

Annual Report **2018-19**



TasNetworks pays respect to the traditional owners of this land, the Tasmanian Aboriginal people. We pay respect to those that have passed before us and acknowledge today's Tasmanian Aboriginal people who are the custodians of this land.

Tasmanian Networks Pty Ltd
ABN 24 167 357 299
PO Box 606, Moonah, TAS 7009
1-7 Maria Street, Lenah Valley, Tasmania 7008
1300 127 777 | tasnetworks.com.au

The cover image shows the impact the January 2019 bushfires had on our electricity assets and the superb effort of the emergency teams to protect our community and assets from bushfire.

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ABOUT US

TasNetworks delivers power to Tasmanians. Our vision is to be trusted by our customers to deliver today and create a better tomorrow.

We own, operate and maintain the electricity transmission and distribution network in Tasmania. We deliver a safe, cost-effective and reliable electricity supply to more than 285,000 residential, commercial and industrial customers.

Our responsibilities include:

- Keeping our people and our customers safe
- Maintaining and replacing network infrastructure to ensure a reliable service for our customers
- Connecting new customers to the network (including small and large-scale generators)
- Investing in the network to support capacity growth

- Operating the network on a day-to-day basis, including all fault restoration
- Maintaining the public lighting system

42-24

We own a subsidiary business called 42-24 that specialises in telecommunications, information technology services and data centres.

Project Marinus

We're finalising the business case assessment and starting design and approvals planning for Project Marinus: a second Bass Strait interconnector known as Marinus Link, together with the associated supporting transmission in north-west Tasmania. Marinus Link will play a key role in Australia's future electricity grid.

About this report

This report reviews the operations of Tasmanian Networks Pty Ltd and our subsidiaries TasNetworks Holding Pty Ltd, FortyTwo24 Pty Ltd, Marinus Link Pty Ltd and Large Scale Renewables Pty Ltd for the 2018-19 financial year.



WHAT IT TAKES TO DELIVER YOUR POWER



TRANSMISSION

3 500

CIRCUIT KILOMETRES OF
TRANSMISSION LINES

7 700

TRANSMISSION LINE
SUPPORT STRUCTURES

11 000

HECTARES OF EASEMENT

49

SUBSTATIONS



DISTRIBUTION

15 000

KILOMETRES OF HIGH
VOLTAGE POWERLINES

5 000

KILOMETRES OF LOW
VOLTAGE POWERLINES

2 000

KILOMETRES OF HIGH AND LOW
VOLTAGE UNDERGROUND CABLES

230 000

POLES

TELECOMMUNICATIONS

1 675

KILOMETRES OF FIBRE
OPTIC CABLE

2

DATA CENTRES



PEOPLE

1 005

EMPLOYEES

FROM OUR CHAIRMAN

The energy industry is evolving in a manner we have never seen before.

Across Australia, wind and large-scale solar generation developments are proceeding at unprecedented rates. At the household level, customers are beginning to see the benefit of integrating solar, batteries and devices into the electricity grid.

Accompanying these developments are significant challenges as coal-fired plant retires and the need grows for new dispatchable generation that can support intermittent solar and wind generation.

In this environment, network businesses need to ensure both large-scale and small-scale generation assets are connected safely and reliably, while continuing to provide customers sustainable prices. While the surge of customers installing solar provides them greater control over their energy usage, it creates challenges for managing our network. It means the system needs to facilitate power flowing both to and from local premises with generation and storage assets.

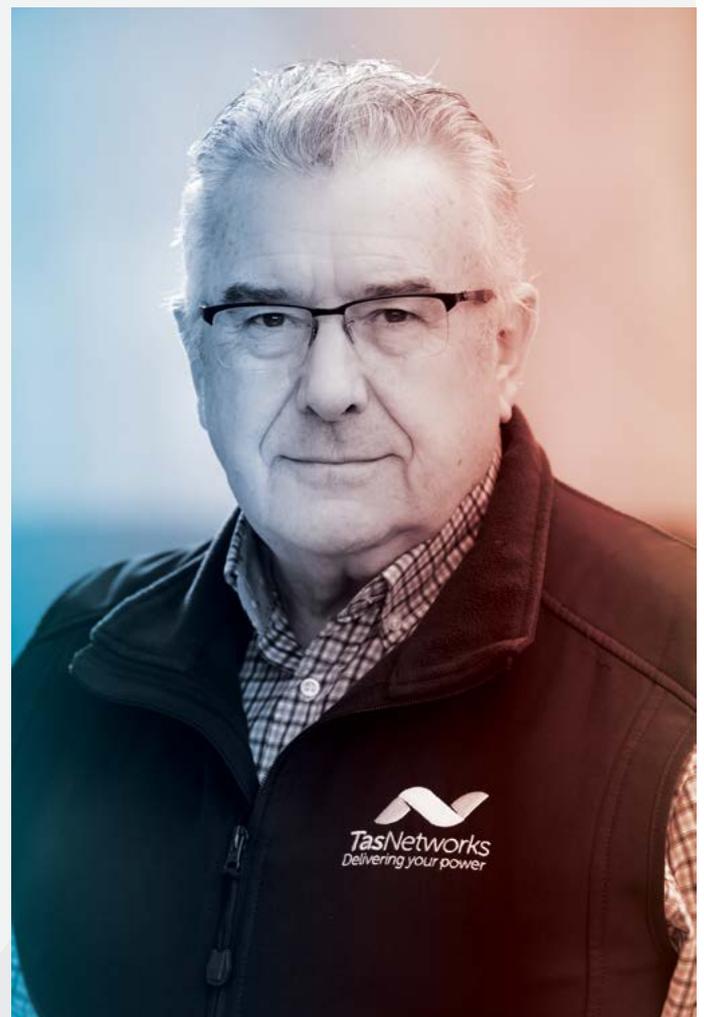
Over the past five years of TasNetworks, we have been working to create a future electricity grid that enables us to keep prices down, keep the lights on and to leverage our unique position in the National Energy Market (NEM).

We have been building capabilities and trialling new systems to ensure network design delivers benefits. This includes the Bruny Island Battery Trial, with the objective to improve ways of network management using distributed energy storage, improve the autonomous operation of energy storage and investigate the social aspects of tariff structures. The trial provides a glimpse into a future electricity network where everyone can benefit.

This year we released our Marinus Link Initial Feasibility Report, which demonstrates a second Bass Strait interconnector would provide NEM-wide economic benefits, including the transition to a future of lower carbon emissions. Marinus Link would enable

substitution of lower cost Tasmanian hydro generation, pumped hydro storage and competitive renewable resources for higher cost thermal and renewable generation in mainland regions of the NEM. Importantly, it would facilitate the connection of increasingly critical dispatchable generation to support power system security in the NEM.

This is a unique opportunity for our state and a potential game changer for our business. However, we must ensure the project's social licence and environmental impacts of the Link are carefully considered and communities are closely engaged, both in Tasmania and Victoria.



We continue to see unprecedented enquiries for new renewable generation developments to connect to the transmission network. While this is an exciting opportunity for TasNetworks and Tasmania, it is paramount to ensure these developments are connected and coordinated in a manner which ensures that Tasmania's energy security and the reliability of the network is not compromised, while also ensuring that price rises for our customers remain sustainable. Once again, robust consideration of social and environmental impacts and careful community consultation are critical. This is particularly important as we plan the transmission developments to enable the connection of large-scale renewable energy in the North-West.

The Australian Energy Regulator (AER) allowed TasNetworks revenue of \$2,012.5 million for the 2019-24 period. I wish to acknowledge the customers and stakeholders that worked with us to develop a proposal that ensures TasNetworks is appropriately equipped to address the challenges of a rapidly changing industry, while continuing to provide the affordable, safe and reliable services our customers expect.

I would like to acknowledge the work of my fellow Directors, particularly retired Director Dr Jane Sargison for her service to TasNetworks and great contribution to the Board and committees. Following Jane's retirement, we welcomed Dr Julie Beeby to the Board and also appointed an additional director, Sarah Merridew. Both Julie and Sarah have a wealth of experience and are providing valuable leadership, insight and knowledge to the Board.

During 2018-19, TasNetworks had many accomplishments. I am particularly proud of our ability to face new technical and operational challenges head on and our involvement in leading Australia's renewable energy future. We look forward to working closely with our customers and the community on both challenges and the opportunities that present us in the years to come.

I specifically acknowledge the commitment of the TasNetworks Leadership Team led by

Lance Balcombe. With the strong support of the entire TasNetworks team the company has delivered excellent results in 2018-19 and consolidated the foundations for addressing future challenges.

Dr Dan Norton AO
Chairman

FROM THE CEO

The 2018-19 year was another successful year for TasNetworks, culminating with the celebration of our five-year anniversary.

We can be proud of the efforts of our entire team who continue focus on delivering valuable services and outcomes to our customers, our owners and our community.

A shining example of this was our response to January's devastating bushfires that burned on many fronts across Tasmania. Our team participated in a massive collaborative effort with the fire and emergency services, the Australian Energy Market Operator (AEMO), Government agencies, the Bureau of Meteorology and local communities to coordinate a safe response, protect our key transmission and distribution assets while working hard to maintain energy system security across Tasmania at a time when it was very much needed. Fortunately, our assets losses were reasonably low, particularly in comparison to those under threat, and the restoration efforts from our team and contractors was timely and, importantly, safe.

We demonstrated our business and our people are well prepared to deal with an emergency of this scale and our learnings from reviews subsequent to the event will bolster our processes should we face similar future threats to our network. I would also like to acknowledge the teamwork and support we received from the emergency services and agencies throughout the event.

As Tasmania's transmission network service provider (TNSP) and distribution network service provider (DNSP) we continue to focus on the performance of our networks, while maintaining a balance between safety, reliability and cost. The Australian Energy Regulator (AER) ranked TasNetworks as a middle to high performing TNSP based on comparative analysis of financial metrics in its June 2019 performance data update. The overall performance of our distribution network has also met or exceeded the standards set by the industry regulator, a result that delivered an incentive payment



for the business while also providing improved customer outcomes. Combined, the two elements of our network continue to perform well and provide value for both our large and small customers.

In April this year, the AER finalised our revenue determination for the 2019-24 period. The final determination delivers an excellent result for our customers, with projected network tariff increases less than CPI throughout the regulatory period. The determination reflects a huge effort across the business and supports the broader work of our Shareholder to deliver the lowest sustainable prices for the Tasmanian customer base.

Work also continued across the state to support growth in Tasmania's large-scale renewable energy sector, with TasNetworks being contracted to construct transmission lines connecting the Cattle Hill and Granville Harbour wind farms to the network. Pleasingly both these projects are progressing ahead of schedule and in the case of Granville Harbour, TasNetworks will own, operate and maintain the line following construction, for which we will receive a fee from the wind farm owner. With a combined project capital cost of \$50

million, these investments in new assets are an example of the broader construction opportunities that have been identified in Tasmania through AEMO's Integrated System Plan (ISP) and related Renewable Energy Zones. The ISP identifies North-West and central Tasmania as primary zones for renewable energy projects, such as wind, solar and pumped storage and as Tasmania's TNSP and jurisdictional transmission planner, we are working with developers to coordinate network planning.

Relatedly, the case for a second interconnector between Tasmania and Victoria, Marinus Link, together with the supporting transmission in North-West Tasmania, continues to move towards a final feasibility and business case assessment report which will be released later this year. In February this year, the Tasmanian Government received advice of a \$56 million grant from the Commonwealth Government to accelerate the project into the design and approval phase. This is an exciting development and the Marinus team is well progressed with on-boarding resources and advancing planning for this phase, which will take the project through to a final investment decision for the Tasmanian Government.

For our customers, we delivered a new and improved experience in April, launching the new TasNetworks website supported by updated back-end systems. With many improvements across the platform, customers now have access to greater detail when seeking information in relation to connections and outages and we look forward to delivering further improvements in how we communicate and engage with our customers, with the launch of mobile SMS services later this year.

This year, we have also been reminded that some health and safety issues can be unforeseen, with the investigation of potential health impacts of a type of herbicide historically used for vegetation spraying by transmission line employees employed by Hydro Tasmania in the 1960s to 1980s period. This issue highlights that health and safety obligations, and the need to care for our people, are not time sensitive. With the full support of our Board and Shareholder, this will remain our approach as we work with those people potentially impacted as a result of this issue.

In response to ongoing challenges in regard to our safety performance we commissioned an independent review to benchmark our safety performance against seven key metrics. Importantly all our team members had the opportunity for direct input into this review. The resultant 2019-21 Safety and Wellbeing Strategy has been launched to step change our safety performance from the current level of developing to advanced, a journey which we anticipate will take up to two years. Again, our team members will be involved all the way with collaboration, co-design and information sharing key underpinnings to the successful implementation of the strategy.

On a financial perspective, TasNetworks generated positive returns for our owners, meeting or exceeding all of our financial targets for 2018-19 for regulated network services. We delivered an Operating Profit after tax of \$40.8 million, which was \$6.4 million favourable to budget. The business remains in a solid financial position. However, I note our future returns are reflective of the existing low interest rate environment, which while delivering lower profits than those of a few years ago, are delivering lower prices through to our customers.

On reflection, the fifth year of our business has seen some challenges and many achievements. In such a fast-paced environment, we are excited about the future and will continue to foster innovation while maintaining a strong emphasis on the safety and wellbeing of our people and the care of the environment. Our customers remain at the heart of everything we do and our commitment to lowest sustainable prices and "keeping the lights on" for all Tasmanians will continue to be our focus.

My thanks to our Board for their continued strategic guidance, innovative thought and support and my thanks also to the Leadership Team and to all our people for their continued dedication and effort in delivering the great results achieved during 2018-19.

Stay safe.

Lance Balcombe
CEO



OUR CUSTOMERS

Making it easier for our customers

Our Voice of the Customer Program has focused on delivering a better experience for our customers.

We launched our new website in April, which enables customers to report outages, streetlight faults and vegetation issues and engage with us via web chat.

We also worked to merge a number of our systems to provide a centralised view of customer relationships. By consolidating these systems into one simple-to-use platform called The Podium, we provided our team

members transparency of the end-to-end customer journey. This has made it easier to provide excellent customer service through management of enquiries, complaints, claim requests, fault reports and vegetation issues.

In 2019-20 we will deliver new SMS services enabling customers to register and choose to receive SMS updates about power outages and quarterly meter reads.

Our new website enables customers to report outages, streetlight faults and vegetation issues as well as chat to our customer service centre.



Customer engagement

We're committed to engaging with our customers about our activities and plans to create a better tomorrow.

We hold forums and events across the state to engage with our customers about safety, pricing, the environment and changes in the energy sector.

This year we joined other energy organisations at the DairyTas All About Energy field days to engage with dairy farmers about how to support more productive farming. The successful events were held at privately owned farms and brought together farmers and rural community members to chat with us directly about issues that are important to them.

In May 2019, our Agfest presence featured a mix of interactive and informative displays which focussed on educating customers on our current activities and our plans into the future.

We provided information about power outages and encouraged customers to prepare a home emergency kit. We spoke to our customers about our networks' impact on Wedge-tailed eagles and had conversations about energy efficiency. We also partnered with the Australian Electric Vehicle Association to showcase the new Hyundai Kona electric vehicle including how the network facilitates the connection of new technology.

We consulted our customers about the development of our 2019-24 regulatory proposal. A consistent and clear message is that affordability is our customers' primary concern, while significant importance is also placed on delivering safe and reliable services.



Our Customer Scorecard

	2018-19 target	2018-19 result
Net Promoter Score	+10	+3.9
Customer Complaints	< 2400	2730
Call answering – calls answered within 30 seconds (combined fault/service centre)	> 73.4%	85%

Throughout 2018-19 we discussed network tariff reform with our Pricing Reform Working Group. Our Pricing Reform Working Group comprises well-informed stakeholders from peer businesses, consumer bodies and representative groups. Most members were supportive of a shift from an opt-in approach to time-of-use consumption based network tariffs to opt out, noting a faster pace of network tariff reform. This approach was later proposed, and subsequently accepted, in our revised regulatory proposal. The group has also supported the development of our pricing strategy for as part of our 2019-24 regulatory proposal.

The AER has acknowledged our efforts as being “one of a handful of network businesses that has commenced its engagement with consumers well in advance of submitting its regulatory proposal and appears to be responsive to customer feedback in shaping outcomes”. The group has now been renamed the Policy and Regulatory Working Group. Our vision is to continue collaborating with these members and widen the scope to include broader regulatory, policy and pricing outcomes and reform in Tasmania.

Another way we engage with our customers is through our Customer Council. Formed in 2015, our Customer Council provides valuable feedback and input into our services.



Customer Council members have contributed to discussions regarding our pricing and tariff strategy, the redevelopment of our website and how we talk to our customers.

Customer Council members have contributed to discussions regarding our pricing and tariff strategy, the redevelopment of our website, how we talk to our customers about events such as planned power interruptions, powerline inspections and much more.

What our customers are saying



Getting a text message helps to reduce anxiety on waiting times.

A text message would be good as most people don't have a landline during an outage.

A text message with information would be handy.

Customers want text messages to inform of power outages and response times.

In line with our strategy, we measure our customers' experience through Net Promoter Score and satisfaction surveys.

This research is undertaken to better understand our customers and identify ways we can improve. This research aims to build on current understanding about the needs and attitudes of our customers, so the services we provide can be planned and delivered with our customers' long-term interests in mind.

Customer complaints were above target for 2018-19, however since December there has been a positive trend in the reduction of complaints due to our new systems and improved processes. Complaints continue their downward trend year on year.

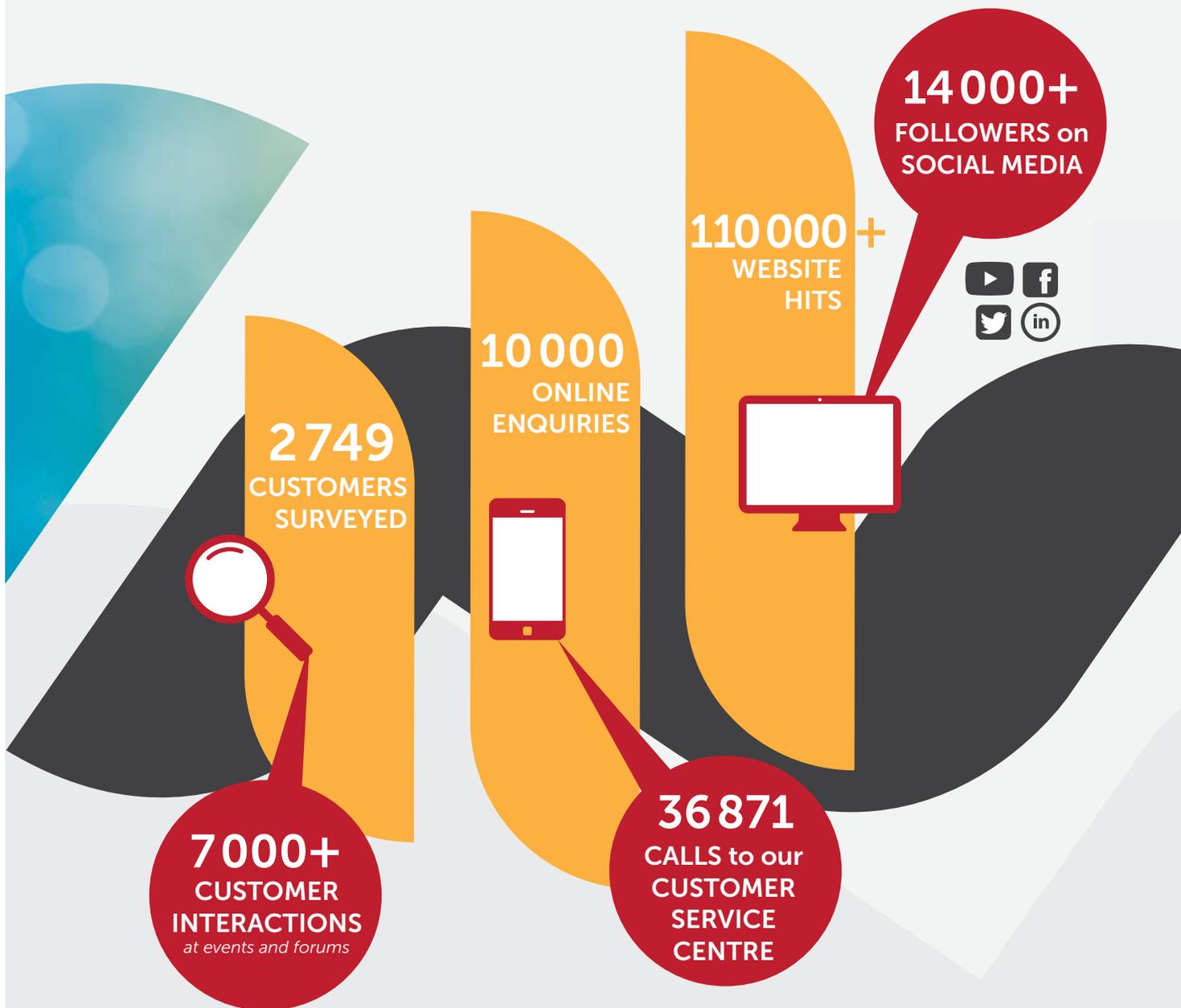
Our Net Promoter Score was below target (+3.9), but there has been positive trend throughout 2018-19, with one month achieving +15.1.

