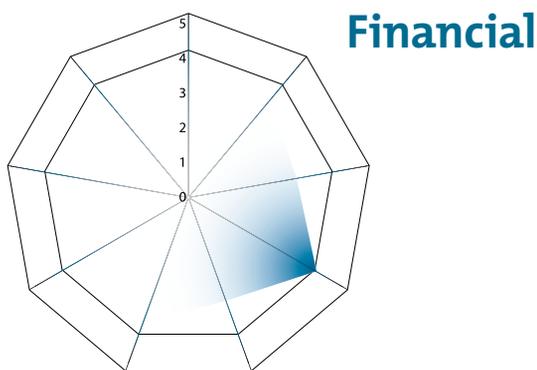
There is now an opportunity to take a strategic approach to encourage research and development, and to audit research and development activities, to ensure that they meet the needs of the business.

Self assessment

The assessment concluded that Hydro Tasmania has a satisfactory understanding of its customer requirements, short and likely long-term demand for its products, and social and environmental impacts of products. However, there are significant opportunities for developing more robust marketing and market research measures with supporting information systems.

Research is being undertaken by Hydro Tasmania in strategic areas and the organisation has good linkages with universities and research centres. A strategic framework for research and development would benefit the business as well as an annual audit of research and development activities.

The 2005 sustainability assessment for markets scored 3, which is *satisfactory* for overall marketing activities.



As a Government Business Enterprise, Hydro Tasmania must meet the financial reporting requirements of both the Ministerial Charter and the *Government Business Enterprises Act 1995*.

Financial performance

The year's financial performance, including profit, sales revenue and the ability to service debt, was good. This contributes to the long-term business value as the Corporation continues to grow.

Hydro Tasmania achieved a profit after tax of \$44.4 million. This was \$9 million higher than the previous year due mainly to strong growth in energy sales and external consulting revenue. Revenue for sales of Renewable Energy Certificates, while greater than last year, was below expectations due to softer market prices.

Sales revenue increased by 5.5 per cent during the year as a result of stronger than expected consumption. Total costs before depreciation and borrowing costs increased by 7.2 per cent offset by reductions in borrowing costs (1.2 per cent) and depreciation (1.8 per cent). The cost increase was in part due to the need to run Bell Bay Power Station for longer than expected due to low water storages, continued preparation for entry to the National Electricity Market and growth in the Corporation's consulting business.

Returns to Government

This return to Government is less than last year, but in line with the projected forecast.

	2005 \$m	2004 \$m
Dividend	40.0	43.6
Income tax equivalent	30.0	32.9
Loan guarantee fee	4.0	3.8
Total	74.0	80.3

Capital expenditure

The comprehensive program of upgrading and modernisation of hydro assets continued during the year with capital expenditure of \$63.8 million on dams and power stations, \$3.1 million higher than in the previous year. Wind farm development was directed through the Cathedral Rocks joint venture in South Australia following the extensive direct investment in the Woolnorth project during the previous year. The Woolnorth Bluff Point project was commissioned during the year and Cathedral Rocks is gradually coming online. In total, capital expenditure during the year was \$92.8 million, \$39.9 lower than last year.



Woolnorth Wind Farm



Gordon Dam

Capital structure

Hydro Tasmania undertook a detailed review of its capital structure during the year as required by its Ministerial Charter. The existing capital structure was found to be adequate for the current environment but it was identified that a stronger balance sheet would provide trading advantages and greater resilience in the National Electricity Market.

Asset fair value

The Corporation currently carries its hydro generation assets at fair value. In 2005, this was reassessed to take account of latest revenue projections. Due mainly to reduced expected real electricity prices and current low pool prices, this resulted in a reduction in fair value of generation assets from \$3.13 billion to \$2.54 billion.

Accounting standards

Australian equivalents to International Financial Reporting Standards (AIFRS) must be adopted from 1 July 2005. The 2005 Financial Statements include an assessment of the impacts of AIFRS had they been applied to those statements.

Debt

The Corporation continues to actively manage its debt portfolio which, apart from wind project finance, is sourced entirely from the Tasmanian Public Finance Corporation (Tascorp). The weighted average cost of the Tascorp debt at the end of the year was 6.19 per cent, up slightly from last year. The Corporation was successful in securing project finance for the Woolnorth Bluff Point Wind Farm development during the year. This was a first step toward attracting a joint venture partner in this development.

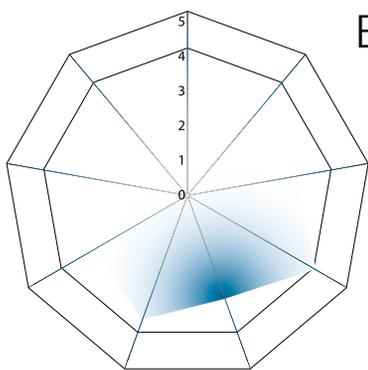
Financial systems

Numerous initiatives were implemented during the year to improve the Corporation's systems and processes and to prepare for entry to the NEM. Performance reporting was continuously improved, systems were introduced to integrate maintenance and inventory into the financial system, a new human resources and payroll system was introduced, and the Corporation was successful in gaining an Australian Financial Services Licence which is a necessary pre-condition to NEM entry.

Self assessment

The financial performance was assessed as *high* with a score of 4, which is considered to be above the industry average.

Employee Capability and Opportunity



Hydro Tasmania has a range of programs and systems in place to promote employee capability and opportunity across the organisation.

Demographics

Hydro Tasmania recognises that the diversity of its employees brings a richness and value that contribute to its long-term success. Corporation demographics are as follows:

- there is diversity in relation to age
- there are 891 employees as at 30 June 2005 - 75 per cent male, 25 per cent female
- 86.4 per cent of employees are full-time, 7.2 per cent part-time and 6.4 per cent are casual
- Five of the Corporation's nine Directors are male and four are female
- 15 per cent of line managers are female
- Anecdotal evidence indicates Hydro Tasmania's workforce is ethnically diverse, with employees coming from countries and regions such as Sri Lanka, New Zealand, South Africa, United States, India, the Balkans and Hong Kong.



Katrina Lindsay, Environmental and Compliance Officer North

During 2004/2005, Hydro Tasmania's workforce grew by 23, with 111 new recruits and 88 separations. Hydro Tasmania was unable to fill a number of advertised positions, including 15 positions within Consulting, 10 positions within Energy and three positions within Corporate. This is a reflection of the skills shortage within Australia and is a challenge for Hydro Tasmania in the immediate future.

Equal Employment Opportunity

Hydro Tasmania has responsibilities to provide equal employment opportunities and an equitable working environment. The Equal Employment Opportunity (EEO) program includes a policy, a set of procedures, a process for monitoring compliance and handling grievances and appeals, EEO awareness training and the provision of Workplace Support Officers. There were no formal EEO complaints during 2004/2005, however, there was one claim. There is a lack of data collected about grievances and appeals. The implementation of SafeTrac, an on-line EEO training and assessment course, will assist in raising employees' awareness of their EEO obligations.

Workforce planning

The newly developed workforce planning system was embedded and works to ensure that Hydro Tasmania's employees have the right skills and capabilities to achieve business and career goals now and into the future.

The framework has proven to be very valuable by providing focus, enabling an holistic view of the organisation and a proactive approach to addressing workforce issues.

A series of human resource functions underpins the workforce planning process, including recruitment, induction, performance and development reviews, training and development, retention, phased-in retirement and redundancy.