We significantly outperformed our Customer Service Centre call answering target by leveraging our new customer service platform, The Podium, to efficiently handle all enquiries, keep customers informed and accelerate enquiry resolution timeframes.

In response to customer feedback, we have developed a critical program of work to address the challenges customers face connecting to our distribution network. Commencing in 2019-20, we will work to improve our customer experience by reducing connection timeframes and improve transparency.

TasNetworks will soon deliver SMS services for our customers.

Customer engagement at a glance



emPOWERing You Trial Customer Lead Kylie Bennett speaks with a participant about energy.



CASE STUDY

emPOWERing You Trial comes to an end

In February, emPOWERing You Trial participants celebrated the success of their three-year journey learning about time-of-use pricing.

The trial saw around 600 advanced meters installed at the homes of residential customers from Bridgewater, Brighton and surrounding areas. An electricity usage app allowed participants to track their power use and choose how they used power in their households.

As a result of the trial participants better understand time-of-use pricing and can use this knowledge to change the times of day they use electricity in order to reduce power bills.

Participants have provided us with valuable insights about how people use electricity that we could not have gained otherwise.

Feedback we received from the trial made it clear that customers want electricity networks and energy retailers to work together to offer customers clear pricing mechanisms to incentivise power use at the right time of day.

Advanced meters make the transition to time-of-use pricing a reality. We will use insights from the emPOWERing You Trial to work with energy retailers and customers on how we can progress the transition to time-of-use pricing.

An electricity usage app allowed participants to track their power use and choose how they used power in their households.

Our community event at Bonorong Wildlife Sanctuary saw more than 250 participants and their families celebrate their contribution to electricity pricing reform.

SAFETY AND WELLBEING

Stepping up our safety performance

Regretfully, during 2018-19 we had 12 reportable safety incidents.

Many of these occurred towards the end of 2018. Our significant incidents consisted of eight team member safety incidents, four public safety incidents, and one contractor safety incident.

Our reportable incidents included three wrongful disconnections of registered life support customers, seven transformer oil spills and two employee injuries.

While we didn't reach our aspirational target of 0 for lost time injury frequency rate, our new Safety and Wellbeing Strategy for 2019-21 aims to target this area for positive change in our safety behaviours.

We commissioned an independent review of our current health and safety performance, assessed against seven levers: strategy, people, leadership, governance and assurance, risk and opportunity, systems and structure, and digital technology. The review has provided us with guidance on where to focus to continuously improve.

Our new Safety and Wellbeing Strategy for 2019-21 adopts the key findings of the review and has been aligned with existing initiatives to ensure continuity. It is based upon a highly collaborative approach, including workshops with our people to ensure everyone is part of the safety and wellbeing culture journey.



Our Zero Harm Scorecard

	2018-19 target	2018-19 result
Significant incidents ¹	≤ 8	14
Reportable incidents ²	≤ 12	37
Lost time injury frequency rate	0	5.2

¹ Incident with an actual or credible potential for major or severe health, safety, or environment consequences as defined by our risk matrix.

² Incidents that require notification to a government authority. Includes threatened bird incidents which are referenced further on page 26.

115
EMPLOYEES
COMPLETED
MENTAL HEALTH
FIRST AID
TRAINING IN
2018-19





CASE STUDY

Our response to bushfire

We delivered a safe and effective response to 2019's devastating bushfire season.

Tasmania suffered through its driest January on record, with lightning strikes igniting many hectares of land across the North-West, Central, South West and Southern Tasmania.

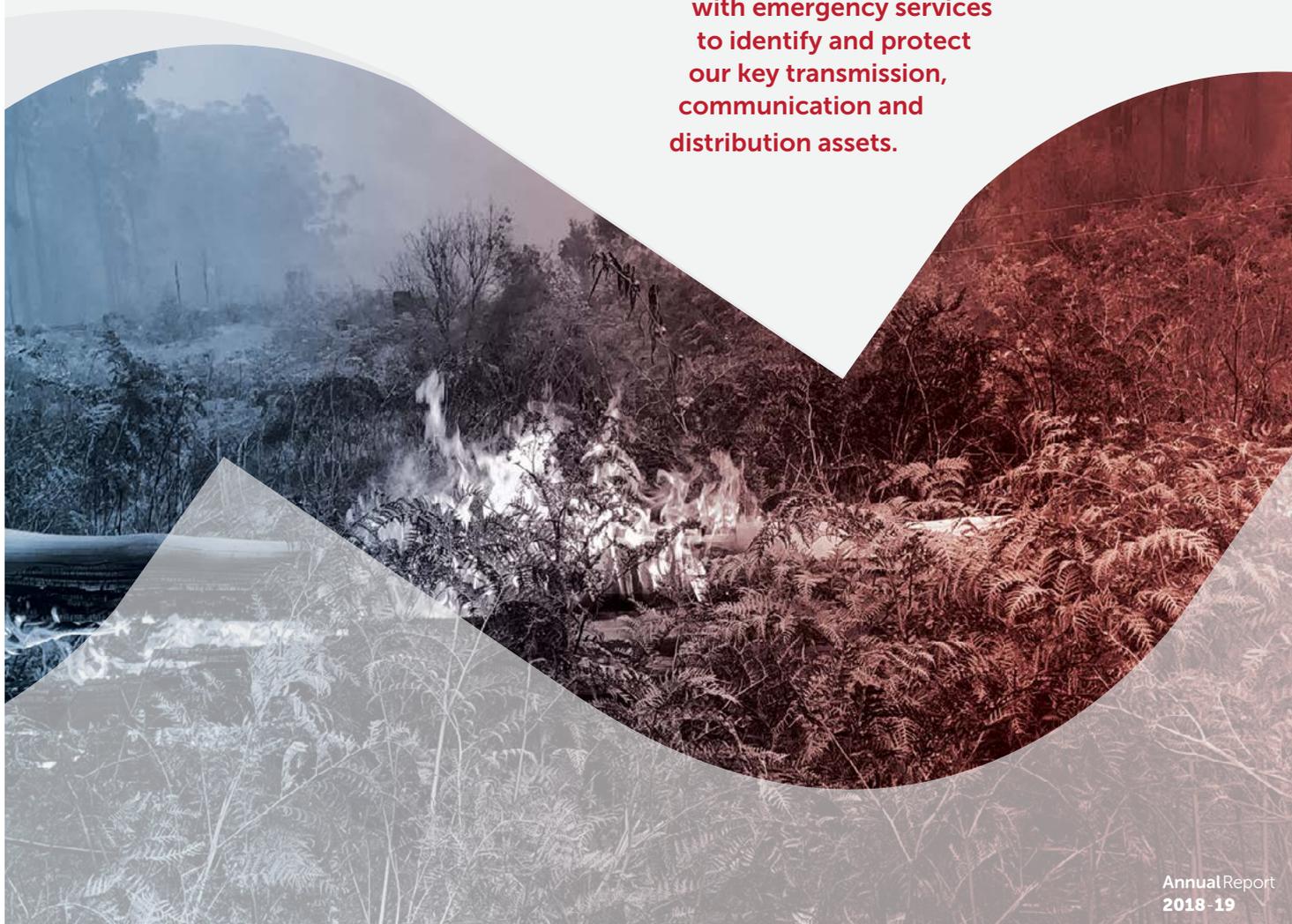
Throughout the emergency response, we worked closely with emergency services – especially Tasmania Fire Service – to identify and protect our key transmission, communication and distribution assets. This resulted in safe and secure electricity supply to households and businesses throughout the bushfire season. Power outages were limited to areas where bushfire destroyed our wooden poles and

wires in places like the Huon Valley, North-West and Central Plateau.

In March, we completed restoration work of the transmission line at Southwood, which was extensively damaged. We replaced 30 fire-damaged structures, and restrung 11 kilometres of new line.

Throughout the fires we remained in close contact with impacted customers and provided electricity reliability advice at the Huonville Evacuation Centre. Team members also responded to the call for extra volunteers to assist at the evacuation centre on weekends.

Throughout the emergency response, we worked closely with emergency services to identify and protect our key transmission, communication and distribution assets.



CONNECTING WITH OUR COMMUNITY

Our community partnership program supports community-based organisations to make a meaningful difference in our community.

Our program is lead by our newly formed Corporate Social Responsibility team, which endeavours to build trusting relationships.

Greening Australia Energy Wise Schools Program

Launched in early 2019, an education resource kit aligned to the Australian curriculum is a key component of the program. The program aims to inform and equip young Tasmanians with the knowledge to make better decisions about their energy management, and develop a greater understanding of imminent energy challenges and

opportunities, in conjunction with greater science, technology, engineering and maths awareness.

The Mind Games

We are raising the red flag on mental health in the workplace through our support of The Mind Games. The first-ever Mind Games brings leading Tassie businesses together for a fun, action-packed event, all aimed to raise awareness and critical funds for mental health research. The Mind Games will take place in October 2019.

Throughout 2018-19, we provided support to more than 30 community-based organisations to deliver initiatives which directly benefit the community.



Tasmanian LiFE Awards Best Practice in Suicide Prevention in a Workplace Award

The Tasmanian LiFE Awards recognise life-affirming work in suicide prevention in Tasmania. We proudly sponsored the TasNetworks Best Practice in Suicide Prevention in a Workplace Award which was presented to Ambulance Tasmania for their work to implement a cultural change program, directly aimed at supporting the mental health and wellbeing of their staff and volunteers.

2019 is the second year we have sponsored the award after receiving the accolade in 2017 following the launch of our own wellbeing program.

Sparking bright futures

Our Bright Sparks program has been keeping kids safe around electricity since 2015.

Each year, our brightly coloured mascot called Sparks and her safety conscious companions travel around the state to deliver vital electrical safety information to primary school students.

Through tailored electrical safety and energy efficiency resources, the recently revamped program teaches students from kindergarten through to year six where electricity comes from, safe and responsible practices around electricity and how to avoid dangerous situations in and around the home.

The program is delivered by volunteers and is a highly valued platform for electrical safety education within the community that reinforces our unwavering commitment to safety.

“The presenter was great with the kids and the follow-up work they did in class was engaging and deep thinking. I also had feedback from a couple of parents about how great the program must have been as they have now learnt so much from their kids.”

Georgie of South Hobart Primary School.



Sammy learns how to keep safe around electricity and about the importance of personal protective equipment worn by our teams.

**BRIGHT
SPARKS**

**12
TASNETWORKS
VOLUNTEER
PRESENTERS**

**12 316
STUDENTS
REACHED**

**60
SCHOOL
VISITS**

OUR PEOPLE

**employer
of choice**

Harnessing our potential

This year we have aligned our customer service, network operations and field operating teams, while driving commercial growth opportunities and creating greater visibility of the program of work across the business.

We have established a new Technology and Performance team to ensure we prioritise, support and facilitate performance improvement in the business.

Across the business we are working hard to improve efficiency through implementing 90-day cycles of work and visual management boards.

Through a new Innovation Framework, we have also been seeking to harness and focus the innovation already occurring in the business, and create a pathway for innovative ideas to be developed to deliver customer value and where appropriate, commercialised.

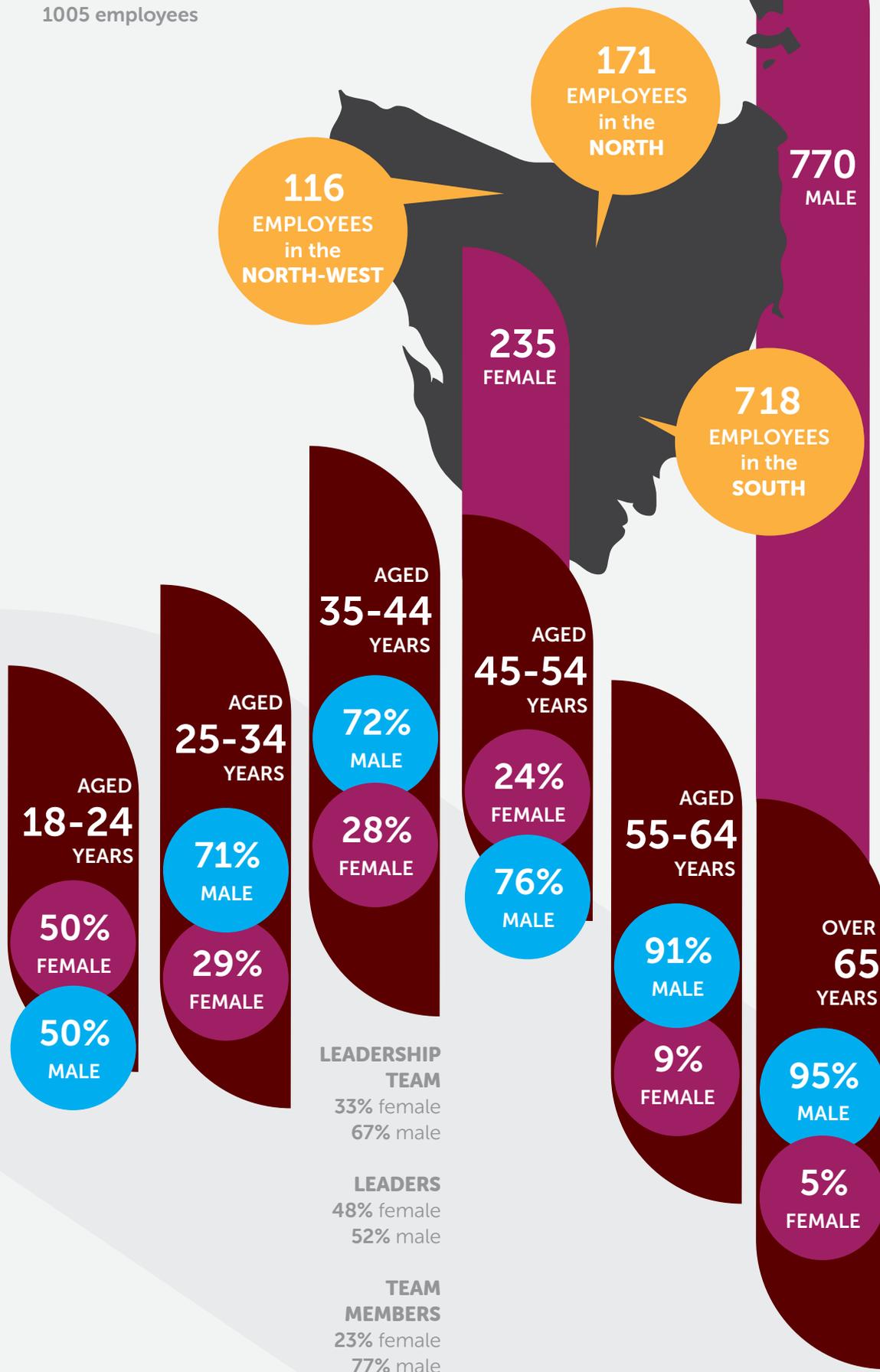
Our People Scorecard

	2018-19 target	2018-19 result
Employee engagement	58%	53%



Our people in numbers

1005 employees



Building our people's capability

As our industry continues to evolve, our workforce has been embracing a digital future.

New technologies and access to data are helping to improve our productivity and will enable our workforce to learn new skills and develop innovative ways of working.

We have developed a roadmap of the capabilities required for the business now and into the future. This capability framework supports our 2025 Transformation Roadmap by articulating the competencies required to succeed now and into the future.

We are committed to developing a capable and agile field workforce, with our dedicated Training Centre supporting our people with nationally recognised and enterprise-specific technical training. This year we upskilled our people in electrotechnology, distribution and transmission and invested in our technical

trainers to support their vocational education and training skills.

We are serious about supporting the community to be safe around our infrastructure. During 2018-19 we reviewed and enhanced our training for Authorised Persons (the people who work and supervise others near our powerlines and assets). We also continued to further clarify competency expectations of our contractors to ensure that together, we can return home to our families at the end of the day and preserve our environment for future generations.

During 2018-19 we have ramped up our apprentice intake, with 11 new appointments around the state. Our apprentices are paired with a field coach to support them in-field during their learning journey.



Culture and engagement



What our people are saying

"If change might create some tension, then people often avoid resolving the issue [to] try to keep everyone happy."

"We have some amazing people working here. TasNetworks supports flexible working arrangements and provides great remuneration."

"I love working here; fantastic peers to work with who are keen to achieve the business goals and go a little further beyond than what is needed."

Each year we measure our culture and engagement through our People Survey.

An overall response rate of 73% was achieved in 2019, up 9% from 2018. Our overall engagement score held steady at 53%, short of our aspirational target of 58%.

We acknowledge cultural change takes time and concentrated, consistent effort. We have seen strong positive shifts in culture compared to our first survey in 2014. Pleasingly, analysis of the data from 2014 to 2019 shows a significant positive shift in two constructive styles: achievement and self-actualising. We are a more constructive culture now than when we commenced in 2014.

Measuring both culture and engagement enables us to identify how our people feel about our business. A critical outcome is the understanding of the impact and effect of strategic initiatives and importantly, the action plans our people develop to improve our culture and level of engagement and work towards a high performing organisation.

Organisationally, we have focussed our improvement efforts on our key people initiative: building trusting relationships. This initiative is an enabler of our vision "to be trusted by our customers to deliver today and create a better tomorrow", as a constructive culture within our business extends, through our people, to constructive relationships with our customers.

We have a more constructive culture now than when we commenced in 2014.

ENVIRONMENT AND SUSTAINABILITY

Climate change

One of the biggest challenges facing infrastructure owners and operators worldwide is managing the impacts of climate change on assets to ensure safe and reliable service to customers.

We are particularly exposed to climate change impacts like storms, heatwaves and bushfires.

Given the typically long life of electricity network assets, the way electricity networks are designed, operated and maintained requires regular review to maximise their resilience to a changing climate.

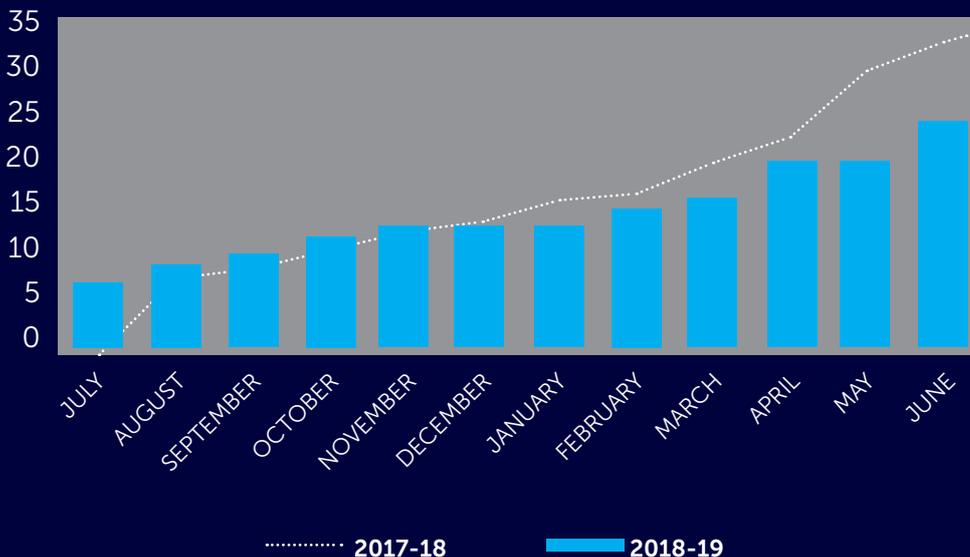
Both our transmission and distribution networks currently demonstrate a reasonable level of reliability and resilience, with the transmission network generally being the stronger network. A number of strategies are

being implemented that will maintain and continue to improve the resilience of our networks against climate change impacts.

These include installing non-burnable poles at selected high value pole locations in high bushfire loss consequence areas, trialling fire-resistant paint for selected poles, monitoring for any increase in weather extremes and monitoring our asset overload failure rates.

One of the biggest challenges facing infrastructure owners and operators worldwide is managing the impacts of climate change on assets.

Threatened bird incidents during 2018-19



CASE STUDY

Threatened birds

We care about the environment and advocate for a sustainable future. This year our focus has been on accelerating our response to threatened birds.

Wedge-tailed eagles, grey goshawks and white-bellied sea eagles are precious to us. Unfortunately they can be electrocuted as a result of flying into powerlines or perching on power poles (see incidents table opposite).

Bird welfare is of concern to electricity networks worldwide. We are taking a proactive approach to reducing the impact of the network on Tasmania's threatened birds through our Threatened Birds Strategy, based around three core components.



Mitigating our impact

The primary focus of our Threatened Bird Strategy is installing bird mitigation (flappers and perches) on our distribution network in high-risk areas. We spent \$1.5 million in 2018-19 and will spend nearly \$1 million for each of the next five years.