The three-year Graduate Development Program enables graduates to obtain the level of knowledge, skills and experience necessary to achieve full professional recognition in their respective fields. At 30 June, 37 graduates from a range of disciplines were involved in the program.

Leadership Development Program

Hydro Tasmania's Leadership Development Program contains a comprehensive syllabus of activities focused on the development of leadership within the business. To date, 32 per cent of the workforce has participated in the program. The program was reviewed in early 2005 to ensure it remained relevant, resulting in it being extended to incorporate a course for high-potential individuals identified through the succession planning process.

The Sir Allan Knight Scholarship is awarded annually to an employee for an industry exchange program and provides the successful candidate with up to \$30,000 of financial assistance to further expertise and experience in a chosen field. Hydro Tasmania also has a 12-month industry exchange program with the French electricity generator Electricité de France.

Work and family

Hydro Tasmania promotes opportunities for employees to achieve a balance between work and family life. These include flex time, flexible work hours, childcare assistance, school holiday care allowances and a broad family leave entitlement program. The Staff Feedback Survey revealed that 61 per cent of employees agreed that Hydro Tasmania supported a balance between work and family life. Hydro Tasmania has recognised that these opportunities could be extended to accommodate families with children with disabilities and elderly family members, and next year will extend the Work and Family Link program to elder care.

Staff Feedback Survey

The annual Staff Feedback Survey is an important monitoring tool for staff concerns at Hydro Tasmania and was conducted in September 2004 with a 76 per cent response rate.

The survey indicated that, on the whole, employees are committed and proud of Hydro Tasmania. There is room for continual improvement in relation to career development, communication and making sure employees feel valued for their contributions and engaged with the business. The survey measured and benchmarked employee perceptions on numerous aspects of business life against other leading organisations. The overall score from the 2004 survey was 61 per cent, which was a 2 per cent decrease in positive employee perception from the previous year. Specific employee satisfaction questions showed a 53 per cent rating, 17 per cent below the benchmark targets.

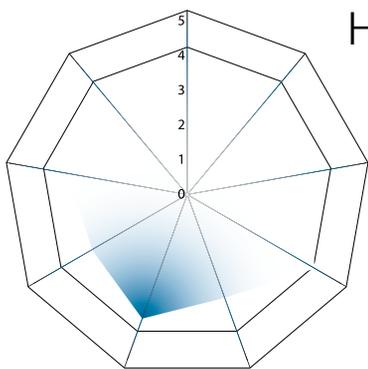
Self assessment

High-level employee opportunity and equity programs are in place and workforce planning processes will progressively ensure engagement, improve our capabilities and enhance workforce skills to meet the demands of a sustainable and commercially competitive organisation.

Overall performance regarding employee satisfaction, capability and opportunity was rated as *satisfactory*, with a score of 3.



Hydro Tasmania Wind Farm Commissioning Manager, Nick Cole, with the Cathedral Rocks Wind Farm construction team



Health and Safety

Hydro Tasmania’s safety vision is “no harm to anyone at anytime” and the organisation continues to promote positive safety behaviour.

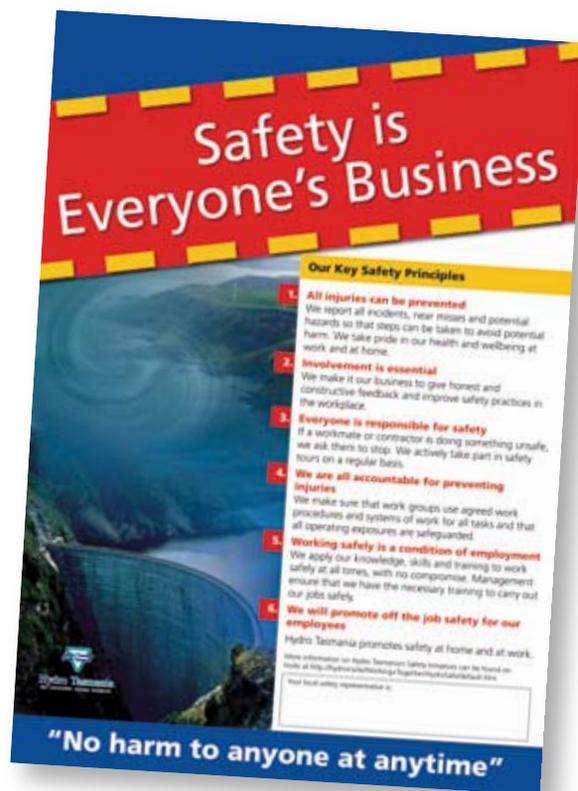
Safety

The HydroSafe Occupational Health and Safety Policy and procedures form the overarching safety system for Hydro Tasmania. This system is complemented by the continued implementation of recommendations obtained from Du Pont Safety Management Services. The recommendations address good behaviour so that all employees take responsibility for safety, with the result that safety awareness is raised throughout the organisation. The whole safety program is aimed at setting simple but clear safety plans and strategies for Hydro Tasmania to become a world-class safety organisation. One specific action this year was the introduction of a comprehensive program to train staff in the use of job safety analysis techniques.

Hydro Tasmania’s Incident Quality Management System (IQMS) records safety incidents, hazards and near misses. Safety statistics are periodically extracted from the IQMS and reported to the Executive Safety Team and the Board of Directors.

Standard safety indicators are measured by Hydro Tasmania. The Lost Time Injury Frequency Rate (LTIFR) rolling average for the previous year was 3.3 per million hours worked. During 2004/2005 this was reduced to 3.24 and indicates that the ongoing safety effort across the organisation is continuing to have a positive effect. The medically treated injury frequency rate was 13.6 and the all injury frequency rate was 38.9.

Comprehensive safety plans have been developed within Hydro Tasmania, which take into consideration the unique safety requirements of each line of business. Dedicated safety management teams, made up of a combination of management and employees, have been established within the Energy Business and Hydro Tasmania Consulting to ensure the safety commitment is maintained, including when work is undertaken outside Tasmania. The annual Employee Feedback Survey showed that employees believe the organisation makes a genuine effort to provide a safe working environment.



Hydro Tasmania’s safety vision is “no harm to anyone at anytime”



Safety in practice – Trevallyn Power Station upgrade project

Health and wellbeing

Hydro Tasmania provides comprehensive programs to foster employee health and wellbeing. These include the Healthy Hydro Tasmania Program and the Employee Assistance Program. Benefits from these programs include subsidised gym memberships, health, diet and cooking classes, health and fitness assessments, and fresh fruit on a weekly basis, as well as the provision of a confidential counselling and advice service to employees and their families to assist with personal and work-related problems. 73 per cent of employees participated in the Healthy Hydro Tasmania Program during 2004/2005.

Opportunities to improve these programs include expanding into interstate and overseas offices, developing indicators to measure the effect the programs are having on absenteeism rates and integrating the programs into the safety agenda.

Public safety

The public use of Hydro Tasmania's land and waterways is extensive and public safety is addressed through policies, guidelines, signs, permits and licensing. To further improve public safety, Hydro Tasmania and the Tasmanian Parks and Wildlife Service are in the process of developing warning signs to inform the community of the level of risk and service provision in a particular area. Hydro Tasmania also considers the community's safety whenever undertaking projects in publicly accessible areas. This is done in line with Hydro Tasmania's HydroSafe program.

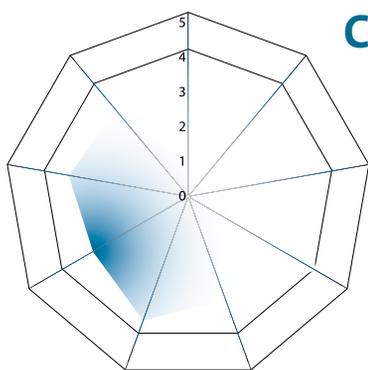
While Hydro Tasmania promotes good public safety in conjunction with government agencies, greater public awareness of its recreational policies and guidelines is required to enhance safety provisions.

Self assessment

Hydro Tasmania's efforts to assure the safety and wellbeing of its people by modelling and demanding good safety behaviour, applying standards, providing training, education and encouraging continual improvement in workplace safety and wellbeing were considered positively.

Various policies, procedures, management plans and project management guidelines that Hydro Tasmania has in place ensure that safety issues are a priority in all Hydro Tasmania projects. HydroSafe is currently not an independently certified or audited management system and one lead safety indicator did not fully meet its target.

Health and safety was assessed as *satisfactory*, with a score of 3.6 indicating progress to a high standard.



Community

Hydro Tasmania enjoys a position of leadership in the Tasmanian community and has provided public support and facilities for many years. This support has focused on enhancing social and environmental outcomes and encouraging the multiple use of facilities through a number of mechanisms including:

- recreational activities on Hydro Tasmania waterways and land
- economic development through the provision of recreational facilities and services, and water for agriculture
- education through the Hands On Energy Discovery Centre and the provision of engineering scholarships
- joint research with the University of Tasmania and CSIRO
- sponsorship of a broad range of community events and activities.

Visitor activities

Hydro Tasmania provides a wide range of recreational facilities and activities on its waterways and land. These include boat ramps, signage and interpretation facilities, information centres, lookout points and various systems to support activities for angling, water skiing, rowing, camping and hunting. Signage improvement continued with 123 prohibitions and warning signs revised and 52 information signs at boat ramps installed. During the year, a Visitor Activities Policy was developed to enhance the management of Hydro Tasmania's visitor experience through the development of viewing and interpretation themes, improved access, camping facilities and the promotion of sustainable activities.

Hydro Tasmania developed a policy on marine structures to ensure boat ramps and other structures are built to a standard suitable for all weather use by various community groups, including angling and emergency services. This year, in conjunction with Marine and Safety Tasmania, boat ramps were upgraded at Tods Corner (Great Lake), Lake Meadowbank, Edgar Dam (Lake Pedder), Cluny Lagoon and Wayatinah Lagoon.

In this reporting period, Hydro Tasmania's information centre at Lake Gordon received 20,768 visitors and Waddamana Power Station Museum received 8,353 visitors.

Agriculture

The provision and use of water for agriculture is a major issue for Tasmanian primary producers and Hydro Tasmania formalised a Memorandum of Understanding on water allocations with the Department of Primary Industries, Water and Environment and the Tasmanian Farmers and Graziers Association. This provides significant benefits for irrigators, however some allocations are still to be finalised.



Water – a shared resource



The Tasmanian Symphony Orchestra

Sponsorship

Hydro Tasmania is committed to supporting organisations and events that best reflect its strategic priorities and its desire to be more widely recognised as a responsible corporate citizen in the community.

Hydro Tasmania's sponsorship program primarily focuses on Tasmanian activities. The long standing commitment to the Tasmanian Symphony Orchestra continued, with support for the Australian Music Program, while Hydro Tasmania's naming rights sponsorship for the annual Three Peaks Race has been extended to 2007.

In 2004, Hydro Tasmania became the sole State sponsor for the Clean Up Australia campaign for the next three years and has also agreed to support Junior Lifesaving. Ongoing partnerships continued with the Back to Pedder fishing competition, the Tullah Challenge, the Southern Cross Young Achievers Awards, the Cancer Council Relay for Life and various other community events and activities. Hydro Tasmania's sponsorship program provided more than \$320,000 during 2004/2005, while other parts of the organisation contributed significant amounts to other causes and community organisations.

Hydro Tasmania staff made personal donations to the tsunami disaster relief appeal with their contributions matched dollar for dollar by the Corporation.

Hands On Energy Discovery Centre

The Hands On Energy Discovery Centre continues to build its reputation for providing an exciting educational experience for students from all parts of Tasmania. In 2004/2005, almost 8,000 people visited the Centre, including an estimated 7,000 students from 116 schools around the State. New interactive displays and models were developed to focus on hydrogen fuel cells. Centre staff also spoke to more than 400 students in schools around the State, as well as almost 800 in Port Lincoln, South Australia, as part of the community information program for the Cathedral Rocks Wind Farm project.

The Centre extensively promotes the benefits of renewable energy through various initiatives. It was instrumental in developing the Hydro Tasmania exhibition recently opened at the CSIRO Discovery Centre in Canberra in conjunction with the Renewables Development business and makes a major contribution to the National Science Teacher publication *Energy Future Challenges*.

Stakeholder engagement

Hydro Tasmania is committed to informing the Tasmanian community of its activities and operations. During the year, a number of functions were held around the State to inform business, local government and community representatives of Hydro Tasmania's activities, ensure they were aware of the Corporation's strategic direction and enable discussion of current issues. These included stakeholder forums and events designed to gauge community reaction to specific initiatives.



The Hands On Energy Discovery Centre



Hydro Tasmania's exhibition at Agfest

The principal event for the year was the Corporation's Annual Meeting, held in Hobart in November and attended by more than 100 people. This was supported by a four-page annual report supplement distributed with all three daily newspapers in Tasmania.

Hydro Tasmania engaged key stakeholders to determine the information they would like to see included in a sustainability assessment report. This was valuable to both stakeholders and the organisation in identifying issues to address.

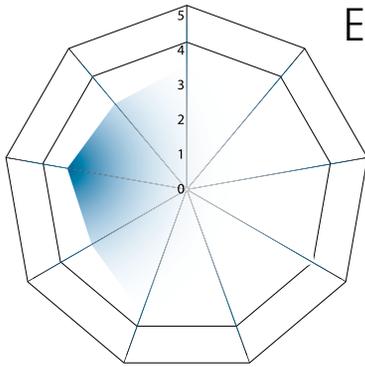
The annual Community Feedback Survey of nearly 400 respondents statewide showed that Tasmanians considered Hydro Tasmania to be a reputable business with a good environmental record. The community largely supported wind energy developments and the organisation using its expertise in renewable energy projects interstate and overseas. However, the survey showed Tasmanians questioned the organisation's engagement with stakeholders and the community in its decision-making processes. The survey also highlighted the need for Hydro Tasmania to continue to differentiate its brand from others in the electricity sector.

Self assessment

High community acceptance, the financial contribution through sponsorship and community activities and continued work on recreational facilities were rated well. Opportunities were identified to improve information regarding Hydro Tasmania's visitor activity policies and guidelines and to continue developing a stakeholder engagement framework across the business to understand stakeholder and community concerns and requirements.

Hydro Tasmania's community engagement was assessed as *satisfactory*, with a score of 3.

Ecosystems and Heritage



Hydro Tasmania is custodian of approximately 111,600 hectares of land. The commitment to responsible environmental and resource management has been implemented by the Energy and Renewables Development businesses, with scientific and technical support from Hydro Tasmania Consulting.