Additionally, we expedite the installation of mitigation at sites when a threatened bird is killed or injured on our network.

Building knowledge and awareness

We are building awareness of our impact on threatened birds and the action being taken to minimise the risks posed by our assets.

We are encouraging the reporting of incidents particularly in rural areas and talking to our customers at the Campbell Town Show and Agfest.

We are a supporter of Where, Where, Wedgie! a citizen science initiative trying to accurately estimate population levels of Wedge-tailed eagles and other Tasmanian birds.

Partnerships

We support the research of University of Tasmania PhD candidate James Pay to help us to better understand bird behaviour in proximity to our network.

We partner with rehabilitation centres such as Raptor Refuge who help return injured birds back to the wild.

Our crew install devices to powerlines to alert birds of distribution powerlines ahead. They glow in the dark and swivel in the wind, which increases their visibility.



CYBER SECURITY

Protecting us from online risk

In 2018-19 we have concentrated on various capability streams to uplift cyber security maturity against industry-supported targets while focusing on key business risk.

We have been able to change the organisational stance towards cyber security, enable secure business processes, enhance governance, create a cyber-aware mindset and encourage regular discussion of cyber at Board and executive levels.

Key achievements for 2018-19 include:

- A consolidated cyber security risk register with defined risk management processes

- Endorsement of a Cyber Security Governance Framework
- Development and approval for key security policy updates and security standards documents
- Implementation of improved technical controls across both information technology and operational technology against the Australian Signals Directorate Essential Eight
- Improved cyber security awareness and education from high participation (~85%) in training modules, and cyber awareness presentations across the business
- Improved physical security testing of physical assets and social engineering

Our 2019-20 Cyber Security Program will build on the foundational work of our initial cyber program. Included will be a facilitated assessment to measure the level of improvement in our cyber security maturity against the Australian Energy Sector Cyber Security Framework.



CASE STUDY

Fast charger support scheme

Electric vehicles (EVs) are becoming more common on Tasmanian roads, and as their number increases, so will the benefits to the community.

They are cheaper to run, quieter to drive and have zero emissions when powered from our renewable electricity sources.

We support the installation of public fast charging services and have launched our Electric Vehicle Fast Charger Scheme as an incentive for businesses to install fast charging facilities.

This year, our Electric Vehicle Fast Charger Scheme supported Bennett's Petroleum's fast charger at Mood Food at Kempton.

We have also been exploring the impacts of charging electric vehicles on our network.

A study undertaken this year has found that high and medium voltage usually has the capacity for increased load via EV charging, however the impacts on the low voltage network can widely vary.

For instance, one EV can be enough to trigger a major network upgrade on some low voltage networks, while others can host multiple EVs.

We are working to better understand what strategies we can put in place to turn this risk into an opportunity. This includes identifying high risk areas and gathering more information about the low voltage network.

We continue to work with the Climate Change Office's electric vehicle working group to promote uptake of EVs in Tasmania.

Electric vehicles are cheaper to run, quieter to drive and have zero emissions when powered from our renewable electricity sources.



CASE STUDY

Developing sensors to reduce outage times

We have initiated a project to develop new low-cost sensors for our distribution network.

The sensors could be used to detect and measure network changes or issues, such as blown fuses and changes in switch positions. Further development of these type of sensors would also allow us to provide asset tracking, energy monitoring and provide more accurate weather data.

Currently, we rely on our customers to tell us when a power outage occurs. The new technology would automatically detect and communicate the issue to our operations control centre for action.

The sensors will help us respond more quickly to faults by narrowing the possible location of the fault. In addition, by better managing network constraints we can get better utilisation from our network.

The sensors are being prototyped and will be in testing until December 2019.

The low cost sensors could be used to detect and measure network changes or issues.



CASE STUDY

Trial transforms the future of the grid

In March 2019 we celebrated the end of the CONSORT Bruny Island Battery Trial, a research project involving us, The Australian National University, The University of Sydney, University of Tasmania and energy management provider Reposit Power.

The three-year trial was supported by \$2.9 million of funding by the Australian Renewable Energy Agency.

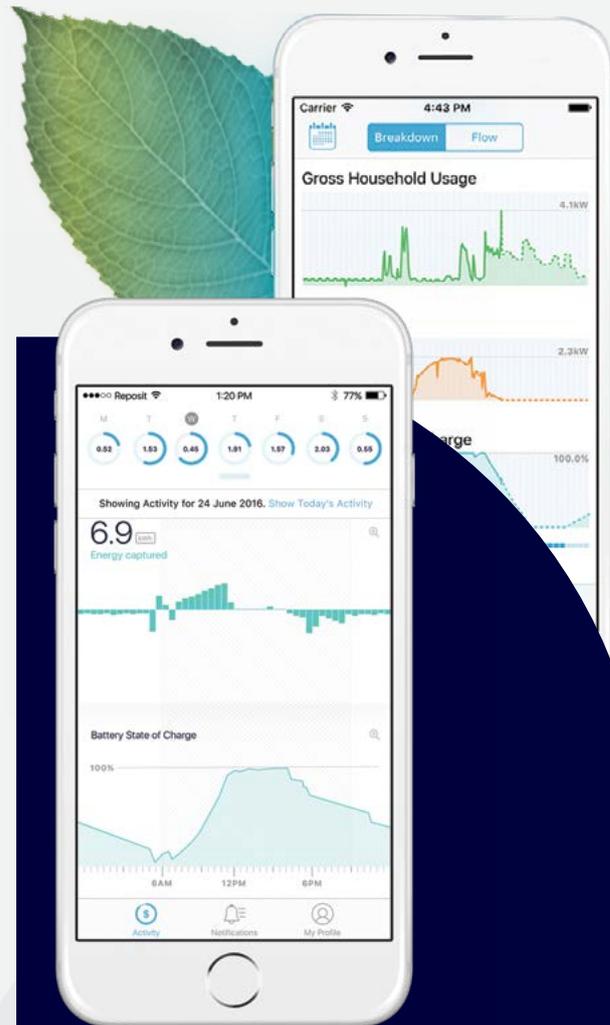
The trial explored a solution to the problem of Bruny Island's limited power supply, as the undersea cable that supplies the island gets overloaded at peak times. Historically, we managed this overload using diesel generation. But since the first customer-owned battery was installed in 2017, we have been able to buy energy from participating customers, reducing the amount of diesel usage by 33% and eliminating diesel use completely for some peaks.

A battery controller was installed at each of the 40 participating households. This technology helped actively keep the network within voltage and capacity limits, reducing the reliance on diesel generation during peak season, and enabling battery owners and networks to work together to maximise the value of solar energy.

An automated Network Aware Coordination (NAC) system developed by The Australian National University optimised the battery response to network constraints and is a world first. The algorithm orchestrates customer-owned batteries to best resolve network problems.

The trial has transferable learnings for other areas of Tasmania and potentially the rest of Australia. We have learnt a lot from this project. We have explored new relationships with our customers that allow them to become active participants in the network and get rewarded when they support it.

The trial explored a solution to the problem of Bruny Island's limited power supply.



A phone app allowed participants to monitor and manage their battery storage.

GROWTH

42-24

Our new subsidiary business began operating on 1 July 2018, specialising in telecommunications, information technology and data centres.

The key outcome of 42-24 in 2018-19 was to develop and commence the strategic plan which will guide 42-24's activities over the coming three years towards 42-24's vision of "innovating, enabling and securing your tomorrow".

We transitioned customers from TasNetworks to 42-24 during this time. Ensuring we maintained a consistent customer experience was key to establishing our new brand in a highly competitive market. The results of 42-

24's customer satisfaction survey, which saw an increase in 42-24's Net Promoter Score from +50 in 2017 to +75 in 2019, demonstrate 42-24's commitment to providing an excellent customer experience coupled with high quality products.

42-24 maintained revenue streams in our three core business lines of telecommunications, data centres and IT services throughout 2018-19. We secured a number of new commercial contracts throughout the year.

42-24's customer satisfaction survey saw an increase in 42-24's Net Promoter Score from +50 in 2017 to +75 in 2019



42-24 is the only organisation with access to optic fibre cable connecting West Coast communities, which highlights the crucial role our network has in the delivery of telecommunications services into regional areas of our state. Of significance was the delivery of backhaul capacity to support the expansion of NBN Co's network to the West Coast. This initiative included construction of an 11km optic fibre cable extension from Rosebery to Mt Read.

Historically Mt Read is the central point of aggregation for all telecommunications service on the West Coast. The extension of optic fibre to this location supports the delivery of modern broadband services to all West Coast communities through high-capacity wireless extensions. The new cable has already attracted interest from a number of national telecommunications providers looking to improve coverage and performance of their services on the West Coast.

Serving 42-24's customers will remain a priority in 2019-20. However, we will be looking at new ways we can diversify and grow and will be investigating opportunities within the energy services market.

New large connections

Over the past few years we have received a number of expressions of interest from large-scale renewable generation projects seeking to connect to our network, some of which have progressed to formal connection applications.

This trend continued in 2018-19, with connection enquiries for about 2,000 MW of renewable generation during the year. The recent interest has been supported by the strengthened case for additional interconnection with the mainland through Marinus Link.

About 255 MW of additional renewable generation capacity will be added to our network in 2019-20, with construction of Cattle Hill Wind Farm expected to be completed in early 2019-20 and Granville Harbour Wind Farm likely to be completed by the end of 2019. We've been busy supporting these two projects during 2018-19, by building the assets required to connect the new generation to our network and ensuring these assets are in place before the wind farms are commissioned.

During the year we have also worked closely with a number of other renewable energy proponents to support their proposals by helping to identify the connection and technical requirements for them to connect to the NEM through our network.

We have also extended a number of connection agreements with some of our larger load customers, thereby securing their ongoing connection to our network and commitment to Tasmania.

Revenue allowance and network pricing

In April 2019 the Australian Energy Regulator released its final decision for our regulatory proposal, which outlines how much it will cost to operate and maintain our electricity networks for the period 1 July 2019 to 30 June 2024.

The regulator has allowed us \$2012.5 million to operate for this period.

Distribution network charges have, on average, fallen in each of the four years to 2019-20. After a small decrease in 2016-17, the network charges faced by residential and small business customers fell by almost 20% in 2017-18 and a further 2.9% in 2018-19, bringing network charges back to the same level (in real terms) as they were in 2009-10.

We are committed to keeping any price increases at around CPI levels for customers and have done this while not compromising the delivery of a safe and reliable electricity supply. Over the regulatory period 2019-24, there is expected to be less than a 2% average price increase per year for residential and small business customers.

For our transmission network customers, average charges are expected to decrease from \$18 per MWh over 2014-19 to \$14 per MWh over the regulatory period 2019-24.

We are committed to keeping any price increases at around CPI levels for customers and have done this while not compromising the delivery of a safe and reliable electricity supply.

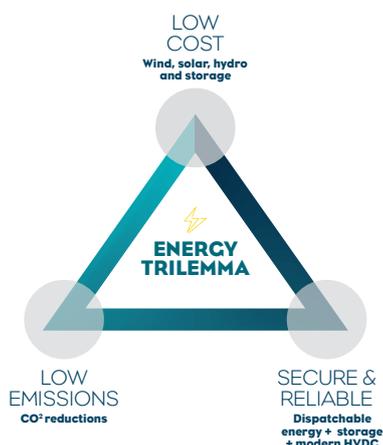


MARINUS

LINK

WHAT IS
MARINUS LINK?

Further Bass Strait interconnection in the form of 'Marinus Link' will be an important part of Australia's future electricity grid



MARINUS LINK AND SUPPORTING TRANSMISSION

The proposed Marinus Link and its supporting transmission network upgrades will deliver at least of 1200 MW of increased capacity between Tasmania and Victoria. The interconnector is planned to be delivered in two components, each of at least 600 MW. Marinus Link is classified as a high priority initiative by Infrastructure Australia. It was identified by the Australia Energy Market Operator (AEMO) as playing a critical role in Australia's energy future in its Insight Paper published in July 2019.

GOVERNMENT SUPPORT

The \$20 million business case assessment into Marinus Link is being undertaken with funding support by The Tasmanian Government through TasNetworks and the Commonwealth Government through the Australian Renewable Energy Agency (ARENA). The Business Case Assessment report is on track to be completed in December 2019. Recognising the strategic benefits Marinus Link and its supporting transmission can provide to the nation, the Commonwealth Government provided additional funding of \$56 million in February 2019 to prepare for and start the Design and Approvals Phase. This funding supports the potential for Marinus Link and supporting transmission to be in service by the mid-2020s.

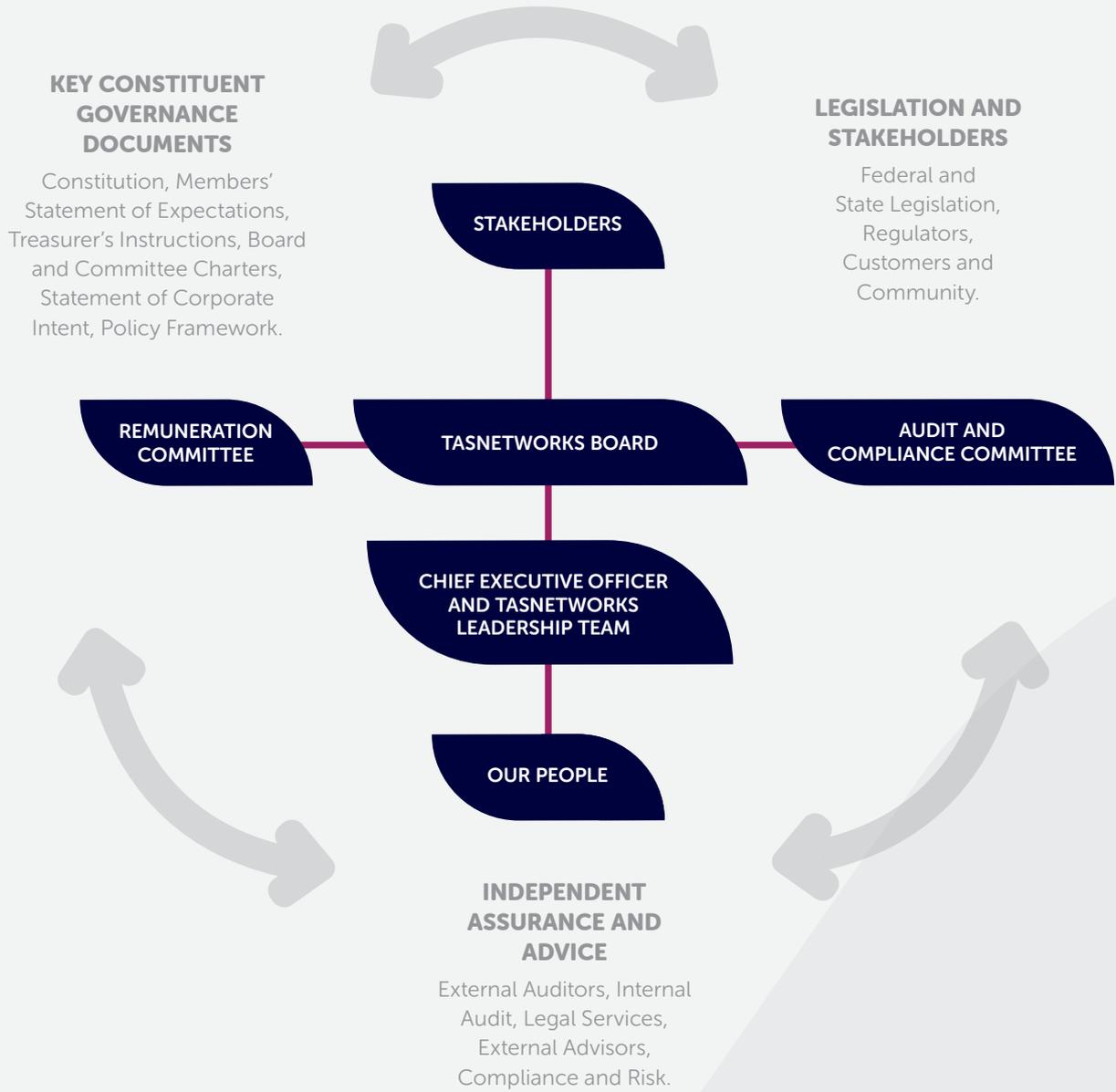
ROUTE SELECTION

To support the increased capacity of Marinus Link and the proposed development of on-island pumped hydro storage and more wind and solar resources, the shared transmission network in north-west Tasmania needs to be upgraded. This will unlock the Tasmanian north-west renewable energy zone. Gaining access to Tasmania's world-class wind resources, hydro and pumped hydro storage will enable Tasmania to become a significant renewable energy exporter and 'Battery of the Nation'.

Route selection for Marinus Link and supporting transmission is well underway with feasible routes identified that are likely to obtain environmental and planning approvals. The route connects north-west Tasmania to Victoria's Latrobe Valley.

CORPORATE GOVERNANCE

Our governance structure



TasNetworks Board Members.



Board of Directors

Role and responsibilities of the Board

Our Board is responsible for the strategic guidance and oversight of the company.

The Board Charter provides the framework for our corporate governance structure and practices. The Charter describes the responsibilities of the Board of Directors and the TasNetworks Leadership Team.

The Board is responsible for:

- Oversight of the company, including its control and accountability systems
- Appointing and removing the CEO and Company Secretary
- Input into and final approval of corporate strategy and performance objectives developed with the TasNetworks Leadership Team
- Input into and final approval of regulatory applications
- Reviewing, ratifying and monitoring systems of risk management and internal compliance and control, codes of conduct, and legal compliance
- Monitoring management's performance and implementation of strategy, and ensuring that appropriate resources are available
- Monitoring the performance and setting remuneration for the CEO and management
- Approving and monitoring the progress of major capital expenditure and capital management, and acquisitions and divestitures
- Approving and monitoring regular financial and other reports
- Approving annual financial statements and reports
- Communication with Members about matters that may affect TasNetworks' ability to achieve its objectives or financial targets

Board composition

Up until 20 February 2019 the TasNetworks Board comprised five non-executive directors. From this date, a sixth non-executive director was appointed. The non-executive directors bring a variety of skills, knowledge and experience to the company.

During 2018-19, the following changes occurred to Board composition:

- In November 2018 Dr Jane Sargison resigned as a non-executive director
- At the Annual General Meeting on 20 November 2018, Dr Julie Beeby was appointed to the Board as a non-executive director and Dr Dan Norton AO and Joanne Doyle were re-appointed to the Board as non-executive directors.
- Sarah Merridew was appointed to the Board effective from 20 February 2019

Dr Daniel Norton AO (Chairman)

BAgric (Hons), MEc, PhD, Hon LLD, FAICD
Appointed 4 February 2014 (and the Network Integration Transition Board from May 2013)
Re-appointed 20 November 2018
Current term expires November 2021

Dan is also Chairman of WINconnect, a Senior Advisor at dandolopartners international and a Director of his consulting company Trinitas. Dan is also the Chairman of TasNetworks Holding Pty Ltd.

His former positions include: Board Member of Infrastructure Australia, Chairman of the Executive Steering Committee Royal Hobart Hospital Redevelopment, Interim Chairman of Forestry Tasmania, Chairman of Tasmanian Ports Corporation (TasPorts), Chairman of Menzies Research Institute Tasmania, Chairman of the National Electricity Market Management Company (NEMMCO), Deputy Chairman of Tasmanian Water and Sewerage Corporation (TasWater), Deputy Chairman of Aurora Energy, CEO and Managing Director of both Aurora Energy and Hydro-Electric Corporation, Secretary of Department of Premier and Cabinet (Tas) and Deputy Secretary of Department of Treasury and Finance (Tas).

Joanne Doyle

BCom, FCA, RCA, MAICD
Appointed 1 July 2016
Re-appointed 20 November 2018
Current term expires November 2021

Joanne is a partner of WLF Accounting and Advisory and is an audit and advisory specialist having worked in the industry for over 30 years. Joanne is a Fellow of the Institute of Chartered Accountants and a Registered Company Auditor, with significant experience in the manufacturing, finance, health, infrastructure and not-for-profit sectors.

Joanne is a Trustee on the Solicitors' Trust, and a past director of Civil Construction Services Corporation.

Peter McIntyre

BSc, BE (Hons.), MBA, FIEAust, CPEng, EngExec, FAICD
Appointed 1 November 2016
Current term expires November 2019

Peter is the Chief Executive Officer at Engineers Australia, and was previously employed at TransGrid, where he served as its Managing Director for six years. Prior to that he held several executive positions there, with responsibilities including regulatory strategy, revenue reset, customer engagement, asset management, network planning and system operations. Peter is also the Managing Director or Enginsure.

Peter is a past Deputy Chairman of the Energy Networks Association, past Chairman of Grid Australia and past Deputy Chairman of the Australian Power Institute.

Roger Gill

BE, GAICD
Appointed 27 November 2017
Current term expires November 2020

Roger has broad experience in the electricity, water, agriculture, transport, infrastructure development and construction sectors. He is Managing Director of his Hydro Focus international consulting company specialising in renewable energy in Australia, Asia, Africa and South America.

Roger is also Vice President of the International Hydropower Association (UK), and a Non-Executive Director of Pacific Hydro (Aust.), SPIC Pacific Energy Pty Ltd, SPIC Pacific Hydro Pty Ltd and UHE São Simão Energia S.A. (Brazil).

His former corporate governance roles have included Non-Executive Director of Tasmanian Railway (TasRail), Tasmanian Water and Sewerage Corporation (Southern Region) and member of the Tasmanian Renewable Energy Industry Development Board.

Dr Julie Beeby

BSc (Hons 1), PhD, MBA, FAICD, FTSE

Julie has more than 25 years' experience in the resources sector, specifically in the minerals and petroleum industries and was recently a Non-Executive Director of Powerlink Queensland as well as being Chair for the last four years of her tenure. She is currently a Non-Executive Director of Whitehaven Coal and Moreton Bay College.

Julie has previously held non-executive director positions on the Boards of Zerogen, Gloucester Coal, Forge Group, CRC Mining, Australian Coal Association Low Emissions Technology and Australian Coal Research.

Her executive career spanned senior roles in chemicals and natural resources, including CEO of a listed public company. Her qualifications include Bachelor of Science (Hons) in Organic Chemistry, PhD in Physical Chemistry, Graduate Diploma in Technology Management, Master of Business Administration and Graduate of the Australian Institute of Company Directors' Company Directors Course. Julie is a Fellow of the Australian Institute of Company Directors and a Fellow of the Australian Academy of Technology and Engineering.

Sarah Merridew

BEC, FCA, FAICD

Formerly a Partner of Deloitte, Sarah is a Chartered Accountant and experienced company director of listed public companies, government owned corporations, private companies and community organisations. With expertise in audit, risk management, governance and business advisory services across a broad range of industries including financial services, dairy, mining, transport and heavy manufacturing.

Sarah's previous non-executive director roles include TasRail, MyState and subsidiary companies, Royal Flying Doctor Service Tasmania, TasWater, the former Tasmanian Water and Sewerage Corporations, Tasmanian Perpetual Trustees, and Tasmanian Public Finance Corporation (TASCORP).

Dr Jane Sargison

BEng(Hons), DPhil, GAICD, FIEAust, CPEng

Appointed 1 July 2014

Re-appointed 27 November 2017

Resigned 1 November 2018

Jane was also the Managing Director of JSA Consulting Engineers and a non-executive director of the Ian Harrington Group. Her recent roles included director of TasWater, the Australian Renewable Energy Agency, Southern Water and Australian Institute of Energy, Member of the AusIndustry Clean Technology Innovation Committee, Tasmanian Rhodes Scholarship Selection Committee and the National Mechanical Board of Engineers Australia. Her former roles included Deputy Director of the Centre for Renewable Energy and Power Systems and Senior Lecturer in Mechanical Engineering at the University of Tasmania.

In 2011 Jane was named National Professional Engineer of the Year by Engineers Australia in recognition of her contribution to the profession. She read her DPhil research as a Rhodes Scholar at University of Oxford University, UK. Jane worked as a Research Fellow at the University of Tasmania from 2001.

TasNetworks' statement of compliance with the Guidelines for Tasmanian Government Businesses – Director and Executive Remuneration, along with remuneration details for the Board and Senior Executive, can be found on pages 104-105.

Board committees

The Board has two standing committees:

- The Remuneration Committee (composed of three non-executive directors)
- The Audit and Compliance Committee (composed of three non-executive directors)

Other committees are established by the Board as and when required. Due to the ongoing regulatory proposal during the year the Board was supported by a Revenue Reset Committee.

Remuneration Committee	Audit and Compliance Committee	Revenue Reset Committee
Dr Julie Beeby (Chair) ¹	Joanne Doyle (Chair)	
Dr Dan Norton AO ²	Peter McIntyre	All directors
Roger Gill ³	Sarah Merridew ⁴	
Dr Jane Sargison ⁵	Roger Gill ³	

The responsibilities of the Audit and Compliance Committee are documented in the Audit and Compliance Committee Terms of Reference and Charter. The committee oversees and monitors corporate reporting, audit and compliance obligations, and oversees the company's internal control activities.

The Audit and Compliance Committee met six times during 2018-19 and provided the Board with minutes from each meeting.

The responsibilities of the Remuneration Committee are documented in the Remuneration Committee Terms of Reference and Charter. The committee assists the Board in the oversight of remuneration for the CEO and employees. It met three times during 2018-19 and provided the Board with minutes from each meeting.

¹ Dr Julie Beeby joined the Remuneration Committee in February 2019, and held the position of chair from 2 May 2019.

² Dr Dan Norton AO temporarily held the position of chair of the Remuneration Committee for the February 2019 meeting.

The Revenue Reset Committee oversees the preparation of revenue proposals to the Australian Energy Regulator. It met four times during 2018-19 and provided the Board with minutes from each meeting.

Subsidiary companies

As at 30 June 2019, TasNetworks has four wholly-owned subsidiary companies:

TasNetworks Holdings Pty Ltd which is a non-trading subsidiary created to hold all shares in and oversee the subsidiary companies of TasNetworks. The directors of TasNetworks Holdings Pty Ltd are Dr Dan Norton AO (Chairman and TasNetworks Chairman) and Lance Balcombe (TasNetworks CEO), and the Company Secretary is Phillippa Bartlett (TasNetworks' Company Secretary and General Counsel)

FortyTwo24 Pty Ltd which provides telecommunications, information technology and data centre services to customers. It holds a telecommunications carrier licence and has in place a Nominated Carrier Declaration with TasNetworks. The directors of FortyTwo24 Pty Ltd are Lance Balcombe (Chairman and TasNetworks CEO), Wayne Tucker (TasNetworks General Manager Regulation, Policy and Strategic Asset Management) and the Company Secretary is Phillippa Bartlett (TasNetworks Company Secretary and General Counsel).

Marinus Link Pty Ltd which was incorporated on 23 November 2018 to hold real and intellectual property generated or acquired as a part of Project Marinus (the feasibility and business case assessment for a second interconnector between Tasmania and Victoria). The directors of Marinus Link Pty Ltd are Lance Balcombe (Chairman and TasNetworks CEO), Ross Burridge (TasNetworks General Manager Strategy, Finance and Business Services) and the Company Secretary is Phillippa Bartlett (TasNetworks Company Secretary and General Counsel).

³ Dr Roger Gill was a member of the Audit and Compliance Committee until May 2019, when membership was updated and he joined the Remuneration Committee.

⁴ Dr Sarah Merridew joined the Audit and Compliance Committee after her commencement in February 2019.

⁵ Dr Jane Sargison chaired the Remuneration Committee until her resignation in November 2018.

Large Scale Renewables Pty Ltd which was incorporated on 20 May 2019 as a subsidiary to hold unregulated transmission connection assets. The directors of Large Scale Renewables Pty Ltd are Lance Balcombe (Chairman and TasNetworks CEO), Ross Burridge (TasNetworks General Manager Strategy, Finance and Business Services) and the Company Secretary is Phillippa Bartlett (TasNetworks Company Secretary and General Counsel).

Diversity

Background

We recognise the value of a diverse and skilled workforce and are committed to creating and maintaining an inclusive and collaborative workplace culture that will provide sustainability for the business into the future.

Policy and procedures

We have a formal diversity policy, which was launched in September 2015. The policy details our commitment to diversity and promotes diversity in every part of the business in conjunction with:

- Our Code of Conduct
- Our Workplace Behaviour Policy (covering workplace harassment, discrimination, bullying, equity and equal opportunity)
- Grievance resolution procedures
- The Employee Assistance Program
- Formal inductions
- Flexible work arrangements
- Email and internet usage policies

Under this policy, the TasNetworks Board and Leadership Team are responsible for:

- Setting annual measurable workplace diversity objectives
- Supporting the development of our Workplace Diversity Strategy
- Leading the implementation of the Workplace Diversity Strategy

Legislative compliance

We are committed to complying with all relevant legislative and regulatory obligations. To achieve this commitment, we adhere to the Australian/New Zealand Standard of Compliance Program and have instituted

a Compliance Policy and Framework, incorporating:

- Active and visible engagement in compliance by the Board, CEO and the TasNetworks Leadership Team
- The alignment of compliance policy and business strategy
- Appropriate compliance resourcing

Further details in relation to some of our compliance obligations are set out below.

Right to information

We are subject to the *Right to Information Act 2009* (Tas) (RTI Act). Our Right to Information Policy was approved by the CEO in June 2014⁶ and has been reviewed this financial year.

During 2018-19, three formal applications for assessed disclosure were received. In all three applications all information sought was provided, other than to redact personal information from the records. We have embraced the objectives of the RTI Act by routinely publishing information we consider to be of interest to the public, which is significant, appropriate, accurate and not otherwise exempt. Our preferred method of disclosure of information is proactive disclosure via our website and Customer Service Centre.

Public interest disclosures

We are subject to the *Public Interest Disclosures Act 2002* (Tas) (PID Act). Our Public Interest Disclosure Policy was updated and approved by the Board in May 2016. No PID Act disclosures were received during this year.

Personal information protection

We are subject to the *Privacy Act 1988* (Cth), the Australian Privacy Principles and the Personal Information Protection Act 2004 (Tas). Our Privacy Policy, which was originally approved by the CEO in June 2014 and last updated in May 2018, sets out how we collect, use, disclose and otherwise manage personal information we hold.

We did not receive any enquiries in relation to the PIP Act this financial year.

⁶ Previously reported incorrectly as approved by the Board.

Corporate governance principles

Our Board Charter is based on the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations⁷, as adjusted to apply to an unlisted, state-owned company in line with the Tasmanian Government Businesses Corporate Governance Principles.

The company's corporate governance practices relating to each of these principles⁸ are summarised on the next page.

⁷The Charter is based on the 3rd Edition Corporate Governance Principles and Recommendations, and is currently under review.

⁸ See footnote 7 - the company's practices are summarised against the 3rd Edition Corporate Governance Principles and Recommendations.

PRINCIPLE 1

Lay solid foundations for management and oversight

During the 2018-19 the Board was made up of five to six independent, non-executive directors. The Board's responsibilities are summarised at page 39 of this report.

The responsibilities of individual directors and the company's expectations of them are set out in their letters of appointment and communicated to them at their induction. The role statements and contracts of employment for the positions of CEO, Company Secretary and other TasNetworks Leadership Team members set out the terms of their appointment.

The Company Secretary is accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board.

The Board performance evaluation process is detailed below in Principle 2: Structure the Board to be effective and add value. The executive performance evaluation process is detailed at page 107 of this report.

PRINCIPLE 2

Structure the board to be effective and add value

All directors are independent of management; no directors hold shares in the company. More information about individual directors and their length of service is set out at page 55 of this report. Directors have an ongoing requirement to notify the Board of any material personal interest in any matter relating to the affairs of our business. The Chairman is an independent director and is not an executive of the company. There is a clear division of responsibilities between the Board's Chair and the CEO.

Directors are selected and appointed by the Government Minister Members on the basis of their skills and experience and the needs of the business. The appointment process involves the creation of a Director Selection Advisory Panel. Candidates are required to undergo probity checks prior to appointment. An executive search firm is appointed to assist the panel in identifying potential candidates. We maintain a Board Skills Matrix, setting out the mix of skills and diversity the Board has.

The Company Secretary has a documented procedure for inducting new directors. All directors have access to the advice and services of the Company Secretary and, in consultation with the Chair, may take independent professional advice in connection with their duties at the company's expense.

The Remuneration Committee advises and assists the Board with reviewing the performance of the CEO and setting key performance indicators for the CEO. We have a process for annually evaluating the performance of the Board, its committees and individual directors. Evaluations have been conducted for the 2018-19 internally, with the Board undertaking a number of questionnaires to assess and provide feedback on the performance of individual directors, Committees and the Board. Identified opportunities for development from the process are implemented with oversight by the Remuneration Committee.

PRINCIPLE 3

Instil a culture of acting lawfully, ethically and responsibly

We are committed to not only complying with its legal obligations, but also to operating with the highest level of ethical and responsible behaviour.

Our Code of Conduct applies to all our people: The Board, leaders, team members, contractors and subcontractors. Under the Code, all people working at TasNetworks commit to:

- 1 Work safely and in accordance with the law
- 2 Treat customers, the public and fellow workers with honesty, courtesy and respect

- 3 Perform our duties with professionalism, integrity and efficiency
- 4 Ensure our personal business and financial interests do not conflict with our duty to TasNetworks
- 5 Ensure the security and privacy of all confidential information received in the course of our work
- 6 Ensure we do not misuse our position
- 7 Ensure that TasNetworks' assets and resources are only used for proper business purposes
- 8 Recognise, value and effectively utilise the diversity among our people
- 9 demonstrate our care for the environment in the way we work

We also have a number of more specific policies that relate to our commitment to comply with our legal obligations and act ethically and responsibly. These include the Directors' Travel and Expense Policy, Directors' Conflict of Interest Protocol, Compliance Policy, Fraud and Corruption Policy, Public Interest Disclosures ("Whistleblowers") Policy, Workplace Behaviour Policy, Gifts and Benefits Policy and Zero Harm Policy.

A director who has a material personal interest in a matter relating to the affairs of the business must disclose that interest to the Board. The Company Secretary maintains a register of interests disclosed. To the extent that there is a conflict, this is managed appropriately in accordance with TasNetworks' policy and protocols.

PRINCIPLE 4

Safeguard the integrity in corporate reporting

The Board has a process for review and authorisation to ensure the truthful and factual representation of the company's financial position and to independently verify and safeguard the integrity of the company's financial reporting. This process includes:

- External audit
- Internal audit
- Review of the company's annual financial statements by the Audit and Compliance Committee

The Board has established an Audit and Compliance Committee to assist the Board in exercising due care, diligence and skill in relation to financial management and reporting, audit processes, business policy and practice and compliance with applicable laws, regulations, standards and best practice guidelines. More information about the Audit and Compliance Committee is included on page 42 of this report.

The TasNetworks constitution provides that the Auditor-General for Tasmania must report on and audit the accounts of the company.

Annual reports are tabled in each House of Parliament and are therefore subject to the scrutiny of all members of the Parliament and the community.

PRINCIPLE 5

Make timely and balanced disclosure

Because we are not a listed company, we are not required to comply with the ASX Listing Rule disclosure requirements. However, as a state-owned business, we ensure that the Members are kept informed of all matters that may have a material impact (financial or otherwise) on the business or potential adverse implications for the Tasmania.

We have a process for ensuring that Members are promptly advised of matters as required by the TasNetworks constitution and the Members' Statement of Expectations.

We comply with the public disclosure obligations it has under the National Electricity Law, National Electricity Rules, our distribution and transmission licences and other applicable instruments.

Details about disclosures made under the *Right to Information Act 2009* (Tas) are set out at 43.

PRINCIPLE 6

Respect the rights of shareholders

The Board has procedures for communication with Members to ensure they have timely access to information about the company, including its financial situation, performance, governance and any sensitive matters about which Members should be aware.

PRINCIPLE 7

Recognise and manage risk

The Board has approved and oversees the Risk Management Policy and Risk Framework to ensure management has developed and implemented a robust system of risk management and control.

In accordance with the Risk Management Policy, TasNetworks:

- Prepared and delivered a plan for managing risk in accordance with our risk appetite, the expectations of its stakeholders and the law
- Integrated effective and appropriate risk management into all business and management activities and TasNetworks policies
- Made available the necessary resources for effectively managing risk
- Provided regular reports to the Board detailing material business risks and the effectiveness of associated risk management strategies
- Reported key business risks and risk management strategies to key stakeholders

The fundamental, underlying risk management principles are consistent with AS/NZS ISO 31000:2009. The Internal Audit Group performs regular audits of mitigating actions on internal controls identified. This group is independent of TasNetworks' management.

PRINCIPLE 8

Remunerate fairly and responsibly

In accordance with the TasNetworks Constitution, directors are paid remuneration as is resolved by the Members from time to time. That remuneration is based on the Government Board and Committee Remuneration Framework administered by the Department of Premier and Cabinet, which incorporates a scale of fees.

Directors may also be reimbursed for travel and other expenses properly incurred by them, in accordance with the Directors Travel and Expense Policy.

The employment terms and conditions of the TasNetworks Leadership Team are contained in individual employment contracts.

The Remuneration Committee provides advice to the Board and assists it to fulfil its governance responsibilities in relation to remuneration strategies and policies for the CEO, members of the TasNetworks Leadership Team and leaders contained within the scope of the Leaders Remuneration Policy. During 2018-19 the Remuneration Committee considered the performance and remuneration reviews of the TasNetworks Leadership Team undertaken by the CEO and referenced against the Mercer Tasmanian General Market median, for subsequent Board approval.

TasNetworks Leadership Team



Our Leadership Team comprises a CEO and eight executive managers.

Lance Balcombe

BCom, FCA, MAICD
Chief Executive Officer

Bess Clark

BCom, Grad Dip Urb Reg Plan, GAICD
General Manager Project Marinus

Michael Ash

General Manager Network, Commercial and Major Customer

Ross Burridge

BCom, FCPA, FAICD, FFTP
General Manager Strategy, Finance and Business Services

Michael Westenberg

General Manager Technology and Performance

Phillippa Bartlett

BA, LLB
Company Secretary and General Counsel

Justine McDermott

BA (Hons Psych), MAPS (COP), FAHRI, MAICD
General Manager People, Culture and Community

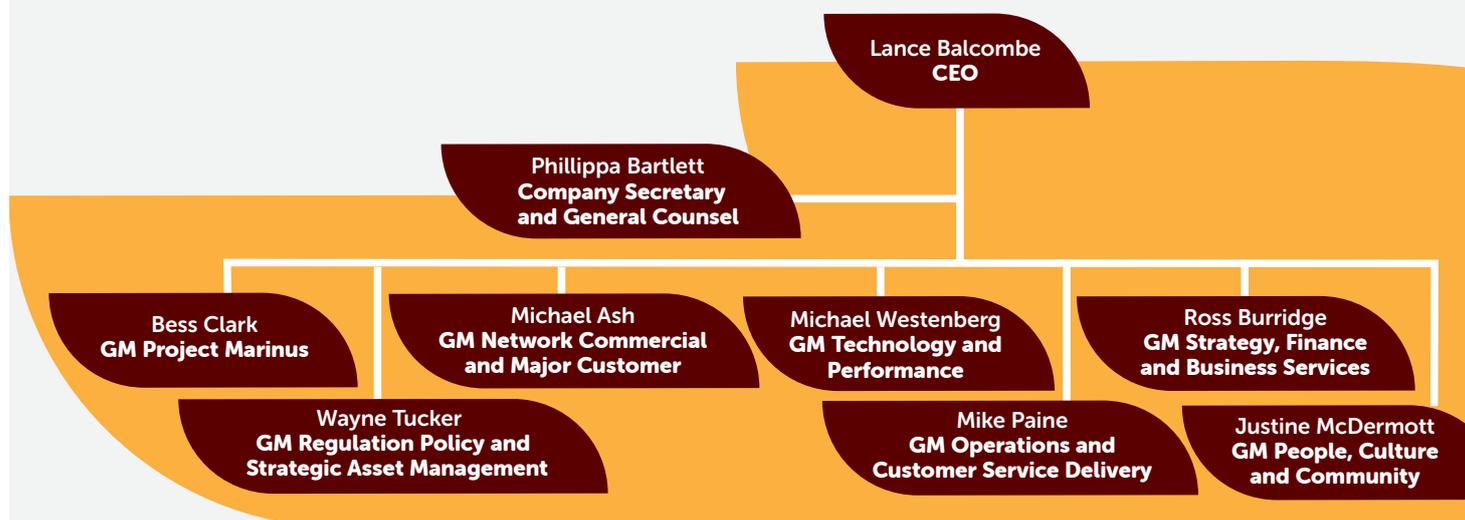
Wayne Tucker

Grad Dip Eng. Maint, Ass Dip Elect Eng, MBA, GAICD
General Manager Regulation, Policy and Strategic Asset Management

Mike Paine

BEng, Grad Dip Eng, FIE Aust, GAICD
General Manager Operations and Customer Service Delivery

Organisational structure



Company Secretary and General Counsel

The Company Secretary and General Counsel is responsible for delivering corporate governance advice and counsel to the Board, CEO and the business, and management of the Legal Services Team. This team provides legal advice and services to all parts of the business including: the engagement of legal advisers and management of legal contracts; managing complex disputes; managing obligations under right to information, privacy and relevant public interest legislation; managing wayleaves legislative obligations; and managing property law issues.

Regulation, Policy and Strategic Asset Management

Regulation Policy and Strategic Asset Management manages transmission and distribution assets, champions the development of asset management strategies and leads forecasting and modelling activities so that we understand and are prepared to meet future system demands. It is also responsible for regulatory management and looking at other new technologies.