Environmental programs

Hydro Tasmania has a number of core environmental programs committed to the sustainable management of the natural resources affected by its operations. These include the Environment and Sustainability Management System (ESMS) and Sustainability Program, an Aquatic Environment Program, the Cultural Heritage Program and a Land Management Program.

Environment and Sustainability Management System

The ESMS, ISO 14001 certified since 1998, had its certification reconfirmed after an external compliance audit was conducted in May 2005. The certification incorporated Woolnorth Bluff Point Wind Farm for the first time.

Application of the ESMS has successfully reduced operational environmental risks for Hydro Tasmania and this is reflected in a reduction in the number of reportable incidents since 1999. Clear business processes are in place for conducting environmental risk assessments of new projects as well as ongoing management of existing assets.

During the year, Hydro Tasmania completed its annual review of the Environmental Policy and developed environmental plans for the coming 12 months.

Two new major developments that were assessed using Environmental Impact Assessment (EIA) procedures were the Cathedral Rocks Wind Farm in South Australia and the Smithton to Burnie transmission line in Tasmania's north-west. A commitment by Hydro Tasmania to protect approximately 2,300 hectares of native vegetation around the Cathedral Rocks Wind Farm, under a Heritage Agreement, led to the national Native Vegetation Council granting consent to the development.



Saline recharge of Lake Fidler

Meromictic lake restoration

The saline recharge of a meromictic lake within the World Heritage Area represented a proactive, sustainable management action taken by Hydro Tasmania to monitor and protect World Heritage Area values. Meromictic lakes, where fresh water and salt water do not mix but are stratified, are a rarity with only around 140 found in the world and only three or four in the remainder of Australia. Tasmania has three, all in the Gordon River basin. Lake Fidler is the most significant and was permanently meromictic prior to the construction of the Gordon Power Scheme.

In 2003, monitoring showed that the meromictic conditions had broken down and a plan was developed to artificially recharge Lake Fidler and restore its meromixis. Detailed environmental impact assessments and environmental management plans were prepared and approved by State regulators.

During 2004/2005, a major logistical exercise took place involving the transportation of 1,400 tonnes of sea water 20 kilometres up the Gordon River and careful discharge into the lake. Subsequent monitoring has indicated that

Lake Fidler is returning to its former state and chemically is very much the same as it was prior to hydro-electric development in the late 1970s.

Birds and wind farms

Hydro Tasmania has undertaken bird utilisation surveys and bird collision risk modelling to assess the risk of bird mortalities at wind farms. The model has been peer reviewed. Comprehensive bird and bat monitoring programs have been developed to comply with licensing commitments and permit conditions for the Woolnorth wind farm. Vegetation management was carried out for both the wind farm and the 110 KV transmission line.

Regulators have expressed concerns regarding the interaction of birds with the proposed wind farm development at Heemskirk on the State's west coast. These concerns relate to the risks to the Orange-bellied Parrot as a result of turbines being located along its migratory route. The Orange-bellied Parrot is a critically endangered species with a very small population. Hydro Tasmania has gone to extensive lengths to assess the potential risk to the species from the proposed wind farm, to inform the regulators of these assessments and to address any issues through management programs.

Concerns raised over potential bird interaction at Musselroe in the north-east of the State were resolved in consultation with Birds Tasmania.



The Orange-bellied Parrot

Aquatic program

Hydro Tasmania's Aquatic Environment Program (AEP) facilitates the management of aquatic ecosystems that are impacted by the operations of the business. Solid planning frameworks are in place for the AEP as a whole, and for sub-programs including the Basslink Monitoring Program, the Waterway Health Monitoring Program and the Water Management Review (WMR) Program. Areas assessed as strengths for the AEP were risk and opportunity assessment, development of plans outlining targets and objectives for the program, ongoing monitoring, reporting and review mechanisms and meeting legal requirements and other commitments.

The WMR Program aims to review Hydro Tasmania's environmental performance and identify measures for more sustainable water management. The program is focused on community consultation and scientific study, and seeks to find a balance between the environmental, social and business demands on water in Hydro Tasmania catchments. The Derwent catchment WMR commenced in 2004, following completion of the South Esk – Great Lake catchment.

Cultural heritage

The Cultural Heritage Project has significantly enhanced Hydro Tasmania's ability to appropriately manage heritage issues on land for which it is responsible, or on land affected by its activities. Hydro Tasmania co-operates with the Tasmanian Parks and Wildlife Service, the World Heritage Area Consultative Committee, Heritage Tasmania, the Tasmanian Aboriginal Land and Sea Council (TALSC) and others to manage historic cultural heritage, Aboriginal heritage and Wilderness World Heritage Areas (WHA).

During 2004/2005, approximately 80 per cent of Hydro Tasmania assets were assessed for cultural heritage values and conservation plans were developed for three power stations. An oral history project is systematically gathering and recording information about the social and cultural history of sites, and there is an ongoing communication strategy to raise awareness of historic heritage issues.

Two key areas were identified for improving Aboriginal heritage management in 2004/2005. To ensure that surveying and monitoring of construction sites meets acceptable environmental and legislative standards, formal agreements and protocols are being negotiated with the TALSC to replace the existing informal arrangements.



Natasha Brown, Team Leader Maintenance, at Liapootah Power Station

The second area responds to the need to access information from Aboriginal heritage surveys undertaken for past environmental impact assessments and management plans for future projects. Studies prepared for Hydro Tasmania land over the last 15 years have been examined and a database, with restricted access, of surveys and requirements has been developed. Any historic heritage surveys have also been noted in the Land Management Program database.

Land program

The Land Environment Program focused on collecting data and information on potential risks on Hydro Tasmania land, including information on *Phytophthora* (dieback) susceptibility, weeds, threatened species, contaminated sites and areas of past land disturbance. Assets and risks in the Tasmanian Wilderness World Heritage Area received specific focus in a WHA inventory. This inventory identifies assets and activities within the WHA and displays them on an internal GIS database that can be used to guide management requirements for operations. This asset inventory audit is now being expanded to encompass all other areas of Hydro Tasmania land.

Areas of Hydro Tasmania land outside the WHA have also been included in the information collection project. This information was used to undertake a comprehensive risk assessment of Hydro Tasmania's land management practices this year. This risk assessment has been used to prioritise activities in the 2005/2006 program which

includes projects on threatened species, land rehabilitation activities and contaminated sites. One such project will include surveying populations of the threatened *Ptunarra* brown butterfly, mapping available habitat on Hydro Tasmania land and using this information to develop a species management plan.

Land management procedures in the ESMS are also being revised as part of an upgrade of the system. These procedures will include those that are specific to the planning considerations and requirements of activities in the WHA and also those to deal with environmental issues elsewhere.

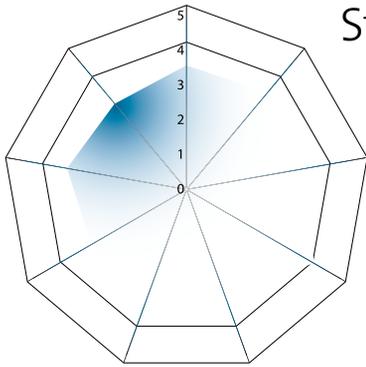
Self assessment

Comprehensive and effective work undertaken on environmental impact assessments and environmental management plans for new projects rated above average performance. The Aquatic Environment, land management and Cultural Heritage programs received satisfactory scores as a result of the fulfilment of legislative requirements and significant progress in strategic areas.