Network Commercial and Major Customer

Network Commercial and Major Customer group creates value for our customers, community and owners by building expert commercial strategies. The team translates longer term strategies into an effective rolling Program of Work (POW) optimised for safe and efficient delivery. It is made up of three teams: Program and Planning, Engineering and Network Business Development with a focus on optimisation of the POW from a long-term and short-term perspective and the management and delivery of major customer connection work.

Operations and Customer Service Delivery

Operations and Customer Service Delivery is responsible for: network operations and the Control Centre; network access management; managing our relationships with customers and the market; retailer liaison; the Customer Service Centre; connection point management and billing; meter data management and publishing; billing enquiries and dispute resolution; field operations; extra high voltage line work (transmission); line work capital and maintenance and response (distribution); ground services work (substations and turrets); meter reading; design; and project delivery.

Strategy, Finance and Business Services

Strategy, Finance and Business Services builds TasNetworks' financial strength by delivering sound, independent advice and analysis and by directing financial strategies, capital structure development, debt portfolio and business risk management.

The main areas of responsibility are: business strategy; treasury; corporate modelling; financial reporting; management accounting; risk management and insurance; audit and compliance; procurement; fleet and facilities; accounts payable and receivable; payroll; information management; and 42-24.

People, Culture and Community

People, Culture and Community is responsible for: safety and wellbeing; talent leadership and capability; people and culture (including recruitment, performance management systems and industrial relations); operational and technical capability (registered training organisation); and corporate social responsibility (including environment and stakeholder relations).

Technology and Performance

Technology and Performance aims to provide solutions that improve business performance, utilising secure, reliable and innovative technology. The group is responsible for cyber security; information technology; operational technology, performance (facilitating the ideation, prioritisation, execution and governance of change (outside the network program or work); and telecommunications services.

Project Marinus

Project Marinus is finalising the business case assessment and starting design and approvals planning for Project Marinus: a second Bass Strait interconnector known as Marinus Link, together with the associated supporting transmission in north-west Tasmania.

PERFORMANCE AGAINST OUR STATEMENT OF CORPORATE INTENT

Our Statement of Corporate Intent is our annual performance agreement with our shareholders. Our performance measures and productivity targets for 2018-19 were set with a focus on improvement – except for network reliability where we aim to maintain current overall network service performance while

bringing poorly performing communities up to regulated performance standards. We recognise it may not always be appropriate to improve performance above target if there is not sufficient benefit to our customers.

Performance measure		2018-19 target	2018-19 result	
Zero Harm	Significant incidents ¹	≤ 8	14	✗
	Reportable incidents ²	≤ 12	37	✗
	Lost time injury frequency rate	0	5.2	✗
Our Customers	Net Promoter Score	+10	+3.9	✗
	Customer complaints	< 2,400	2,730	✗
	Call answering (calls answered within 30 seconds) (%)	> 73.4	85	✓
Our People	Employee engagement improvement (%)	58	53	✗
Our Business	Network service			
	Outcomes under Service Target Performance Incentive Schemes - distribution	Earn service performance incentive bonus	Bonus earned	✓
	Outcomes under Service Target Performance Incentive Schemes - transmission	Earn service performance incentive bonus	Bonus earned	✓

¹ Significant incident – an incident with an actual or credible potential for major or severe health, safety, or environment consequences as defined by our risk matrix.

² Incidents that require notification to a government authority, including WorkSafe Tasmania for health and safety incidents, Department of Primary Industries, Parks, Water and Environment for environmental incidents, and the Australian Energy Regulator for unplanned disconnection of life support customers.

Sustained cost management

Our Owners

Operating expenditure (\$m) ³	<166.2	162.2	✓
Capital expenditure (\$m)	< 219.0	209.7	✓
Earnings before interest, tax and depreciation (\$m)	> 307.7	309.9	✓
Profit after tax (\$m)	≥ 34.4	40.8	✓
Return on assets	≥ 4.0%	4.3%	✓
Return on equity	≥ 3.6%	4.3%	✓
Regulated services return consistent with AER decision	Achieved	Achieved	✓
Gearing ratio (%)	≤ 66.4%	66.9%	✗
Government guarantee fee (\$m)	≥ 7.5	7.5	✓
Dividends (\$m)	≥ 35.9	43.1	✓
Unregulated network services⁴			✓
Revenue (\$m)	≥ 15.5	5.4	✗
Earnings before interest, tax and depreciation (\$m)	≥ 4.3	(1.8)	✗
Project Marinus			
Net cashflow (\$m)	(8.6)	(5.0)	✓
Project milestones	Draft feasibility report by 31 Dec 2018	Achieved	✓
FortyTwo24 Pty Ltd trading as 42-24			
Revenue (\$m)	≥ 18.7	18.3	✗
Earnings before interest, tax and depreciation (\$m)	≥ 9.9	5.9	✗

³Operating expenditure excludes the cost of the grandfathered solar feed-in tariff.

⁴Unregulated network services include unregulated transmission connection and maintenance services, unregulated metering services, and providing potential services to new metering coordinator(s).

Performance commentary

Zero Harm

- Although ending the 2018-19 financial year below target with 14 significant incidents, no significant incidents occurred the final quarter of 2019. The significant incidents in 2018-19 consisted of eight employee safety incidents, four public safety incidents, one environmental incident, and one contractor safety incident.
- There were 37 reportable incidents in 2018-19. Out of the 37 incidents, 25 related to the deaths of threatened bird species, three related to the wrongful disconnection of registered life support customers, seven related to transformer oil spills, and two employee injuries.
- We did not reach our aspirational target of 0 lost time injury frequency rate, however we are trending down in this metric as a result of our new Safety and Wellbeing Strategy.

Our Customers

- Customer complaints were above target for 2018-19, however since December there has been a positive trend in the reduction of complaints due to new systems being implemented and improved processes. Customer complaints continue their downward trend year on year.
- Our Net Promoter Score was below target at +3.9, but there has been positive trend throughout 2018-19, with one month achieving +15.
- We significantly outperformed our service centre call answering target by leveraging our new front-end customer service platform – The Podium – to efficiently handle all enquiries, keep customers informed and accelerate enquiry resolution timeframes.

Our People

- Our employee engagement score held steady at 53%, which was below our 2018-19 target of 58%.

Our Business

- Operating expenditure was \$4 million better than our target for the year mainly due to lower labour costs and lower than budgeted use of contract labour and services.
- Capital expenditure was \$9.3 million below target for the year and was due to timing with delivery of our transmission program. We invested and delivered a significant distribution capital program and addressed key safety and reliability risks including customer initiated development. We also invested in unregulated wind farm connection development.

Our Owners

- We generated sound financial returns for our owners, meeting or exceeding all but one of our financial targets for 2018-19 for regulated network services. Our gearing ratio was under the TASCORP borrowing covenant of 67% although slightly above our target of 66.4%.
- We reported an operating profit after tax of \$40.8 million, which was \$6.4 million favourable to budget.
- Our consolidated earnings before interest, tax, depreciation and amortisation result as at the end of June was \$309.9 million.
- Unregulated networks services was unfavourable to forecast due to the cancellation of the LED Southern Light Replacement project.
- Project Marinus continues to move forward, achieving the target of developing the draft feasibility report by 31 December 2018 and above target for annual net cash flow.
- 42-24 was slightly below its revenue target.

TASMANIAN GOVERNMENT REPORTING REQUIREMENTS

Purchases from Tasmanian businesses during 2018-19

% of Tasmanian purchases	72.1%
Value of Tasmanian purchases	\$181,690,409

Accounts due or paid during 2018-19

Creditor days (average days)	29.3
Number of accounts due for payment	28,804
Number of accounts paid on time	25,597
Amount due for payment	\$260,372,677
Amount paid on time	\$217,490,158
Number of payments for interest on overdue accounts	-
Interest payable on overdue accounts	-

Consultancies valued at more than \$50,000 (ex GST) during 2018-19

Name of consultant	Location	Description	Period of engagement	Amount (\$)
Engaged by TasNetworks for Project Marinus				
Coffey Services Australia Pty Ltd	Chatswood, VIC	Provision of environment, land use planning and heritage advisory services	July 2018 - June 2019	1,574,895
Herbert Smith Freehills	Melbourne, VIC	External legal advisory services - miscellaneous	July 2018 - June 2019	364,143
JC Tambllyn & Assoc Pty Ltd	Castlecrag, NSW	Provide independent review of initial feasibility report	December 2019	63,000
Engaged by TasNetworks for business as usual operations				
Partners in Performance International Pty Ltd	Australia Square, NSW	Provide expert advice on the end to end review to create an operating model improvement plan (OMIP)	April 2019 - June 2019	341,550
HWL Ebsworth	Hobart, TAS	External legal advisory services - miscellaneous	July 2018 - June 2019	210,274
Clayton Utz Lawyers	Melbourne, VIC	External legal advisory services - miscellaneous	October 2018 - June 2019	101,052
Edge Legal Holdings Pty Ltd	Hobart, TAS	External legal advisory services - miscellaneous	July 2018 - June 2019	66,809
Clarendon Lawyers	Melbourne, VIC	External legal advisory services - miscellaneous	July 2018 - December 2019	56,276
ToxConsult Pty Ltd	Darling South, VIC	External legal advisory services - miscellaneous	July 2018 - June 2019	51,583
		TOTAL		2,829,582
		There were 20 Consultants engaged for \$50,000 or less totalling		285,816
TOTAL PAYMENTS TO CONSULTANTS				3,115,398

DIRECTORS' REPORT

Directors' Report

The directors present their report together with the financial report of Tasmanian Networks Pty Ltd (**TasNetworks**) and its subsidiaries for the financial year ended 30 June 2019.

The directors of TasNetworks during the financial year 2018-19, and details of their tenures, are listed below:

Director	Appointment	Re-appointment	Term Expiration	Length of Service
Dr Daniel Norton AO (Chairman and Director)	4 February 2014	20 November 2018	November 2021	5 years and 5 months
Joanne Doyle	1 July 2016	20 November 2018	November 2021	3 years
Peter McIntyre	1 November 2016		November 2019	2 years and 8 months
Roger Gill	27 November 2017		November 2020	1 year and 7 months
Dr Julie Beeby	20 November 2018		November 2020	7 months
Sarah Merridew	20 February 2019		November 2021	4 months
Dr Jane Sargison*	11 July 2014	27 November 2017		4 years and 4 months

*Resigned 01/11/2018

Consolidation

During financial year 2018-19, TasNetworks had four subsidiaries within its corporate group:

- TasNetworks Holdings Pty Ltd;
- FortyTwo24 Pty Ltd;
- Marinus Link Pty Ltd (incorporated during this financial year); and
- Large Scale Renewables Pty Ltd (incorporated during this financial year)(together, the **TasNetworks Group**).

This Annual Report reports on a consolidated basis for the TasNetworks Group.

Principal activities

The principal activities of the TasNetworks Group are to:

- build, own and operate the transmission, distribution and communication networks of the Tasmanian electricity system; and
- provide telecommunications services and infrastructure as a service.

Review of operations

The TasNetworks Group recorded an after-tax profit of \$40.8 million for the year ended 30 June 2019 and the company invested \$209.7 million in a number of capital projects.

A more detailed review of the TasNetworks Group's operations during the year is contained in this Annual Report and the financial statements that follow.

Changes in state of affairs

During the financial year 2017-18, TasNetworks received shareholder approval for a restructure of its corporate group. Implementation of the restructure continued in 2018-19 as follows:

- the incorporation of Marinus Link Pty Ltd; and
- the incorporation of Large Scale Renewables Pty Ltd.

Environmental regulation

The TasNetworks Group's operations are subject to many environmental regulatory requirements including the *Environmental Management and Pollution Control Act 1994*. There were 32 reportable environmental incidents during the financial year. Seven were oil spill incidents, 24 were threatened bird deaths, and one incident of unauthorized activity in a reserve.

More information on the TasNetworks Group's environmental performance during the year is included in the Annual Report.

Matters arising since end of financial year

There have been no other matters or circumstances arising since 30 June 2019 that have significantly affected, or may significantly affect, the TasNetworks Group's future operations.

Likely developments and future results

Not applicable.

Dividends

TasNetworks paid to its shareholders a dividend of \$43.104 million on 31 December 2018 from after-tax profits during the financial year 2018-19.

In respect of the financial year ended 30 June 2019 TasNetworks' intention is to pay a dividend based upon 90 per cent of Adjusted Net Profit after Tax.

Indemnities and insurance

TasNetworks indemnified its directors to the extent permitted by law against liabilities and legal costs incurred by the directors acting in their capacity as directors.

The TasNetworks Group has insured the directors, company secretary and executive officers of group companies against liabilities as permitted by the *Corporations Act 2001*.

The TasNetworks Group has not otherwise, during or since the end of the financial year, indemnified or agreed to indemnify an officer or auditor of a group company or of any related body corporate against a liability incurred as such an officer or auditor.

Proceedings on behalf of the company

No applications for leave under section 237 of the *Corporations Act 2001* to bring, or to intervene in, proceedings on behalf of a group company were made during the financial year.

Rounding of amounts

Amounts in the Directors' Report and the financial report have been rounded off to the nearest thousand dollars, unless otherwise indicated, in accordance with ASIC Class Order 2016/191.

Auditor's independence declaration

The auditor's independence declaration is included in the Annual Report and forms part of this Director's Report.

Directors' meetings

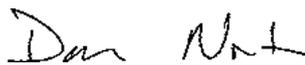
The following table sets out the number of TasNetworks directors' meetings (including committee meetings) held during the financial year and the number of meetings attended by each TasNetworks director who held office during the financial year ended 30 June 2019. Director and Company Secretary qualifications are set out in the Corporate Governance section of the Annual Report.

Director	Board of Directors		Audit and Compliance Committee		Remuneration Committee		Revenue Reset Committee	
	Eligible to Attend as a Member	Attended	Eligible to Attend as a Member	Attended	Eligible to Attend as a Member	Attended	Eligible to Attend as a Member	Attended
Dr Daniel Norton AO	12	12		2	3	3	4	4
Joanne Doyle	12	12	6	6			4	4
Peter McIntyre	12	12*	6	6			4	3
Roger Gill	12	12	5	5	1	1	4	3
Dr Julie Beeby	6	6			2	2	2	2
Sarah Merridew	5	5	1	2		1	2	2
Dr Jane Sargison**	5	4		1	1	1	1	0

*Partial attendance at February Board meeting

**Resigned 01/11/2018

Signed in accordance with a resolution of the TasNetworks directors.



Dr D T Norton AO
Chairman

Date: 12/8/2019

AUDITOR'S INDEPENDENCE DECLARATION



Level 8, 144 Macquarie Street, Hobart, Tasmania, 7000
 Postal Address: GPO Box 851, Hobart, Tasmania, 7001
 Phone: 03 6173 0900 | Fax: 03 6173 0999
 Email: admin@audit.tas.gov.au
 Web: www.audit.tas.gov.au

12 August 2019

The Board of Directors
 Tasmanian Networks Pty Ltd
 PO Box 606
MOONAH TAS 7009

Dear Board Members

Auditor's Independence Declaration

In accordance with section 307C of the *Corporations Act 2001*, I provide the following declaration of independence.

As the auditor of the financial report of Tasmanian Networks Pty Ltd for the financial year ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (a) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit
- (b) any applicable code of professional conduct in relation to the audit.

In accordance with the *Corporations Act 2001* a copy of this declaration must be included in the Directors' Report.

Yours sincerely

Ric De Santi
Deputy Auditor-General
Delegate of the Auditor-General

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AUDITOR'S INDEPENDENCE REPORT



Independent Auditor's Report

To the Members of Tasmanian Networks Pty Ltd

Report on the Audit of the Consolidated Financial Report

Opinion

I have audited the financial report of the Tasmanian Networks Pty Ltd (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies and the directors' declaration.

In my opinion, the accompanying financial report of the Group is in accordance the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

I conducted the audit in accordance with Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report. I am independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the financial report in Australia. I have also fulfilled my other ethical responsibilities in accordance with the Code.

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

I confirm that the independence declaration required by the *Corporations Act 2001*, was provided to the directors on the same date as this auditor's report and is included in the Directors' Report.

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

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Key Audit Matters

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

Why this matter is considered to be one of the most significant matters in the audit	Audit procedures to address the matter included
--	---

Network Assets

Refer to note B2

At 30 June 2019, the Group's network assets, which comprised transmission assets valued at \$1.25bn and distribution assets valued at \$1.61bn, were valued in accordance with the Australian Energy Regulator Regulated Asset Base methodology.

The Group had a substantial capital expenditure programme in the 2018-19 year (payments for property plant and equipment amounted to \$195.25m and intangible additions of \$14.49m) and incurred significant expenditure in relation to the development and maintenance of both infrastructure and non-infrastructure assets.

Expenditure in relation to increasing the capacity, refurbishing or enhancing the electricity transmission and distribution network assets is capitalised. Capital projects contain a combination of enhancement and maintenance activity which are not distinct and therefore the allocation of costs between capital and operating expenditure is inherently judgemental.

In addition, the determination of the useful lives of networks assets had a significant impact on the annual depreciation expense. Significant judgement was used in the selection of the depreciation method and estimation of the useful lives of assets.

- Assessing the Group's capitalisation policy to determine compliance with relevant accounting standards.
- Testing, on a sample basis, the allocation of costs to capital projects to ensure the expenditure was capital in nature and consistent with the Group's capitalisation policy.
- Obtaining explanations and further support for any significant changes in capital expenditure from budget.
- Testing a selection of asset capitalisations throughout the year.
- Evaluating management's assessment of useful lives of network assets.
- Assessing depreciation expenses for each class of asset.
- Evaluating inputs used in the Australian Energy Regulator Regulated Asset Base valuation methodology.
- Assessing the adequacy of relevant disclosures in the financial report.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Company's Directors' Report for the year ended 30 June 2019, but does not include the financial report and my auditor's report thereon.

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My opinion on the financial report does not cover the other information and accordingly I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial report, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or my knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards, and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a

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going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. My conclusion is based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. I am responsible for the direction, supervision and performance of the Group audit. I remain solely responsible for my audit opinion.

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

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

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



Ric De Santi
Deputy Auditor-General
Delegate of the Auditor-General

Tasmanian Audit Office

12 August 2019
 Hobart

...4 of 4

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CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Profit or Loss For the financial year ended 30 June 2019

	<i>Note</i>	2019 \$'000	2018 \$'000
Revenue	A1	478,837	493,052
Total revenue		478,837	493,052
Operating expenses	A2(a)	(168,952)	(167,204)
Depreciation and amortisation expenses	A2(b)	(164,066)	(155,562)
Finance costs	A3	(87,270)	(83,550)
Impairment expense	B3	-	(2,122)
Total expenses		(420,288)	(408,438)
Profit before income tax equivalent		58,549	84,614
Income tax equivalent expense on profit	A4(a)	(17,765)	(25,384)
Net profit for the year		40,784	59,230

The consolidated statement of profit or loss is to be read in conjunction with the accompanying notes to the financial statements.

Consolidated Statement of Comprehensive Income
For the financial year ended 30 June 2019

	<i>Note</i>	2019 \$'000	2018 \$'000
Net profit for the year		40,784	59,230
Items that will not be reclassified subsequently through profit or loss:			
Net fair value movements on property, plant and equipment	<i>D3</i>	37,850	39,257
Superannuation actuarial gains/(losses)	<i>F2</i>	(23,408)	1,875
Income tax equivalent expense on items that will not be reclassified subsequently through profit or loss	<i>A4(b)</i>	(4,333)	(12,338)
		10,109	28,794
Items that have or may be reclassified subsequently through profit or loss:			
Hedge reserve			
- Gain/(loss) recognised in equity	<i>D3</i>	(745)	(717)
- Net (gain)/loss on cash flow hedges	<i>D3</i>	2,611	3,201
Income tax equivalent expense on items that have or may be reclassified subsequently through profit or loss	<i>D3, A4(b)</i>	(560)	(745)
		1,306	1,739
Total comprehensive income for the year		52,199	89,763

The consolidated statement of comprehensive income is to be read in conjunction with the accompanying notes to the financial statements.

Consolidated Statement of Financial Position

As at 30 June 2019

	<i>Note</i>	2019 \$'000	2018 \$'000
Current assets			
Cash and cash equivalents	<i>C5(a)</i>	3,552	2,732
Trade and other receivables	<i>E1</i>	86,988	79,501
Inventories	<i>E2</i>	20,811	22,040
Tax asset	<i>A4(c)</i>	5,990	4,757
Other assets	<i>E3</i>	4,380	5,082
Total current assets		121,721	114,112
Non-current assets			
Intangible assets	<i>B1</i>	104,128	108,897
Property, plant and equipment	<i>B2</i>	3,229,087	3,141,248
Other assets	<i>E3</i>	546	829
Total non-current assets		3,333,761	3,250,974
Total assets		3,455,482	3,365,086
Current liabilities			
Trade and other payables	<i>E5</i>	81,073	78,159
Borrowings	<i>C1</i>	232,870	152,300
Lease liabilities	<i>C2</i>	80	77
Employee benefits	<i>F1</i>	31,597	31,897
Provisions	<i>E4</i>	1,088	582
Other liabilities	<i>E6</i>	23,001	11,505
Total current liabilities		369,709	274,520
Non-current liabilities			
Borrowings	<i>C1</i>	1,703,300	1,733,300
Lease liabilities	<i>C2</i>	2,376	2,456
Net deferred tax equivalent liabilities	<i>A4(d)</i>	210,491	224,282
Employee benefits	<i>F1</i>	185,520	160,108
Provisions	<i>E4</i>	63	571
Other liabilities	<i>E6</i>	26,359	16,448
Total non-current liabilities		2,128,109	2,137,165
Total liabilities		2,497,818	2,411,685
Net assets		957,664	953,401
Equity			
Retained earnings	<i>D1</i>	136,774	160,312
Contributed equity	<i>D2</i>	62,724	62,724
Reserves	<i>D3</i>	758,166	730,365
Total equity		957,664	953,401

The consolidated statement of financial position is to be read in conjunction with the accompanying notes to the financial statements.