Additional work is required to establish more effective mechanisms for communicating with stakeholders regarding environmental issues, the implementation of training and awareness programs across all areas and the need for program benchmarking and external review.

The performance of the ecosystems and heritage element was assessed as *satisfactory*, with a score of 3.3.

Suppliers and Partners



Hydro Tasmania has excellent relationships with its extensive group of suppliers and service providers in Tasmania, interstate and overseas. Suppliers and partners are crucial in providing support for programs to upgrade and maintain generation assets, develop wind farms and trade in the National Electricity Market.

Strategic alliances

Hydro Tasmania has formed strategic alliances with Alstom to undertake a number of power station upgrade projects as part of the system-wide upgrade and modernisation program. These alliances are designed to achieve superior outcomes for the participating parties compared to the traditional supplier-client contract arrangement, particularly in terms of cost and profit outcomes and completion times. They are underpinned by formal agreements which establish the scope of work, and document health and safety plans, environment plans, procurement principles, personnel agreements and behaviour commitments. Monthly reports are sent to the Corporate Sponsors Group, which monitors progress and compliance with the agreements.

Wind farms

Relationships established with major international companies have been vital to the success of Hydro Tasmania's wind farm developments in Tasmania and South Australia. Hydro Tasmania has a joint venture with Spanish company Corporacion Energia Hidroelectrica de Navarra (EHN) to develop the Cathedral Rocks Wind Farm in South Australia. EHN was chosen above other candidates for its vision, values and approach to safety and the environment. The EHN partnership supports the potential of Hydro Tasmania to participate in the development of renewable energy facilities worldwide.

A strategic framework agreement with Danish company Vestas has driven the establishment of local manufacturing and job creation in Tasmania. The nacelle assembly plant at Wynyard continues to be a key element in the supply chain for wind farm developments in Australia and increasingly in the wider Asia-Pacific region.

National Australia Bank is jointly financing the development of wind farms to align with its intent to support developments that address climate change.

With the Chinese Government strongly supporting renewable energy projects, Hydro Tasmania has recently signed a Memorandum of Understanding with Chinese wind farm developer, Datang Jilin, to develop a 50 MW joint venture wind farm. This proposed development has the potential to open up significant opportunities for Hydro Tasmania.

Basslink

Basslink Pty Ltd is the developer of the Basslink project and therefore responsible for the conditions under which contractors operate. The main contractors are Siemens Limited and Pirelli Cavi e Sistemi Energia S.p.A. Hydro Tasmania maintains an open, integrated and inclusive relationship with the three parties. Formal agreements under the project documents require regular progress reporting, including monthly reports on issues related to environment, labour, contractors and cost.



The Basslink cable-laying vessel, the Giulio Verne

Suppliers and the environment

Established ESMS procedures are in place and environmental audits have maintained contractors' adherence to environmental requirements in the development of new projects.

There are no formal requirements for Hydro Tasmania's suppliers to address labour standards, employment practices or human rights. There is a formal requirement to have an environmental management plan.

Procurement policies

Considerable effort has been devoted to improving procurement policies, compliance and payment provisions to enhance the good working relationships with the supplier and service provider networks through more efficient and beneficial conditions. There is limited requirement for goods and services providers to produce sustainability information and no process for verification.

Currently, Hydro Tasmania is developing a uniform tender assessment process that will improve governance and transparency in this process. There is an opportunity to raise our expectations to encourage the sustainability performance of suppliers, contractors and vendors, and to influence the wider adoption of appropriate environmental and social standards. Mechanisms can be established to develop increased knowledge of sustainable practices within partnership arrangements.



Wind turbine nacelle arrival at Cathedral Rocks Wind Farm

Hydro Tasmania has continued its policy of sourcing goods and services from Tasmanian businesses where possible. Where appropriate, work is procured on a competitive basis and a significant proportion of competitively tendered contracts is awarded to Tasmanian firms.

Contracts awarded to interstate or international firms often add significant value to the Tasmanian economy through use of local suppliers and sub-contractors.

Details of contracts worth more than \$50,000 which were entered into the 2004/2005 financial year are as follows.

Contracts	No	\$M
Tasmanian-based suppliers	75	21.3
Interstate/overseas suppliers	28	18.7
Total contracts	103	40.0

The value of these contracts is lower than that reported in 2003/2004 due to alliances Hydro Tasmania has entered into and continuation of contracts awarded in 2003/2004.

Self assessment

Hydro Tasmania undertakes extensive due diligence processes in the selection of partners and co-investors. Understanding the business ethics of a prospective organisation, its vision, values and approach to health, safety and the environment are core considerations. However, gaps in understanding how Hydro Tasmania can influence sustainability issues in purchasing goods and services, and having limited guidelines and measurements for assessing supplier, contractor and vendor performance were identified.

The performance for suppliers and partners was assessed as *satisfactory*, with a score of 3.

External Sustainability Assurance

Assurance Statement for Hydro Tasmania's Annual Report 2005

To Hydro Tasmania's stakeholders

Banarra Sustainability and Social Assurance accepted responsibility for providing an opinion, based on the AA1000 Assurance Standard (AA1000AS), of Hydro Tasmania's account of its sustainability performance.

Objectives and scope

Our assurance objectives were to:

- subject the sustainability performance section of the Annual Report to a limited assurance process, including verification of data and claims; and
- if relevant, identify opportunities for improvements.

We tested all nine of areas of the Sustainability Performance section of the Annual Report, except for the financial performance figures in the area titled Financial. Users of this assurance statement should note our scope of work did not include testing the results of Hydro Tasmania's Sustainability Self-Assessment.

Summary of Approach

Our approach included developing a list of material issues and impacts through a range of activities such as internet-based research, key personnel interviews, including with the Acting CEO, and a review of internal and external stakeholder engagement results. The list was used to test the report's materiality, completeness and responsiveness.

We risk-ranked all claims and data and tested them by creating audit trails, investigating assumptions, reviewing data generation procedures and conducting interviews. The higher the risk assigned the deeper our testing. Within our scope of work 87 per cent of all claims and data identified were tested and only those of low risk were not tested.

The total time spent on this limited assurance process was 184 hours. A statement of our independence and competency is provided at www.banarra.com.

Key Findings

Our opinion of Hydro Tasmania's account against the AA1000AS principles of materiality, completeness and responsiveness is:

Materiality

For a first time reporter Hydro Tasmania took significant steps in determining the report's content. It used the Global Reporting Initiative, the International Hydropower Association sustainability guidelines, and internal and external stakeholder engagement. Of note was the engagement of a wide range of external stakeholders. Consequently we believe that the report contains information that is largely material to Hydro Tasmania's stakeholders.

Opportunities remain for ensuring a more systematic and internally inclusive process for decision-making in relation to the report's content. This could improve the report as Hydro Tasmania collects more sustainability performance data than reported.

The assurance process identified a small number of materiality issues in the draft report – that is, issues that we believed stakeholders would expect to be included but were not. These were all responded to and are reflected in the final report.

Completeness

Hydro Tasmania demonstrated a very good understanding of its sustainability performance, impacts and issues. This appeared to be especially strong in relation to water resource use, National Electricity Market entry and management of ecosystem impacts.

From an internal systems perspective a key strength was the Sustainability Self-Assessment, which tested the nine sustainability areas and identified key strengths and opportunities. It is unusual for a first time sustainability reporter to have such a developed internal sustainability accounting process.