Consolidated Statement of Changes in Equity

For the financial year ended 30 June 2019

	Note	Contributed Equity \$'000	Asset Revaluation Reserve \$'000	Hedge Reserve \$'000	Retained Earnings \$'000	Total \$'000
As at 1 July 2018		62,724	732,320	(1,955)	160,312	953,401
Profit for the year		-	-	-	40,784	40,784
Other comprehensive income:						
Net fair value movements on property, plant and equipment	D3	-	37,850	-	-	37,850
Superannuation actuarial gains/(losses)	F2	-	-	-	(23,408)	(23,408)
Hedge reserve		-	-	1,866	-	1,866
Effect of AASB 15 on transition	D1	-	-	-	(6,903)	(6,903)
Income tax relating to components of other comprehensive income	A4(b)	-	(11,355)	(560)	9,093	(2,822)
Total comprehensive income for the year		-	26,495	1,306	19,566	47,367
Transactions with owners in their capacity as owners:						
Dividends paid	D1	-	-	-	(43,104)	(43,104)
As at 30 June 2019		62,724	758,815	(649)	136,774	957,664

		Contributed Equity \$'000	Asset Revaluation Reserve \$'000	Hedge Reserve \$'000	Retained Earnings \$'000	Total \$'000
As at 1 July 2017		62,724	704,839	(3,694)	177,329	941,198
Profit for the year		-	-	-	59,230	59,230
Other comprehensive income:						
Net fair value movements on property, plant and equipment	D3	-	39,257	-	-	39,257
Superannuation actuarial gains/(losses)	F2	-	-	-	1,875	1,875
Hedge reserve		-	-	2,484	-	2,484
Income tax relating to components of other comprehensive income	A4(b)	-	(11,776)	(745)	(562)	(13,083)
Total comprehensive income for the year		-	27,481	1,739	60,543	89,763
Transactions with owners in their capacity as owners:						
Dividends paid	D1	-	-	-	(77,560)	(77,560)
As at 30 June 2018		62,724	732,320	(1,955)	160,312	953,401

The consolidated statement of changes in equity is to be read in conjunction with the accompanying notes to the financial statements.

Consolidated Statement of Cash Flows

For the financial year ended 30 June 2019

	<i>Note</i>	2019 \$'000	2018 \$'000
Cash flows from operating activities:			
Receipts from customers		533,951	560,048
Interest received		78	43
Payment to suppliers and employees		(217,277)	(230,674)
Interest paid		(71,715)	(67,897)
Guarantee fee paid		(7,504)	(7,666)
Income tax equivalents paid		(35,624)	(49,967)
Net cash provided by operating activities	<i>C5(b)</i>	201,909	203,887
Cash flows from investing activities:			
Proceeds from sale of property, plant and equipment		1,318	4,585
Payment for property, plant and equipment		(195,245)	(192,175)
Payment for intangible assets		(14,488)	(37,740)
Net cash used in investing activities		(208,415)	(225,330)
Cash flows from financing activities:			
Proceeds from borrowings		534,184	699,092
Repayment of borrowings		(483,614)	(599,254)
Payment of finance leases		(140)	(120)
Dividends paid	<i>D1</i>	(43,104)	(77,560)
Net cash used in financing activities	<i>C3</i>	7,326	22,158
Net increase/(decrease) in cash and cash equivalents		820	715
Cash and cash equivalents at the beginning of the financial year		2,732	2,017
Cash and cash equivalents at the end of the financial year	<i>C5(a)</i>	3,552	2,732

The consolidated statement of cash flows is to be read in conjunction with the accompanying notes to the financial statements.

Notes to the consolidated financial statements

For the financial year ended 30 June 2019

Tasmanian Networks Pty Ltd (TasNetworks) is a for profit private company, incorporated and operated in Australia. TasNetworks' registered address and principal place of business is 1-7 Maria Street, Lenah Valley, Tasmania, Australia 7008.

1. Statement of compliance and basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards adopted by the Australian Accounting Standards Board (AASB), and the requirements of the *Corporations Act 2001*. The financial statements comprise the consolidated financial statements of the group. The financial statements comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB). The financial statements have been prepared on a going concern basis.

TasNetworks' working capital other than short term debt maturities is \$15.118 million (m) deficit (2018: \$8.108m deficit). Short term debt maturities of \$232.870m (2018: \$152.300m) will be refinanced in line with TasNetworks' Treasury Risk Management Policy and within the TASCORP Master Loan Facility Agreement limits and covenants (note C1).

The financial statements were authorised for issue by the directors on 12 August 2019.

(a) Basis of preparation

The financial statements have been prepared as consolidated financial statements. The financial statements have been prepared on the basis of historical cost except financial instruments and certain non-current assets. Network assets are recorded in accordance with the Regulated Asset Base (RAB) methodology. Cost is based on the fair values of the consideration given in exchange for assets.

In accordance with Australian Securities and Investments Commission (ASIC) Corporations Instrument 2016/191 amounts in the financial report are rounded off to the nearest thousand dollars unless otherwise indicated. All values are expressed in Australian dollars.

Where there has been reclassification of items in the financial statements, the prior year comparatives have also been reclassified to ensure comparability with the current reporting period. Details of the reclassification are disclosed, where applicable, in the relevant note to the financial statements.

(b) Goods and services tax (GST)

Revenue, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense. Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(c) Judgements, estimates and assumptions

In the application of TasNetworks' accounting policies, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based upon historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following notes contain key assumptions and other key sources of estimation uncertainty during the reporting period, that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Note Assumption and estimates

A1	Unbilled use of system
A4	Recovery of deferred tax assets
B2	Asset useful lives
B3	Impairment testing results
E4	Workers compensation provision
F1	Long service leave
F2	Defined benefit superannuation plan

1. Statement of compliance and basis of preparation continued

(d) Notes to the financial statements

The notes to the financial statements include information that is required to understand the financial statements and is material and relevant to the operations, financial position and performance of TasNetworks. Information is considered material and relevant if, for example:

- the amount in question is significant because of its size or nature
- it is important for understanding the results of TasNetworks
- it helps explain the impact of significant changes in TasNetworks
- it relates to an aspect of TasNetworks' operations that is important to its future performance.

The notes have been grouped into sections to help readers understand how TasNetworks' strategy is reflected in the financial performance and position of TasNetworks.

These sections comprise:

- A TasNetworks' performance
- B TasNetworks' assets
- C Financing TasNetworks' business
- D TasNetworks' equity
- E Other assets and liabilities
- F TasNetworks' people
- G Commitments
- H Other information

The accounting policies as set out in these notes, have been applied in preparing the financial statements for the financial year ended 30 June 2019 and the comparative information presented in these financial statements for the period ended 30 June 2018. The policies have been consistently applied by each entity in the consolidated group. Any changes made to these accounting policies for the financial year ended 30 June 2019 are detailed in note H5.

TasNetworks' performance

This section highlights TasNetworks' performance for the year including details of revenue and expenses as well as taxation liabilities.

A1. Revenue

	2019 \$'000	2018 \$'000
(a) Revenue from contracts with customers		
Provision of regulated distribution services	257,238	260,517
Provision of regulated transmission services	169,683	183,429
Provision of non-regulated telecommunication services	18,474	18,527
Provision of other non-regulated services	2,520	7,754
Customer contributions	19,384	14,372
(b) Other revenue		
Rent and lease income	1,108	1,670
Interest received	79	43
Grants received	6,500	-
Gain on disposal of property, plant and equipment	870	2,969
Other revenue	2,981	3,771
	478,837	493,052

A1. Revenue continued

Recognition and measurement

TasNetworks derives its revenue from contracts with customers for the transfer of goods and services both over time and at a point in time. The revenue is recognised at fair value of the consideration received or receivable net of the amount of GST payable.

Provision of regulated services

Regulated services revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to TasNetworks and the revenue can be reliably measured. Revenue earned from the use of the distribution system and customers connected to the transmission network is recognised at the time of the provision of the electricity to those customers (at a point in time). Income earned from the provision of electricity is the value of electricity units supplied to electricity customers during the year. Included in this amount is accrued revenue for unbilled use of system charges.

TasNetworks does not accrue or defer amounts that are allowed to be recovered from customers (or credited to them) in future years under regulatory pricing mechanisms. Revenue will be adjusted in future financial years, via resetting of revenue and prices.

Key Estimate

Unbilled Use of System

TasNetworks recognises an accrual for the unbilled use of system. Unbilled use of system is an estimate of charges to retailers between the date of the last meter reading and the year end. The estimate of the units supplied is based on the historic usage profile at the relevant tariff prices.

Provision of non-regulated services

Non-regulated services income is income received for services that are not economically regulated, including operating and maintenance, connections and external work. The majority of this income is for the provision of services over time.

This predominately includes non-prescribed services revenue that has been received from customers for a long term connection to the electricity system. The income is recorded upon receipt and recognised over the life of the agreement to which it pertains, reflecting the performance of the contractual obligations. This income received in advance constitutes a significant financing arrangement on which TasNetworks is required to recognise an interest expense on the financing received from the customer. The rate used to calculate this interest is the borrowing rate at which TasNetworks would have been able to secure for borrowings over the term of the agreement.

Where projects are still progressing, or where customer contributions for capital works have been received in advanced, revenue will be recognised once the performance obligation has been met. Revenue that has been received in advance will be included as a liability in the statement of financial position until the performance obligation has been met.

Customer contributions

Contributions from customers applied to capital projects are treated as revenue under accounting Interpretation 18 *Transfer of Assets from Customers*. The revenue is recognised once the performance obligation under the contract has been completed, which is when the asset is commissioned. The portion of customer contributions that have been received in advance of the works being completed is included as a liability in the statement of financial position until the performance obligation has been met.

Customer contributions in 2018-19 includes a receipt for settlement of damages relating to the supply to TasNetworks of defective products between 1996 and 2012.

Rental income

Rental income is recognised in the statement of profit or loss on a straight-line basis over the term of the lease.

Interest

Interest revenue is recognised as it accrues on a time proportionate basis at the effective yield on the financial asset (point in time).

Grants received

TasNetworks has committed to invest \$20m to support the Project Marinus feasibility study and business case assessment of the second interconnector across Bass Strait. ARENA has agreed to fund \$10m, equating to 50% of the \$20m investment. During the year ended 30 June 2019 ARENA paid \$6.5m of funding towards the project based upon achievement of agreed milestones. The grant has been recognised as revenue in line with the achievement of qualifying conditions.

Other revenue

Other revenue includes the profit or loss on sale of assets and inventory and is recognised in the statement of profit or loss when significant risks and rewards of ownership of the goods have passed to the buyer (point in time).

Notes to the consolidated financial statements continued
For the financial year ended 30 June 2019

A2. Expenses	Note	2019 \$'000	2018 \$'000
(a) Operating Expenses¹			
Employee benefits	A2(c)	107,159	108,958
Services ²		60,468	52,780
Information technology and communications		13,430	13,203
Feed-in-tariff ³		6,796	10,261
Property costs		6,018	5,926
Materials		3,964	4,929
Licence fees		6,551	6,167
Insurance		2,644	2,540
Distribution claims and payments		2,122	3,398
Other		13,730	11,579
Capitalised indirect costs ⁴		(53,930)	(52,537)
		168,952	167,204
<p>1. Operating expenses in 2018-19 includes \$11.541m (2018:\$2.383m) for Project Marinus, the second interconnector feasibility study project. The underlying expenditure excluding Project Marinus is \$157.411m (2018:\$164.821m).</p> <p>2. Services expenditure comprises the provision of both professional services and services incurred in maintaining TasNetworks' assets.</p> <p>3. Feed-in-tariff represents the reimbursements paid to retailers under section 44I of the <i>Electricity Supply Industry Act 1995</i> which requires retailers to be reimbursed for the difference between the legacy transitional feed-in-tariff rate paid to the customer and the standard feed-in-tariff rate. The transitional feed-in-tariff rebate has been extended until 31 December 2019.</p> <p>4. Capitalised indirect costs includes the portion of overheads and indirect costs that have been capitalised to the statement of financial position in accordance with TasNetworks' AER approved cost allocation methodology.</p>			
(b) Depreciation and amortisation expenses			
Depreciation of property, plant and equipment	B2	144,809	140,447
Amortisation of intangible assets	B1	19,257	15,115
		164,066	155,562
(c) Employee benefits expenses			
Post employment benefits:			
Defined benefit plan	F2	9,257	9,328
Superannuation Guarantee Contributions		9,894	9,798
		19,151	19,126
Termination benefits		559	3,332
Other employee benefits (salary and wages)		94,258	93,340
Total employee benefit expenses		113,968	115,798
Net interest cost on defined benefit plan	F2	(6,809)	(6,840)
Employee benefits expenses in profit or loss	A2(a)	107,159	108,958

Notes to the consolidated financial statements continued
For the financial year ended 30 June 2019

A3. Finance costs	Note	2019 \$'000	2018 \$'000
Finance costs incurred during the financial year		72,158	69,418
Government guarantee fee		7,423	7,189
Net interest costs on defined benefit plan	F2	6,809	6,840
Interest on finance leases and long term revenue contracts		880	103
Total finance costs		87,270	83,550
A4. Income tax equivalents			
(a) Recognised in profit or loss			
Income tax equivalent (expense)/income comprises:			
Current income tax expense		(34,471)	(40,647)
Net increase/(decrease) in deferred tax equivalent liability		16,706	14,320
Prior year under/over provision		-	943
Total income tax equivalent (expense)/income		(17,765)	(25,384)
Numerical reconciliation between income tax equivalent expense and pre-tax net profit			
Profit before income tax equivalent		58,549	84,614
Income tax equivalent calculated at 30%		(17,565)	(25,384)
Increase in income tax equivalent expense due to:			
Non-deductible expenses		(257)	(4)
Prior year under/over provision		57	-
Other changes		-	4
Total income tax equivalent (expense)/income		(17,765)	(25,384)
(b) Recognised in other comprehensive income			
Items that will not be reclassified subsequently through profit or loss:			
Income tax equivalent on fair value movements	D3	(11,355)	(11,776)
Income tax equivalent on superannuation actuarial (gains)/losses		7,022	(562)
Total recognised in other comprehensive income		(4,333)	(12,338)
Items that have or may be reclassified subsequently through profit or loss:			
Income tax equivalent on hedge reserve	D3	(560)	(745)
Income tax equivalent on AASB 15 on transition	D1	2,071	-
Total recognised in other comprehensive income		1,511	(745)
Total income tax equivalent recognised in other comprehensive income		(2,822)	(13,083)
(c) Current tax equivalent assets and liabilities			
Current tax equivalent payable/(receivable)		(5,990)	(4,757)

Notes to the consolidated financial statements continued
For the financial year ended 30 June 2019

A4. Income tax equivalents continued

(d) Deferred tax equivalent balances	2019 \$'000	2018 \$'000
Deferred tax equivalent assets comprise:		
Temporary differences	79,556	59,604
Deferred tax equivalent liabilities comprise:		
Temporary differences	290,047	283,886
Net deferred tax equivalent liabilities	210,491	224,282

(e) Movement in temporary differences during the current financial year

	Balance 1-Jul-18 \$'000	Recognised in income \$'000	Recognised in equity \$'000	Prior year unders/ overs \$'000	Balance 30-Jun-19 \$'000
Deferred tax equivalent liabilities:					
Property, plant and equipment	(283,886)	5,287	(11,355)	(93)	(290,047)
	(283,886)	5,287	(11,355)	(93)	(290,047)
Deferred tax equivalent assets:					
Employee benefits	57,555	7,327	7,022	-	71,904
Provisions	892	(44)	-	-	848
Derivatives	838	-	(560)	-	278
Other items	319	4,136	2,071	-	6,526
	59,604	11,419	8,533	-	79,556
Net deferred tax equivalent liabilities	(224,282)	16,706	(2,822)	(93)	(210,491)

(f) Movement in temporary differences during the previous financial year

	Balance 1-Jul-17 \$'000	Recognised in income \$'000	Recognised in equity \$'000	Prior year unders/ overs \$'000	Balance 30-Jun-18 \$'000
Deferred tax equivalent liabilities:					
Property, plant and equipment	(285,208)	13,130	(11,776)	(32)	(283,886)
	(285,208)	13,130	(11,776)	(32)	(283,886)
Deferred tax equivalent assets:					
Employee benefits	56,686	1,431	(562)	-	57,555
Provisions	1,558	(666)	-	-	892
Derivatives	1,575	8	(745)	-	838
Other items	(98)	417	-	-	319
	59,721	1,190	(1,307)	-	59,604
Net deferred tax equivalent liabilities	(225,487)	14,320	(13,083)	(32)	(224,282)

A4. Income tax equivalents continued

Tax consolidation

Income tax legislation allows groups, comprising a parent entity and its Australian wholly owned entities, to elect to consolidate and be treated as a single entity for income tax purposes.

TasNetworks and its wholly owned Australian resident subsidiaries have consolidated for tax purposes under this legislation and have elected to be taxed as a single entity. The head entity within the tax consolidation group is Tasmanian Networks Pty Ltd.

Recognition and measurement

Under the National Tax Equivalents Regime (NTER), TasNetworks is required to make income tax equivalent payments to the State Government. The charge for current income tax expense is based on the sum of tax currently payable and deferred tax not recognised in other comprehensive income or directly in equity. It is calculated using the prevailing tax rates at the balance date.

Current income tax

Current tax equivalent is calculated by reference to the amount of income tax equivalent payable or recoverable in respect of the taxable profit or loss for the period using the legislated income tax rate. Current tax equivalent is recognised as a liability/(asset) to the extent that it is unpaid/(recoverable).

Deferred tax liabilities and assets

Deferred tax equivalent is accounted for using the liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

Deferred tax equivalent assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates and laws enacted at the reporting date. The measurement of deferred tax equivalent liabilities and assets reflects the tax consequences from the manner in which TasNetworks expects to recover or settle the carrying amount of its assets and liabilities.

Deferred tax equivalent assets and liabilities are offset when they relate to income tax equivalents levied by the same taxation authority and where TasNetworks intends to settle its current tax equivalent assets and liabilities on a net basis.

Current and deferred tax equivalent for the period is recognised as an expense or income in the statement of profit or loss except when it relates to items of other comprehensive income, in which case the tax equivalent is also recognised directly in other comprehensive income.

Key Assumption

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

TasNetworks' assets

This section highlights the investments made by TasNetworks into its asset base as well as providing a summary of the impairment assessment.

B1. Intangible assets	Note	2019 \$'000	2018 \$'000
Intangible assets - at cost			
Gross carrying value			
Opening balance		270,436	213,567
Derecognised		(109,126)	-
Transferred from WIP		16,810	56,869
Closing balance		178,120	270,436
Accumulated amortisation			
Opening balance		(164,176)	(149,061)
Derecognised		109,126	-
Amortisation expense	A2(b)	(19,257)	(15,115)
Closing balance		(74,307)	(164,176)
Capital works in progress - at cost			
Opening balance		2,637	21,766
Expenditure for the year		14,488	37,740
Transferred to assets		(16,810)	(56,869)
Closing balance		315	2,637
Carrying amount - at cost		104,128	108,897

Recognition and measurement

Computer software, identified as intangible assets, is recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives and amortisation methods are reviewed annually for appropriateness.

Intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Amortisation expense is included in the line item of depreciation and amortisation expenses in the statement of profit or loss.

Numerous financial and operating software systems that are fully depreciated have been derecognised from the asset register in 2018-19. The majority of these systems were replaced with the implementation of TasNetworks' enterprise resource planning systems SAP and other market system changes which were commissioned during 2017 and 2018.