Our material issues list identified two issues that while mentioned in the CEO's statement could have been more fully discussed in the sustainability performance section. These were disappointing employee survey and cultural audit results and project budget overruns.

In verifying key claims and data our two-person assurance team assured 193 claims and data charts. A number of errors were identified in the draft report and these were corrected for this final report. Where sufficient evidence was not provided the claim or data was deleted.

Responsiveness

Hydro Tasmania's performance areas are formalised in the organisation's Sustainability Policy and in key decision-making processes such as the Integrated Business Risk Management (IBRM). The IBRM process, from risk identification through to reporting on to the Board, is structured on the sustainability framework. This provides a foundation for the organisation to be able to identify, understand and respond to its key sustainability issues and impacts.

In general, responses are accounted for in the report. However, more context could be provided so that stakeholders can better understand the links between Hydro Tasmania's issues and impacts and its responses.

Hydro Tasmania had already identified an opportunity for establishing targets within the nine performance areas. We encourage the establishing of targets to drive performance and inform public sustainability reporting.

Summary

We believe Hydro Tasmania's account of its sustainability performance in this report makes a credible effort to identify the organisation's material issues, impacts and responses during the reporting period. While this report addresses the key issues, there remains an opportunity for Hydro Tasmania to provide more context and discussion. Internal management processes, such as the Sustainability Self-Assessment, provide a strong foundation for Hydro Tasmania to improve future reporting.



Richard Boele

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Banarra Sustainability and Social Assurance

Sydney, Australia

8 September 2005

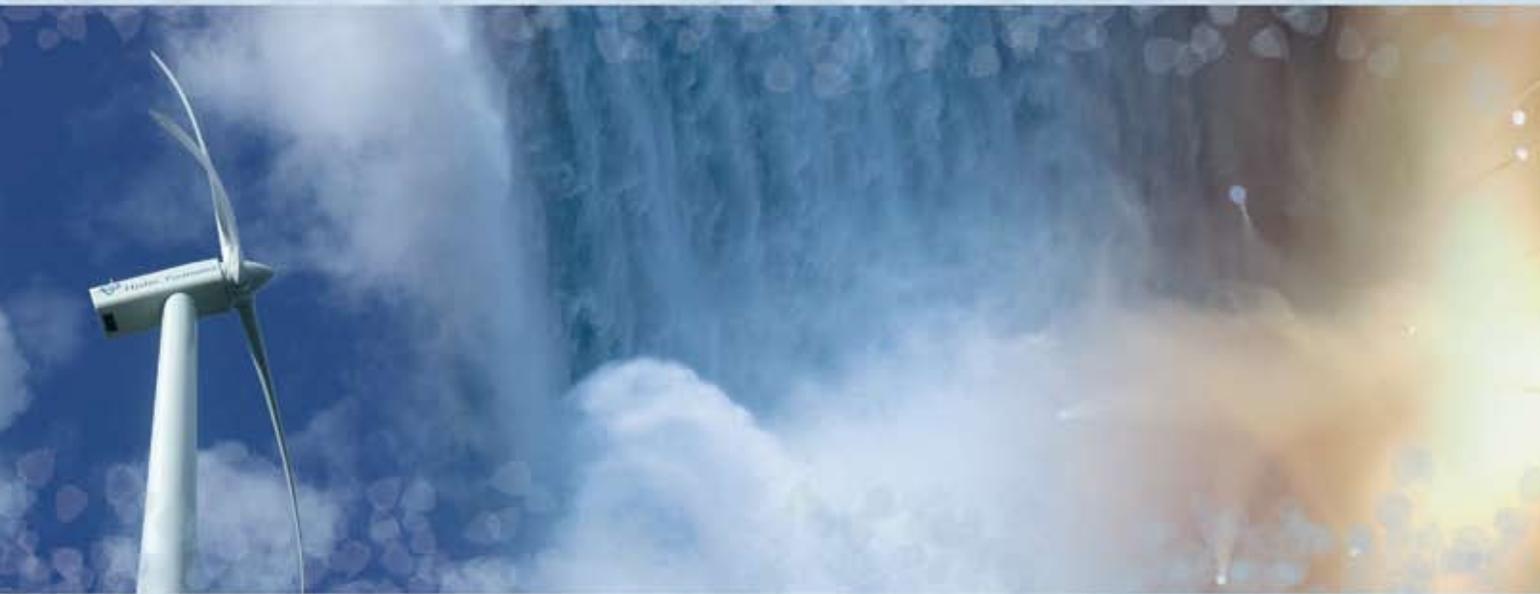


GRI Reference Index

GRI Reporting Element	In this report
Vision & Strategy <ul style="list-style-type: none"> Sustainable development vision & strategy CEO statement 	<i>(2 elements -> both covered)</i> <ul style="list-style-type: none"> Chairman's Review (page 5) Chief Executive's Report (page 9) Sustainability at Hydro Tasmania (page 45)
Profile <ul style="list-style-type: none"> Organisational Profile Report Scope Report Profile 	<i>(3 elements -> all covered)</i> <ul style="list-style-type: none"> The Business Profile (page 13) Organisational Chart (page 14) Contact Hydro Tasmania (back cover) Reporting Scope (page 12) Sustainability at Hydro Tasmania (page 45) External Sustainability Assurance (page 70)
Governance Structure & Management Systems <ul style="list-style-type: none"> Structure & Governance Stakeholder Engagement Overarching Policies & Management Systems 	<i>(3 elements -> all covered)</i> <ul style="list-style-type: none"> The Business Profile (page 13) Reporting Scope (page 12) Organisational Chart (page 14) Governance (page 49) Community (page 62) Statement of Financial Performance (page 84) Energy (page 21) Sustainability at Hydro Tasmania (page 45) Environment & Heritage (page 65) Operations (page 51) Market (page 54) Renewables Development (page 27) Hydro Tasmania Consulting (page 33) Corporate Services (page 39)
GRI Performance Indicators	In this report
Economic Customers; Suppliers; Employees Public Sector; Indirect Impacts	<i>(10 core + 3 additional indicator issues -> 10 core + 2 additional indicator issues covered)</i> <ul style="list-style-type: none"> Statement of Financial Performance (page 84) Financial (page 56) Community (page 62) Suppliers & Partners (page 68)
Environmental Materials; Energy; Water; Biodiversity Emissions, Effluents & Waste; Suppliers Products & Services; Compliance Transport	<i>(16 core + 19 additional indicator issues -> 8 core + 6 additional indicator issues covered)</i> <ul style="list-style-type: none"> Operations (page 51) Suppliers & Partners (page 68) Governance (page 49) Ecosystems & Heritage (page 65)
Social: Labour Practices & Decent Work Employment; Labour / Management; Relations; Health & Safety Training & Education; Diversity & Opportunity	<i>(11 core + 6 additional indicator issues -> 7 core + 3 additional indicator issues covered)</i> <ul style="list-style-type: none"> Employment & Capability (page 58) Statement of Corporate Intent (page 73) Health & Safety (page 60) Directors and Board Committees (page 16)
Social: Human Rights Strategy & Management; Non- discrimination; Child Labour; Forced & Compulsory Labour Disciplinary Rights; Security Practices Indigenous Rights	<i>(7 core + 7 additional indicator issues -> 0 core + 3 additional indicator issues covered)</i> <ul style="list-style-type: none"> Employment & Capability (page 58) Financial (page 56)
Social: Society Community; Bribery & Corruption; Political Contributions; Competition & Pricing	<i>(3 core + 4 additional indicator issues -> 1 core + 1 additional indicator issue covered)</i> <ul style="list-style-type: none"> Ecosystems & Heritage (page 65) Renewables Development (page 27)

A comprehensive version of this table is on our website www.hydro.com.au

Statement of
Corporate
Intent



Statement of **Corporate Intent**

This Statement of Corporate Intent has been prepared pursuant to section 41 of the Government Business Enterprises Act 1995 (the GBE Act).

The Statement is effectively a summary of Hydro Tasmania's Corporate Plan for the 2005/2006 to 2009/2010 financial years. Its publication in full is a requirement of the Treasurer's Instructions for the preparation of a Government Business Enterprise's Annual Report.

1.1 Business Definition

1.1.1 Commercial Activities

Hydro Tasmania is a Government Business Enterprise, operating in commercial markets. Our principal business activities are:

- management and operation of major dams, infrastructure and equipment for the generation and trading of electricity and related products
- development of new renewable energy generation assets
- provision of consulting and other services in renewable energy, environmental and water management and associated sciences and technologies.

1.1.2 Non-Commercial Operations

Hydro Tasmania provides concessional arrangements to customers of Hydro Tasmania living on the Bass Strait islands. Aurora Energy delivers these arrangements to customers via a sub-contract arrangement, with net costs of the activity funded by the State Government as a declared Community Service Obligation (CSO).

1.1.3 Strategic Objectives

Hydro Tasmania has a statutory obligation under the *Government Business Enterprises Act 1995* to achieve a sustainable commercial rate of return that maximises value for the State. In formulating the sustainable commercial rate of return, we have assessed sustainability and value for the State in accordance with Hydro Tasmania's Sustainability Policy. The Sustainability Policy commits the business to measure and report its performance against targets set out under nine elements. The nine elements cover the following areas:

- Governance
- Operations
- Market
- Financial
- Employee Capability and Opportunity
- Health and Safety
- Community
- Ecosystems and Heritage
- Suppliers and Partners.

The value for the State defined here primarily reflects the long-term increase in financial returns from, and/or economic worth of, the business. The Corporate Plan sets out our business performance targets having regard to our Sustainability Policy and is submitted by the Hydro Tasmania Board for approval by the Minister for Infrastructure, Energy and Resources and the Treasurer, as the Portfolio and Stakeholder Ministers under the Act.

The Hydro Tasmania Board recognises that approval of the Corporate Plan by the Minister and Treasurer indicates that the business performance targets specified within the Corporate Plan of Hydro Tasmania are set so as to achieve a sustainable commercial rate of return that maximises value for the State.

1.2 Strategic Directions

Hydro Tasmania is tasked through the GBE Act with achieving a sustainable commercial rate of return that maximises the value for the State in accordance with its Corporate Plan, while having regard to the economic and social objectives of the State. In achieving this, it is Hydro Tasmania's charter to prudently grow those areas related to its principal purposes, which will enhance its position locally, nationally and internationally where such growth will add value to both Hydro Tasmania and the State of Tasmania.

Our aspirations for the future are firmly grounded in conformance with the *Hydro-Electric Corporation Act 1995* and the Ministerial Charter.

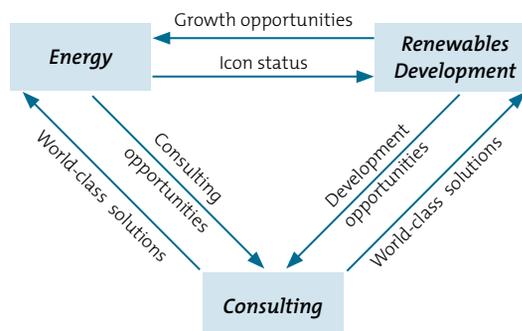
In this regard, the principal purpose as defined in the Ministerial Charter is to undertake the following activities:

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

This context guides and drives the Corporation's future.

The business model chosen to achieve this aim is to grow the business operating or investing as three "interdependent lines of business".

Hydro Tasmania three interdependent lines of business



The key strategies for Hydro Tasmania can be summarised as follows.

Energy – *The cash engine of the business*

- To maximise the sustainable return from our unique assets and resources by using best practice systems and approaches in the National Electricity Market (NEM)
- For 2005 successfully implement the new Energy business model by maintaining our focused and systematic approach.

Renewables Developer – *The growth engine of the business*

- To position ourselves for growth by:
 - investigating and developing, in the immediate term, Australian renewable energy opportunities arising from the Mandatory Renewable Energy Target (MRET) scheme
 - developing and establishing a new business model to enable further growth, whether that be within or outside Australia.

Consulting – *The knowledge engine of the business*

- To operate a line of business which delivers a sustainable commercial return in its own right while always retaining core skills as the knowledge engine of Hydro Tasmania through systematic recruitment, development and retention of our people capabilities
- To strengthen the "interdependent lines of business" model by always looking to enhance the capability and performance of the other lines of business

Statement of **Corporate Intent** *continued*

- To pursue external growth opportunities through organic or acquisition growth consistent with the above.

Corporate – The enabler of business outcomes

- *People* – To build the level of engagement and commitment of our people, as we will only progress our strategies with the full alignment of our team. Inspire our people to excel at what they do and inspire others by being fully engaged and committed to our business
- *Stakeholders* – To be guided by our values and our sustainability policy, and to keep all relevant stakeholders appropriately informed and engaged in our business development
- *Financial* - To foster growth and provide the capacity to withstand financial shocks in the more volatile NEM environment by strengthening the Balance Sheet based on financial performance and achieve financial ratios with the equivalence of a BBB rated entity.

1.2.1 Integrated Business Model

The key strategies for each area of the business have been independently set but are complementary to one another and can be expanded as follows.

Energy Business

- Implement the new NEM business operational model and complete the existing business plan
- Meet NEM Entry and Basslink commissioning milestones
- Continue the upgrade and modernisation program within sustainable cash availability
- Strengthen management capability to ensure delivery of projects and deadlines
- Nurture cultural change and up-skilling of our people.

Renewables Development Business

- Accelerate our Australian wind program to take advantage of the remaining MRET window
- Develop a new business model to take Renewables Development into new markets
- Continue to be proactive in policy influence, nationally and internationally
- Continue the research and development focus of Hydro Tasmania as an early applier.

Consulting Business

- Grow our external business organically or through acquisition consistent with maintaining and enhancing Consulting as the knowledge engine of Hydro Tasmania – target an internal / external revenue split of 50/50
- Focus on market expansion, both on the mainland and internationally in line with client opportunities
- Hydro Tasmania to use Consulting exclusively as part of the integrated three business operating model
- Foster networks through industry associations, developers, strategic consulting and political relationships
- Implement a market-based reward and remuneration structure
- Utilise the Hydro Tasmania brand because of its unique competitive positioning.

Whole of Business

- Maintain appropriate financial performance consistent with a Balance Sheet with financial ratios equivalent to a BBB rated entity
- In an environment of scarce capital, ensure our projects are prioritised in order of highest economic return
- Achieve cost efficiency and effectiveness by benchmarking to best practice outcomes
- Ensure access to appropriate standby lines of credit / cash reserves as well as meeting Australian Financial Services Licence liquidity requirements

- Continue the development of our safety culture, in particular the line of business safety plans
- Attract and retain key staff by proactively establishing a strong presence in the recruitment market and reviewing our incentive arrangements to allow our people to share in our results
- Build our leadership capability and deliver a more systematic approach to identifying and developing people with potential
- Maintain strong relationships with key stakeholders
- Proactively position the Corporation's profile at NEM entry by providing targeted information to key stakeholders including the Tasmanian community.