Notes to the consolidated financial statements continued
For the financial year ended 30 June 2019

B2. Property, plant and equipment	2019	2018
	\$'000	\$'000
Network assets - Transmission		
Network assets – at fair value	2,110,377	2,021,652
Accumulated depreciation	(863,255)	(786,236)
Carrying amount	1,247,122	1,235,416
Network assets - Distribution		
Network assets – at fair value	3,575,294	3,427,316
Accumulated depreciation	(1,963,174)	(1,861,735)
Carrying amount	1,612,120	1,565,581
Communication assets		
Communication assets – at fair value	67,344	62,521
Accumulated depreciation	(36,936)	(32,084)
Carrying amount	30,408	30,437
Easements		
Easements – at fair value	80,154	78,737
Accumulated impairment	(48)	(47)
Carrying amount	80,106	78,690
Land		
Land – at fair value	37,443	37,443
Buildings		
Buildings – at fair value	103,833	98,926
Accumulated depreciation	(33,592)	(30,463)
Carrying amount	70,241	68,463
Leased assets		
Leased assets - at cost	2,811	2,811
Accumulated depreciation	(703)	(563)
Carrying amount	2,108	2,248
Other plant and equipment		
Other plant and equipment – at cost	173,552	166,599
Accumulated depreciation	(123,547)	(119,541)
Carrying amount	50,005	47,058
Capital works in progress – at cost	99,534	75,912
Total property, plant and equipment	3,229,087	3,141,248

B2. Property, plant and equipment continued

Recognition and measurement

All assets acquired are initially recorded at their costs of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. TasNetworks capitalises assets that meet the capitalisation threshold of \$500 and items under this limit are treated as expenses in the current period.

The cost of assets constructed includes the cost of contracted services, materials and direct labour, and an appropriate portion of overhead costs. Costs incurred on an asset subsequent to the initial acquisition are capitalised when the original capacity of an asset has been enhanced, or the life of an asset has been extended.

The components of major assets that have materially different useful lives are accounted for as separate assets, and are depreciated separately.

Regulated Network assets

Regulated Network assets are categorised as Transmission and Distribution assets. Transmission assets are used to transport electricity from generators to distribution networks and directly connected transmission customers at high voltages. Distribution assets are used to transform the power from transmission high voltage and further stepping the power down via distribution transformers for supplying low voltage consumers.

Regulated Network assets are valued in accordance with the AER Regulated Asset Base (RAB) methodology. They are revalued to their value in use based on the regulated revenue that the assets are allowed to earn under the National Electricity Rules which best represents their fair value and income earning capacity. These are level 3 inputs (note B2 - Assets measured at fair value) in the fair value hierarchy and their key significant unobservable inputs are detailed below.

Network opening asset values are escalated annually in accordance with the RAB methodology based on the Consumer Price Index (CPI) movement for the year. Revaluation can also occur if the asset base is adjusted by the AER via the regulatory process.

The AER makes a determination of asset values and the applicable weighted average cost of capital (WACC). As at balance date this was 6.18% for transmission and 5.99% for distribution post tax nominal (2018: 6.28% transmission and 6.02% distribution), which is used in determining the revenue allowed to be earned in the future from the network assets.

Assets completed and transferred to completed works during the current year are valued at cost.

Communication assets

Communication assets are recorded at fair value based on the AER RAB methodology to best represent their fair value and income earning capacity.

The RAB methodology requires the opening asset values to be escalated annually based on the CPI movement for the year.

Easements

Easements are recorded at fair value based on the AER RAB methodology to best represent their fair value and income earning capacity.

The RAB methodology requires the opening assets values to be escalated annually based on the CPI movement for the year.

Land

Land is carried at fair value, less any subsequent impairment losses where applicable. Revaluations occur periodically at least every five years, or when management initiates a review due to the existence of an indicator that movement in valuation has occurred.

TasNetworks' primary operational land sites are valued in accordance with an independent valuation conducted by Opteon in February 2016. TasNetworks' land in many instances is zoned as 'public utility' which is rarely transacted. Valuations do however factor in some market evidence of land with similar features, topography and location.

Where no formal valuation has taken place fair value is considered to be the value as determined by the Valuer-General.

The fair value measurement of land has been categorised as level 2 (note B2 - Assets measured at fair value) in the fair value hierarchy as its value is derived from observable inputs.

Buildings

Buildings are carried at fair value, less any subsequent accumulated depreciation and impairment losses where applicable. Revaluations occur periodically at least every five years, or when management initiates a review due to the existence of an indicator that movement in valuation has occurred.

TasNetworks' primary operational buildings are valued in accordance with an independent valuation conducted by Opteon in February 2016. The valuation is based on a notional lease at current market rates.

Where no formal valuation has taken place fair value is considered to be the value as determined by the Valuer-General.

Leased assets

Assets held under finance leases are recorded at cost and depreciated over their expected useful lives on the same basis as assets owned by TasNetworks. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

B2. Property, plant and equipment continued

Other plant and equipment

Other plant and equipment includes optic fibre and minor assets such as motor vehicles, computer equipment, office furniture and equipment. These assets are stated at cost less accumulated depreciation and impairment, where applicable. These assets other than optic fibre are valued at written down value as they are low value, short life and high turnover assets. Optic fibre is valued at written down value as they are non regulated assets and not subject to the RAB methodology.

Capital works in progress

Capital works in progress are recognised at cost.

Capital works in progress at 30 June 2019 includes \$29.7m associated with the development of transmission assets required to support large-scale renewable energy projects.

Disposal of assets

The gain or loss on the disposal of assets is calculated as the difference between the carrying amount of the assets at the time of disposal (less cost of disposal) and the proceeds on disposal and is included in the statement of profit or loss in the year of disposal. Any revaluation surplus remaining in the revaluation reserve is recognised in the statement of comprehensive income.

Revaluations of non-current assets

Any revaluation of property, plant and equipment is credited to the asset revaluation reserve in equity, except to the extent that it reverses a revaluation decrease for the same assets previously recognised as expenses in profit or loss, in which case the increase is credited to the statement of profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation is charged as an expense in profit or loss to the extent that it exceeds the balance, if any, held in the asset revaluation reserve in relation to a previous revaluation of those assets.

Useful lives and depreciation

Depreciation on property, plant and equipment other than land is based on the straight-line method so that assets are written off over their expected useful lives. The estimated useful lives, residual values, depreciation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in the current and future periods.

Key Estimates

Asset useful lives

Asset useful lives are aligned with the asset classes and lives as determined by the AER.

The useful lives assigned to TasNetworks' assets are listed below and have not changed from the prior year:

Transmission Network assets:

Transmission lines	45-60 yrs
Underground cables	45 yrs
Substation establishment	60 yrs
Transmission substation switch bays	45 yrs
Transmission capacitors	45 yrs
Transmission transformers	45 yrs
Control and protection schemes	15 yrs

Distribution Network assets:

Distribution overhead lines and poles	35 yrs
Underground cables	60 yrs
Distribution substations	40 yrs
Zone substations	40 yrs
Meters	30 yrs
Service connections	35 yrs

Communication assets:

Communication equipment	10-40 yrs
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Buildings:

Buildings	40 yrs
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Other plant and equipment:

Optic fibre	20 yrs
Minor assets	3-15 yrs

Notes to the consolidated financial statements continued

For the financial year ended 30 June 2019

B2. Property, plant and equipment continued

	2019									
	Transmission network at fair value \$'000	Distribution network at fair value \$'000	Communication assets at fair value \$'000	Easements at fair value \$'000	Land at fair value \$'000	Buildings at fair value \$'000	Leased assets at cost \$'000	Other plant & equipment at cost \$'000	Capital works in progress at cost \$'000	Total \$'000
Gross value										
At beginning of financial year	2,021,652	3,427,316	62,521	78,737	37,443	98,926	2,811	166,599	75,912	5,971,917
Expenditure during the year	-	-	-	-	-	-	-	-	195,245	195,245
Disposals	-	-	-	-	-	-	-	(5,132)	-	(5,132)
Impairment losses charged to profit	-	-	-	-	-	-	-	-	-	-
Transfers of WIP to non-current assets	52,324	98,634	3,673	-	-	4,907	-	12,085	(171,623)	-
Net revaluation increments/(decrements)	36,401	49,344	1,150	1,417	-	-	-	-	-	88,312
Balance at end of financial year	2,110,377	3,575,294	67,344	80,154	37,443	103,833	2,811	173,552	99,534	6,250,342
Accumulated depreciation and impairment losses										
At beginning of financial year	(786,236)	(1,861,735)	(32,084)	(47)	-	(30,463)	(563)	(119,541)	-	(2,830,669)
Disposals	-	-	-	-	-	-	-	4,685	-	4,685
Net revaluation increments/(decrements)	(15,170)	(34,645)	(646)	(1)	-	-	-	-	-	(50,462)
Depreciation charge for the year	(61,849)	(66,794)	(4,206)	-	-	(3,129)	(140)	(8,691)	-	(144,809)
Balance at end of financial year	(863,255)	(1,963,174)	(36,936)	(48)	-	(33,592)	(703)	(123,547)	-	(3,021,255)
Carrying amount at 30 June 2019	1,247,122	1,612,120	30,408	80,106	37,443	70,241	2,108	50,005	99,534	3,229,087
Carrying amount of assets had they been recognised at cost										
Balance at 30 June 2019	1,163,206	1,543,878	28,974	73,690	34,919	64,316	2,108	50,005	99,534	3,060,630

Notes to the consolidated financial statements continued
For the financial year ended 30 June 2019

B2. Property, plant and equipment continued

	2018									
	Transmission network at fair value \$'000	Distribution network at fair value \$'000	Communication assets at fair value \$'000	Easements at fair value \$'000	Land at fair value \$'000	Buildings at fair value \$'000	Leased assets at cost \$'000	Other plant & equipment at cost \$'000	Capital works in progress at cost \$'000	Total \$'000
Gross value										
At beginning of financial year	1,956,337	3,243,670	56,885	77,269	36,365	93,937	2,811	158,136	80,575	5,705,985
Expenditure during the year	-	-	-	-	-	-	-	-	192,175	192,175
Disposals	-	(8,903)	-	-	-	-	-	(2,189)	-	(11,092)
Impairment losses charged to profit	-	(2,122)	-	-	-	-	-	-	-	(2,122)
Transfers of WIP to non-current assets	28,145	147,419	4,555	-	1,078	4,989	-	10,652	(196,838)	-
Net revaluation increments/(decrements)	37,170	47,252	1,081	1,468	-	-	-	-	-	86,971
Balance at end of financial year	2,021,652	3,427,316	62,521	78,737	37,443	98,926	2,811	166,599	75,912	5,971,917
Accumulated depreciation and impairment losses										
At beginning of financial year	(711,505)	(1,772,578)	(27,740)	(47)	-	(27,363)	(422)	(112,326)	-	(2,651,981)
Disposals	-	7,727	-	-	-	-	-	1,746	-	9,473
Net revaluation increments/(decrements)	(13,519)	(33,668)	(527)	-	-	-	-	-	-	(47,714)
Depreciation charge for the year	(61,212)	(63,216)	(3,817)	-	-	(3,100)	(141)	(8,961)	-	(140,447)
Balance at end of financial year	(786,236)	(1,861,735)	(32,084)	(47)	-	(30,463)	(563)	(119,541)	-	(2,830,669)
Carrying amount at 30 June 2018	1,235,416	1,565,581	30,437	78,690	37,443	68,463	2,248	47,058	75,912	3,141,248
Carrying amount of assets had they been recognised at cost										
Balance at 30 June 2018	1,166,711	1,508,471	29,185	73,690	34,919	62,047	2,248	47,058	75,912	3,000,241

B2. Property, plant and equipment continued

Assets measured at fair value

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised with the fair value hierarchy as shown below:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

For assets and liabilities that are recognised in the financial statements on a recurring basis, TasNetworks determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

There have been no transfers between levels in the fair value hierarchy during the year.

Level 3 significant valuation inputs and relationship to fair value

Asset	Fair Value as at 30 June 2019 \$'000	Fair Value as at 30 June 2018 \$'000	Significant inputs	Range of inputs	Relationship of inputs to fair value
RAB assets (including Network assets, Communication assets and Easements)	2,969,756	2,910,124	CPI	+/- 1%	A 1% increase in CPI increases the fair value of assets by \$30m
			AER Determination	N/A	AER determination of the asset values via regulatory revenue reset process
Buildings - Office buildings	70,241	68,463	Notional lease for 10 years at a current market rent	+/- expected rental growth and occupancy rates	The higher the expected rental growth and occupancy rates the greater the fair value
Buildings - Other			Notional lease for 5 years at a current market rent	+/- expected rental growth and occupancy rates	The higher the expected rental growth and occupancy rates the greater the fair value

Notes to the consolidated financial statements continued
For the financial year ended 30 June 2019

B3. Impairment of assets

	2019 \$'000	2018 \$'000
Impairment expense - distribution network assets	-	2,122
	-	2,122

Recognition and measurement

At each reporting date, TasNetworks reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets may have suffered an impairment loss. If an indication of impairment exists, the recoverable amount of the asset is estimated to determine the extent of any impairment losses. Where the asset does not generate cash flows that are independent from other assets, TasNetworks estimates the recoverable amount of the cash-generating unit to which the asset belongs. The recoverable amount is the higher of fair value less costs to sell and value-in-use.

If there is an impairment indicator, value in use is calculated based upon management's most recent cash flow forecasts for five years using a terminal growth rate and a discount rate which reflects the risks specific to TasNetworks' assets and prevailing market conditions at the time of the calculation.

Key Estimates and Assumptions

Impairment testing results

TasNetworks undertakes an assessment for impairment of all assets at each reporting date. If an indication of impairment exists, an estimate of the recoverable amount for each cash generating unit is made. This estimate is based on the revenue allowance as determined by the AER to determine future recoverable cash flows if any.

Significant events

During the year there were no significant asset impairment events.

Financing TasNetworks' business

This section provides information relating to TasNetworks' capital structure and exposure to financial risks and how those risks are managed.

C1. Borrowings

All borrowings have been transacted through the Tasmanian Public Finance Corporation (TASCORP) with the exception of operational banking facilities which are drawn upon as required. All borrowings are secured by a floating charge on all present and future trade and other receivables.

	2019 \$'000	2018 \$'000
Overnight borrowings	17,870	32,300
Borrowings	215,000	120,000
	232,870	152,300
Non-current:		
Borrowings	1,703,300	1,733,300
	1,703,300	1,733,300
Total Borrowings	1,936,170	1,885,600

TasNetworks' Treasury Risk Management Policy is to benchmark the debt portfolio to the Australian Energy Regulator's benchmark used in determining the revenue allowance, which is to have 1/10th of the portfolio repricing each year from year 1 to 10. The current borrowings of \$215m (2018: \$120m) that are classified as current will be refinanced in line with this policy. See below for details of the borrowing facilities. In 2015-16, in recognition of the low interest rate environment, the Board resolved to exclude the \$100m of 30 year long term debt to 2046 from the benchmark debt portfolio.

Unused borrowing facilities at balance date

	Limit 2019 \$'000	Drawn 2019 \$'000	Undrawn 2019 \$'000	Limit 2018 \$'000	Drawn 2018 \$'000	Undrawn 2018 \$'000
Unsecured bank overdraft facility	1,005	-	1,005	1,005	-	1,005
Corporate MasterCard	3,500	298	3,202	3,500	243	3,257
Guarantee facility	10,000	-	10,000	10,000	-	10,000
TASCORP Master Loan Facility	2,000,000	1,936,170	63,830	1,955,000	1,885,600	69,400

Recognition and measurement

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between cost and redemption value being recognised in the statement of profit or loss over the period of the borrowings on an effective interest basis.

Non-current borrowings are those borrowings that have a maturity beyond one year of the reporting date. All borrowings that are not non-current borrowings are current borrowings.

C2. Lease liability

Lease of equipment not in the legal form of a lease

TasNetworks has an arrangement where it has exclusive use to the fibre optic telecommunications network owned by the State Government. As TasNetworks control a 'more than insignificant amount of output or other utility of the asset' and as TasNetworks is responsible for the repair, upgrades and maintenance of the asset and has the ability to restrict others access to it, other than those entities specified in the agreement it is deemed that the arrangement contains a lease.

TasNetworks pays a fixed annual fee over the term of the arrangement plus a variable charge based on revenue generated by the asset outside of Tasmania. The imputed interest rate for the lease was determined based on TasNetworks' incremental borrowing rate of 4.01%.

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Future minimum lease payments		Interest		Present Value of future minimum lease payments	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Less than one year	80	77	97	100	79	75
Between one and five years	260	250	271	281	315	302
More than five years	2,116	2,206	770	857	1,212	1,241
	2,456	2,533	1,138	1,238	1,606	1,618

Included in the consolidated financial statements as:

Current lease liability	80	77
Non-current lease liability	2,376	2,456
	2,456	2,533

Recognition and measurement

Assets held under finance leases are initially recognised as assets at their fair value at the inception of the lease. The corresponding liability is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance costs and reduction of the lease obligation.

Notes to the consolidated financial statements continued
For the financial year ended 30 June 2019

C3. Reconciliation of movements of liabilities to cash flows arising from financing activities

The table below details changes in TasNetworks' liabilities and equity arising from financing activities including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were or future cash flows will be, classified in TasNetworks' statement of cash flows as cash flows from financing activities.

	Borrowings \$'000	Finance Leases \$'000	Retained Earnings \$'000	Total \$'000
Opening balance at 1 July 2018	1,885,600	2,533	160,312	1,871,116
Changes from financing cash flows:				
Proceeds from borrowings	534,184	-	-	534,184
Repayment of borrowings	(483,614)	-	-	(483,614)
Payment of leases	-	(140)	-	(140)
Payment of dividend	-	-	(43,104)	(43,104)
Total changes from financing cash flows:	50,570	(140)	(43,104)	7,326
Non-cash changes				
Liability changes:				
Lease liability	-	63	-	63
Total liability changes	-	63	-	63
Equity related changes:				
Net actuarial gain/(loss)	-	-	(16,386)	(16,386)
Profit for year	-	-	40,784	40,784
Total equity related changes:	-	-	24,398	24,398
Closing balance at 30 June 2019	1,936,170	2,456	141,606	1,902,903

	Borrowings \$'000	Finance Leases \$'000	Retained Earnings \$'000	Total \$'000
Opening balance at 1 July 2017	1,785,762	2,607	177,329	1,788,369
Changes from financing cash flows:				
Proceeds from borrowings	699,092	-	-	699,092
Repayment of borrowings	(599,254)	-	-	(599,254)
Payment of leases	-	(120)	-	(120)
Payment of dividend	-	-	(77,560)	(77,560)
Total changes from financing cash flows:	99,838	(120)	(77,560)	22,158
Non-cash changes				
Liability changes:				
Lease liability	-	46	-	46
Total liability changes	-	46	-	46
Equity related changes:				
Net actuarial gain/(loss)	-	-	1,313	1,313
Profit for year	-	-	59,230	59,230
Total equity related changes:	-	-	60,543	60,543
Closing balance at 30 June 2018	1,885,600	2,533	160,312	1,871,116

(a) **Non-cash financing activities**

There have been no non-cash financing activities in either 2018 or 2019.

C4. Financial instruments

(a) Classification and fair value measurement of financial instruments

Comparison between carrying amount as disclosed in the statement of financial position and their fair value at the end of the current financial year

		2019						
		Carrying Amount			Fair Value			
Note	Hedging Instrument	Financial Assets at amortised cost	Other Liabilities	Level 1	Level 2	Level 3		
							\$'000	\$'000
Financial assets not measured at fair value:								
	Cash and cash equivalents	C5(a)	-	3,552	-	n/a	n/a	n/a
	Trade and other receivables	E1	-	86,988	-	n/a	n/a	n/a
Financial assets measured at fair value:								
	FX forward agreements	E3	6	-	-	6	-	
Total financial assets			6	90,540	-	6	-	
Financial liabilities measured at fair value:								
	Interest rate swaps	E6	927	-	-	927	-	
Financial liabilities not measured at fair value:								
	Trade and other payables	E5	-	-	81,073	n/a	n/a	n/a
	Finance leases	C2	-	-	2,456	n/a	n/a	n/a
	Borrowings - fixed rate		-	1,828,300	-	1,884,047	134,506	
	Borrowings - floating rate		-	107,870	-	108,658	-	
Total financial liabilities			927	1,936,170	83,529	1,993,632	134,506	

Comparison between carrying amount as disclosed in the statement of financial position and their fair value at the end of the previous financial year

		2018						
		Carrying Amount			Fair Value			
Note	Hedging Instrument	Loans and Receivables	Other Liabilities	Level 1	Level 2	Level 3		
							\$'000	\$'000
Financial assets not measured at fair value:								
	Cash and cash equivalents	C5(a)	-	2,732	-	n/a	n/a	n/a
	Trade and other receivables	E1	-	79,501	-	n/a	n/a	n/a
Financial assets measured at fair value:								
	FX forward agreements	E3	24	-	-	24	-	
Total financial assets			24	82,233	-	24	-	
Financial liabilities measured at fair value:								
	Interest rate swaps	E6	2,817	-	-	2,817	-	
Financial liabilities not measured at fair value:								
	Trade and other payables	E5	-	-	78,159	n/a	n/a	n/a
	Finance leases	C2	-	-	2,533	n/a	n/a	n/a
	Borrowings - fixed rate		-	1,733,300	-	1,693,278	109,592	
	Borrowings - floating rate		-	152,300	-	153,906	-	
Total financial liabilities			2,817	1,885,600	80,692	1,850,001	109,592	

C4. Financial instruments continued

Fair values of financial instruments

The carrying amount of financial assets and liabilities recorded in the financial statements, except for the borrowings from TASCORP, approximate their fair values.