1.3 NEM Entry

Hydro Tasmania entered the National Electricity Market on 29 May 2005. All pre-conditions for NEM entry were met, and represented a huge effort by all involved from Hydro Tasmania as well as Aurora, Transend, the National Electricity Market Management Company (NEMMCO) and the relevant State Government departments.

1.4 Factors Affecting the Business Environment

- The hydrological risk associated with the existing supply and demand balance and the low storage levels up until commencement of Basslink operations
- The delay of Basslink due to transformers being damaged while in transit from Germany and the satisfactory completion of the project in accordance with the revised timetable, on budget and to specification
- The impact of the current historically low energy prices in the NEM
- The impact of increased transmission charges on the Corporation's cost base going forward
- Continued fall in electricity prices in real terms placing greater emphasis on cost control and operational efficiency
- Potential volatility of earnings associated with operating in the NEM

- The looming national skills shortage
- Complex and often lengthy planning and approval processes for renewable developments
- The impact of changes to legislation and regulation such as the review of the Federal Government's mandatory renewable energy policy, changes to the operation of the National Electricity Market, harmonisation with international accounting standards and Corporations Law requirements to comply with Australian Financial Services Licensing requirements
- Continued restructuring and rationalisation in the NEM and associated counterparty credit issues and potential thinning of counterparties
- Interest rates remaining relatively low and stable
- Hydro Tasmania's actual and perceived environmental performance
- The rate of growth of the Tasmanian economy and its electricity market
- Potential for insurance markets not allowing appropriate risk transfer
- Introduction of natural gas to Tasmania as a competing energy source.

Statement of Corporate Intent *continued*

1.5 Business Performance Targets

1.5.1 Performance Indicators

Performance Indicator		2004/05 Actual	2005/06 Target	2006/07 Target	2007/08 Target	2008/09 Target	2009/10 Target
Financial							
· Profit After Tax	\$M	44.4	49.4	42.1	50.1	57.1	63.4
· Dividends paid to Tasmania	\$M	40.0	40.0	24.7	21.0	25.0	28.6
· Business Expenses paid to Government	\$M	37.9	38.4	35.4	37.0	39.7	41.9
· Capital Expenditure	\$M	92.8	135.9	86.3	88.4	96.0	105.7
· Shareholder Value Added	\$M	36.3	43.0	41.8	47.5	51.7	51.7
People							
· Lost Time Incident Frequency	No.	3.2	1.2	0.0	0.0	0.0	0.0
· Resignation Rate	%	8.5	7.0	7.0	7.0	7.0	7.0
Market & Customers							
· Energy Sales Revenue Growth	%	3.0%	2.9%	3.7%	2.8%	1.6%	2.8%
Assets & Processes							
· Operation Breaches	No.	0	0	0	0	0	0
· Maintenance Routines Completed	%	87	>95	>95	>95	>95	>96
· Start Success	%	98	100	100	100	100	100
· Equivalent Forced Outage Factor	No.	1.48	0.35	0.35	0.35	0.35	0.35
· Total Generation Assets Availability	%	90.7	90.0	90.0	90.0	90.0	90.0
· Telecomms Network Availability	%	99.99	99.99	99.99	99.99	99.99	99.99
Stakeholders and Environment							
· Environmental Incidents	No.	15	0	0	0	0	0
· Environmental Compliance Breaches	No.	1.00	0.00	0.00	0.00	0.00	0.00
· Regulatory Breaches	No.	0	0	0	0	0	0

Legend to Performance Indicator table:

Profit After Tax – Calculated as per standard accounting policies.

Dividends Paid to Tasmania – Cash returns to our shareholder from dividends.

Business Expenses Paid to Government – Cash payment of income tax equivalents, rates equivalents and guarantee fees.

Capital Expenditure – Cash outlay for capital projects.

Shareholder Value Added – The economic profits generated by a business over and above the return required by its capital providers. Calculated as Average Investment x (EROC – WACC) (to be agreed with the Department of Treasury & Finance).

Lost Time Incident Frequency – Number of lost time accidents per million hours worked.

Resignation Rate – Shown as voluntary resignations. Does not include redundancies.

Energy Sales Revenue Growth – Target revenue growth of energy sales (excluding REC sales).

Operation Breaches – Number of material breaches of statutory obligations, including corporations law (GBE Act), environmental, OH&S.

Maintenance Routines Completed – Number of successfully completed routine preventative maintenance and condition

monitoring jobs. These jobs are an essential part of ensuring plant safety and maintaining performance capability.

Start Success – Shows, as a percentage, how many times the plant managed to start successfully after the start command was issued. The ability to provide successful starts is an essential component of being able to provide guaranteed and flexible asset performance.

Equivalent Forced Outage Factor – Shows the portion of time that plant was unavailable for service due to breakdowns. Breakdowns restrict the business' ability to meet guaranteed performance levels.

Total Generation Assets Availability – Overall average available productive time for generating assets during the time period measured.

Telecomms Network Availability – Amount of time the network is available for use.

Environmental Incidents – Number of incidents adversely affecting the environment.

Environmental Compliance Breaches – Number of breaches of compliance with Hydro Tasmania's environmental policies and relevant environmental and water management legislation.

Regulatory Breaches – Number of breaches against REC Policy & Procedures, TEC Regulations, OTTER Determinations, OH&S, Water Management, Environmental Management, Management & Pollution Control, Land Use Planning & Approval Legislation.

1.5.2 Distribution Policy Targets

The financial projections included in the Corporate Plan incorporate a special dividend to be paid in 2005/2006. Together with the planned ordinary dividend, total dividends paid for 2005/2006 will be a minimum of \$40 million.

Dividend arrangements for the period beyond 2005/2006 are still to be finalised. However, the projections indicate that ordinary dividends will be paid at the rate of 50 per cent of profit after tax. This level of dividend is consistent with the Treasurer's Instruction - Dividend Policy Guidelines for Government Business Enterprises.

Any agreed distribution strategy will need to balance the sharing of profitability between returns to Government and retention of funds in the business to allow strengthening of the Balance Sheet and for investment in growth opportunities. As well, it will need to take into account the potential volatility of reported earnings that may occur due to our operating in the NEM environment and changed reporting arrangements as a result of our adoption of Australian equivalents to International Financial Reporting Standards.

1.6 Other Business Issues

1.6.1 Key Limitations

The key limitations facing Hydro Tasmania are:

- prior to commencement of Basslink the potential adverse implications should there be a period of continued low rainfall
- the decision of the Federal Government not to extend the MRET targets following the review of MRET legislation
- the potential uncertainties associated with the precise rules to apply upon establishment of wholesale electricity market arrangements in Tasmania
- the potential uncertainties associated with the evolving rules for the National Electricity Market
- the long-term financial commitments associated with Basslink operation
- the risks associated with natural gas developments in Tasmania
- availability and retention of personnel with commercial acumen, technical expertise and knowledge in key areas.

1.6.2 Other

Growth into new markets and further exploitation of the potential in the Tasmanian market may involve partnerships and strategic alliances with energy suppliers, equipment providers, customers or bankers, as is the case with many major infrastructure developments in Australia today. Innovative, but always carefully measured, approaches will be used to follow these strategic directions.