The fair value of derivative instruments is calculated using quoted prices, or where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

Derivative transactions are for the purpose of managing financial exposures that arise from underlying business positions.

Therefore fair values should not be assessed in isolation. The overall impact should take into account the underlying exposures being held.

The fair value disclosed in note C4(a) for borrowings is the market value provided by TasNetworks' external borrowings provider TASCORP. The market value for level 2 fair value amounts is determined as the discounted cash flows of the instruments using the applicable yield curve.

The valuation methodology of the level 3 borrowings are disclosed below:

Valuation technique and key input(s)	Significant input(s)	Relationship of inputs to fair value
Discounting the expected future cash flows using an estimated market yield derived from TASCORP's 2024 and 2026 bond issuances.	Estimated market yield of 2046 bond due to no observable market rate.	Fair value represents an estimated market yield of the 2046 bonds.

Recognition and measurement

AASB 9 replaces AASB 139 Financial Instruments: Recognition and Measurement and introduces new requirements for classifying and measuring financial assets and maintains the existing amortised cost measurement basis for financial liabilities. Previously cash and cash equivalents and trade and other receivables were classified as Loans and Receivables under AASB 139. Under AASB 9 cash and cash equivalents and trade and other receivables are classified as Financial assets at amortised cost. There is no change to amounts that have been reported in the previous financial year.

Impairment of financial assets

As required under AASB 9 TasNetworks uses a forward looking expected credit loss model to assess the impairment of financial assets. This requires judgement in how changes in economic factors will impact the expected credit losses which will be determined on a probability-weighted basis. The new impairment model did not create a material difference to the previous provision and therefore there has been no adjustment to retained earnings.

Customers are grouped based on services provided including electricity retailers, transmission network customer, telecommunications customer and other customers. These groups are then assessed on their expected credit losses which remain very low for electricity customers, and low for telecommunication customers. The other customers which make up a small percentage of revenue are then assigned a weighted average loss rate. This methodology aligns significantly with the previous methodology used by TasNetworks.

For the current financial year	Trade receivables days past due					Total
	Current	Less than 30 days	More than 30 days	More than 60 days	More than 90 days	
Expected credit loss rate	0.04%	0.39%	3.90%	8.26%	18.49%	
Gross carrying amount \$'000	16,385	507	472	20	1,621	19,005
Lifetime expected credit loss \$'000	7	2	18	2	300	329

The cash and cash equivalents are held with bank and financial institution counterparties with credit ratings of AA- to AA+ based on Standard and Poor's ratings, and as such TasNetworks considers that its cash and cash equivalents have low credit risk.

C4. Financial instruments continued

Derivative financial instruments

TasNetworks enters into various financial instruments including interest rate swaps, forward start borrowing agreements, forward rate agreements and foreign exchange contracts in order to manage financial exposures arising from its operations. In accordance with its Treasury Risk Management Policy, TasNetworks does not hold or issue derivative financial instruments for trading purposes.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is immediately recognised in profit or loss on the statement of comprehensive income unless the derivative is designated and effective as a hedging instrument.

On the date the contract is entered, each contract is recorded in TasNetworks' hedge accounting system where the relevant effectiveness tests and documentation is created and all further designation and valuation data is recorded.

The fair value of a hedging instrument is presented as current or non-current based on the timing of the contractual cash flows, with cash flows expected to be realised or settled after 12 months classified as non-current and cash flows expected to be realised or settled within 12 months classified as current. Other derivatives are presented as current assets or current liabilities.

Compliance with policies and exposure limits are reviewed on an ongoing basis and any breaches are reported in a timely manner to the Board. Compliance is also reviewed by TasNetworks' internal auditors in accordance with TasNetworks' internal audit program.

Foreign currency transactions

Realised and unrealised gains and losses on foreign currency exposures are brought to account in the year to which they apply. Transactions in foreign currencies are initially recorded in Australian dollars by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at balance date are translated to Australian dollars at exchange rates in effect at that date. The gains and losses from hedging equipment exposures are transferred to the equipment accounts to become part of the acquisition cost of the assets. All exchange gains and losses relating to other hedge transactions are brought to account in the statement of comprehensive income in the same period as the exchange differences on the items covered by the hedge transactions. As a policy objective TasNetworks hedges its exposure to foreign currencies in excess of AUD \$1m.

(b) Financial risk management objectives

Exposures to market, credit, interest rate and liquidity risks arise in the normal course of TasNetworks' business. Financial instruments and management policies are used by TasNetworks to manage these risks in a manner that is consistent with TasNetworks' risk appetite and policies.

Capital management

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

	Note	2019 \$'000	2018 \$'000
Debt to total capital ratio			
Debt (borrowings)	C1	1,936,170	1,885,600
Cash and cash equivalents	C5(a)	3,552	2,732
Net debt		1,932,618	1,882,868
Total capital (net debt + total equity)		2,890,282	2,836,269
Debt to total capital ratio		66.9%	66.4%

Risk management

TasNetworks does not enter into financial instruments for speculative purposes. Any foreign exchange or interest rate hedging is undertaken for the risk management of TasNetworks' business activities. The risks arising from TasNetworks' financial instruments are recognised and managed as discussed below:

Credit risk

Credit risk represents the potential loss at reporting date due to the change in fair value of credit exposure to a group of counterparties due to a change in the market perception of credit quality of that exposure, and the potential for credit default i.e. the probability that a counterparty to a financial instrument or contract will not adhere to the terms of the contract when payment is due. TasNetworks is exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments.

The Credit Risk Management Policy establishes credit limits for parties depending on their credit rating. The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents TasNetworks' maximum exposure to credit risk.

Where collateral (e.g. cash deposit) is held by TasNetworks on behalf of counterparties, a corresponding liability is recognised. The majority of TasNetworks' credit risk is to Australian based banks, financial institutions, electricity generators, electricity retailers and customers.

C4. Financial instruments continued

Risk management continued

Liquidity risk

The liquidity risk management parameters contained in the Treasury Risk Management Policy establishes a framework that has been developed to ensure there are sufficient funds to meet TasNetworks' financial commitments in a timely manner. It is also associated with planning for unforeseen events which may impact on cash flow and cause pressure on liquidity.

TasNetworks manages its liquidity risk by regularly reviewing its short term cash flow forecasts to ensure it has sufficient cash to meet its day-to-day operations and by matching the maturity profiles of financial assets and financial liabilities.

The maturity analysis for TasNetworks' financial instruments is disclosed below.

Market risk

Foreign exchange risk

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate as a result of changes in foreign currency exchange rates. TasNetworks' foreign exchange risk arises from the purchase of goods and services from overseas parties.

TasNetworks uses forward exchange contracts to hedge its currency exposure where the exposure is in excess of AUD \$1m in line with the Treasury Risk Management Policy.

TasNetworks entered into three forward foreign exchange contracts during the year ended 30 June 2019 (three in 2018, valued at \$0.024m). Two forward foreign exchange contract remained at 30 June 2019 with a fair value of \$0.005m.

Interest rate risk

The objective of TasNetworks' interest rate risk management is to manage within TasNetworks' approved risk appetite. The potential adverse financial impact from unfavourable movements in interest rates. This is primarily achieved through setting an interest rate exposure profile for the portfolio aligned to the regulatory regime within which TasNetworks operates. The AER uses a benchmark portfolio to determine the revenue allowance for the return on debt. The benchmark portfolio has 1/10th of the portfolio face value repricing each financial year from year 1 to 10 and therefore has a weighted average term to repricing (WATR) of 5 years.

Master loan facility agreement

TasNetworks has a Master Loan Facility agreement (MLFA) with TASCORP. This agreement covers a number of covenants that TasNetworks must operate within including financial leverage and interest ratio limits and net asset movements.

Notes to the consolidated financial statements continued
For the financial year ended 30 June 2019

C4. Financial instruments continued

Interest rate exposures and liquidity for the current financial year

TasNetworks' exposure to interest rate risk on financial instruments and contractual maturity of financial liabilities and expected maturity for financial assets as at 30 June 2019:

		2019						
	Note	Weighted average effective interest rate	0 to 1 year \$'000	1 to 2 years \$'000	2 to 5 years \$'000	5+ years \$'000	Non-interest bearing \$'000	Total \$'000
Financial assets:								
Cash and cash equivalents	C5(a)	2.00%	3,552	-	-	-	-	3,552
Trade and other receivables	E1	n/a	-	-	-	-	86,988	86,988
Total financial assets			3,552	-	-	-	86,988	90,540
Financial liabilities:								
Trade and other payables	E5	n/a	-	-	-	-	81,073	81,073
Borrowings - fixed rate		3.68%	217,341	209,237	743,629	937,443	-	2,107,650
Borrowings - floating rate		1.71%	84,073	25,623	-	-	-	109,696
Interest rate swaps		2.85%	376	239	-	-	-	615
Finance leases		4.01%	177	177	354	2,886	-	3,594
Total financial liabilities			301,967	235,276	743,983	940,329	81,073	2,302,628
Net financial assets/(liabilities)			(298,415)		(743,983)	(940,329)	5,915	(2,212,088)

This disclosure is presented on an undiscounted basis and therefore will not agree to amounts presented in the consolidated statement of financial position as they incorporate principal and associated future interest payments. TasNetworks is able to manage these borrowing exposures within the Master Loan Facility Agreement with TASCORP and the covenants it has in place. Amounts maturing in 5+ years include principal and interest amounts to year 2046.

Interest rate exposures and liquidity for the previous financial year

TasNetworks' exposure to interest rate risk on financial instruments and contractual maturity of financial liabilities and expected maturity for financial assets as at 30 June 2018 was as follows:

		2018						
	Note	Weighted average effective interest rate	0 to 1 year \$'000	1 to 2 years \$'000	2 to 5 years \$'000	5+ years \$'000	Non-interest bearing \$'000	Total \$'000
Financial assets:								
Cash and cash equivalents	C5(a)	2.00%	2,732	-	-	-	-	2,732
Trade and other receivables	E1	n/a	-	-	-	-	79,501	79,501
Total financial assets			2,732	-	-	-	79,501	82,233
Financial liabilities:								
Trade and other payables	E5	n/a	-	-	-	-	78,159	78,159
Borrowings - fixed rate		3.76%	155,161	211,789	643,346	1,204,964	-	2,215,260
Borrowings - floating rate		2.42%	32,967	66,189	25,622	-	-	124,778
Interest rate swaps		4.19%	2,635	413	239	-	-	3,287
Finance leases		4.01%	177	177	354	3,063	-	3,771
Total financial liabilities			190,940	278,568	669,561	1,208,027	78,159	2,425,255
Net financial assets/(liabilities)			(188,208)	(278,568)	(669,561)	(1,208,027)	1,342	(2,343,022)

C4. Financial instruments continued

Interest rate sensitivity analysis

The impact to TasNetworks of a 1% movement in interest rates is shown in the table below:

	Profit before tax		Equity after tax	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
1% increase in interest rates	89	323	168	900
1% decrease in interest rates	(89)	(323)	(169)	(920)

(c) Hedging

Interest rate swaps

TasNetworks enters into interest rate swap contracts to manage the interest rate risk of the debt portfolio. Interest rate swap transactions allow TasNetworks to swap floating rate exposure to fixed rate exposure and vice versa.

The following table details the notional principal amounts, remaining terms of interest rate swap contracts outstanding as at reporting date and their fair values.

Outstanding floating for fixed contracts	Average contracted fixed interest rate	Average contracted fixed interest rate	Notional principal amount	Notional principal amount	Fair value	Fair value
	2019 %	2018 %	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Less than one year	2.77	5.00	20,000	75,000	(174)	(2,075)
One to two years	2.92	2.77	25,000	20,000	(753)	(244)
Three to five years	-	2.92	-	25,000	-	(498)
			45,000	120,000	(927)	(2,817)

Recognition and measurement

TasNetworks designates interest rate swap derivatives as hedges of highly probable forecast transactions.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gains or losses relating to ineffective portions are recognised immediately in profit or loss. Amounts deferred in equity are charged to the profit or loss as a classification adjustment in the statement of comprehensive income in the periods when the hedged item is recognised in profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss deferred in equity remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When the forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

Transition

Due to the minimal impact of adopting AASB 9 TasNetworks has taken advantage of the following exemptions when applying the standard for the first time which must be applied retrospectively and will result in no prior period adjustments on the adoption of this standard:

- There is an exemption to the requirement to restate the comparative information for prior periods with respect to all classification and measurement changes;
- Hedge accounting requirements are to be applied prospectively.

C5. Notes to the consolidated statement of cash flows

(a) Reconciliation of cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and in banks and 11 am cash (investments), net of outstanding bank overdrafts.

Cash and cash equivalents at the end of the financial year, as shown in the statement of cash flows, is reconciled to the related items in the balance sheet as follows:

	<i>Note</i>	2019 \$'000	2018 \$'000
Cash at bank		3,526	2,706
Cash investment		26	26
		3,552	2,732

(b) Reconciliation of net profit for the year to net cash flows from operating activities

Net profit for the year		40,784	59,230
Depreciation and amortisation of non-current assets	<i>A2(b)</i>	164,066	155,562
(Gain)/loss on sale of property, plant and equipment	<i>A1(b)</i>	(870)	(2,969)
Asset impairment expense	<i>B3</i>	-	2,122
Increase/(decrease) in tax equivalent liabilities		(17,849)	(23,788)
(Increase)/decrease in trade and other receivables		(7,487)	19,349
(Increase)/decrease in inventories		1,229	(4,191)
(Increase)/decrease in other assets		969	(1,388)
Increase/(decrease) in trade and other payables		2,914	(2,413)
Increase/(decrease) in provisions		(2)	(2,313)
Increase/(decrease) in employee benefits		1,705	4,861
Increase/(decrease) in other liabilities		16,450	(175)
Net cash provided by operating activities		201,909	203,887

Recognition and measurement

Cash and cash equivalents are highly liquid cash investments with maturity less than 3 months and comprise cash on hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents are carried at face value of the amounts deposited. The carrying amounts of cash and cash equivalents approximate net fair value.

TasNetworks' equity

This section provides information on TasNetworks' owners and the transactions with TasNetworks' owners.

D1. Retained earnings	Note	2019 \$'000	2018 \$'000
Balance at beginning of financial year		160,312	177,329
Net profit for the year		40,784	59,230
Superannuation actuarial gains/(losses)	F2	(23,408)	1,875
Deferred tax effect on actuarial movement	A4(b)	7,022	(562)
Dividends paid during the year		(43,104)	(77,560)
Effect of AASB15 on transition	H5	(6,903)	-
Deferred tax effect on AASB15	A4(b)	2,071	-
Balance at end of financial year		136,774	160,312

Retained earnings comprises the transfer of net profit for the year and characterises the profit available for distribution as dividends in future years.

D2. Contributed equity

Balance at beginning of financial year	62,724	62,724
Balance at end of financial year	62,724	62,724

D3. Reserves

Reserves comprise:

Asset revaluation reserve	758,815	732,320
Hedge reserve	(649)	(1,955)
	758,166	730,365

Asset revaluation reserve

Balance at beginning of financial year	732,320	704,839
Revaluation of assets during the year	37,850	39,257
Deferred tax liability arising on revaluation	A4(b)	(11,355)
Balance at end of financial year	758,815	732,320

Revaluation of assets during the year

Revaluation of gross carrying value	B2	88,312	86,971
Revaluation of gross accumulated depreciation	B2	(50,462)	(47,714)
Net fair value movements on property, plant and equipment		37,850	39,257

The revaluation reserve comprises revaluation increments and decrements arising from property, plant and equipment, measured at fair value in accordance with applicable Australian Accounting Standards. The reserve can be used to pay dividends only in limited circumstances.

Hedge reserve

Balance at beginning of financial year	(1,955)	(3,694)
Gain/(loss) recognised in equity	(745)	(717)
Net (gain)/loss on cash flow hedges	2,611	3,201
Deferred tax arising on hedges	A4(b)	(560)
Balance at end of financial year	(649)	(1,955)

The hedging reserve represents hedging gains and losses recognised on the effective portion of hedges. The cumulative deferred gain or loss on the hedge is recognised in profit or loss when the hedged transaction impacts the profit or loss.

D4. Issued capital

TasNetworks issued two \$1 fully paid ordinary shares which are held in trust for the Crown in Right of the State of Tasmania. One share was issued to each of the Treasurer and the Minister for Energy.

Each subsidiary has 100 fully paid \$1 shares issued, please refer to note H3 for group ownership interests.

Other assets and liabilities

This section provides information on the other assets and liabilities of TasNetworks.

E1. Trade and other receivables

	2019 \$'000	2018 \$'000
Current:		
Trade receivables	19,005	10,028
Accrued income	37,029	34,926
Unbilled use of system (UoS)	31,283	34,930
Allowance for impairment	(329)	(383)
	86,988	79,501
Movement in the allowance for impairment of debts		
Balance at beginning of financial year	(383)	(303)
Impairment gain/(loss) recognised on receivables	(183)	(360)
Amounts written off as uncollectable during the year	245	284
Previously written off amounts recovered	(8)	(4)
Balance at end of financial year	(329)	(383)
Ageing of trade receivables that were past due but not impaired		
Less than 30 days overdue	507	3,108
Between 31 and 60 days overdue	472	470
Between 61 and 90 days overdue	20	122
Greater than 90 days overdue	1,621	1,543
	2,620	5,243

Recognition and measurement

Trade receivables and other receivables pertain to goods and services sold as part of operating activities and are initially recorded at fair value and thereafter amortised cost. An allowance for impairment is recognised annually utilising the Expected Credit Loss model. TasNetworks applies a simplified approach in calculating expected credit losses, and therefore as a result does not specifically track changes in credit risk, but instead recognise a loss allowance based on lifetime expected credit losses at each reporting date. TasNetworks has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors groupings and the economic environment. Bad debts are written off in the year in which they are identified. Construction work in progress receivable is stated at cost plus profit recognised to date less a provision for foreseeable losses and less progress billings.

Unbilled use of system is the accrual for the revenue TasNetworks expects to receive from retailers (note A1 - Key Estimate).

Analysis of aging and collectability

TasNetworks believes that amounts that are past due by more than 30 days and not impaired are collectable in full, based on historical payment behaviour and analysis of customer credit risk.

Information on TasNetworks' exposure to credit and market risks for trade and other receivables is included in note C4.

Notes to the consolidated financial statements continued
For the financial year ended 30 June 2019

E2. Inventories	Note	2019 \$'000	2018 \$'000
Inventory		21,124	22,295
Allowance for impairment on inventory		(313)	(255)
		20,811	22,040

During the financial year ended 30 June 2019 \$1.960m (2018: \$1.906m) of inventory was expensed in the statement of profit or loss including inventory issued to non-regulated services.

Movement in the allowance for impairment of inventory

Balance at beginning of financial year	(255)	(535)
Impairment gain/(loss) provided for	(283)	208
Inventory written off during the year	225	72
Balance at end of financial year	(313)	(255)

Recognition and measurement

Inventories are carried at the lower of cost or net realisable value, with an allowance being maintained for loss on disposal of surplus and obsolete stores.

The cost of purchase comprises the purchase price, import duties and other taxes (other than those subsequently recoverable from the taxing authorities), transport, handling and other costs directly attributable to the acquisition of the stores. Inventories are not held for the purpose of resale and are used primarily in the maintenance and construction of the distribution, transmission and telecommunication networks.

Costs are assigned to inventory using the method most appropriate to each particular class of inventory, with the majority being valued on a weighted average basis. Inventory is valued at net realisable value where it has been determined that inventory is surplus to requirements. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

E3. Other assets

Current:

Prepayments		4,313	4,065
FX forward agreements	C4	6	24
Other		61	993
		4,380	5,082

Non-Current:

Prepayments		546	829
		546	829
Total:		4,926	5,911

E4. Provisions

Provisions for the current financial year	2019		
	Workers Compensation \$'000	Onerous Contracts \$'000	Total \$'000
Balance at beginning of financial year	227	926	1,153
Provision increase/(decrease) during the year	1,349	(275)	1,074
Provision used during the year	(694)	(382)	(1,076)
Balance at end of financial year	882	269	1,151
Current provisions	819	269	1,088
Non-current provisions	63	-	63
	882	269	1,151

Provisions for the previous financial year	2018		
	Workers Compensation \$'000	Onerous Contracts \$'000	Total \$'000
Balance at beginning of financial year	1,090	2,376	3,466
Provision increase/(decrease) during the year	382	(1,038)	(656)
Provision used during the year	(1,245)	(412)	(1,657)
Balance at end of financial year	227	926	1,153
Current provisions	201	381	582
Non-current provisions	26	545	571
	227	926	1,153

Recognition and measurement

Provisions are recognised when TasNetworks has a present obligation (legal or constructive) as a result of a past event, it is probable that TasNetworks will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

Workers compensation

TasNetworks workers compensation is insured by an external insurance provider. The policy provides for a minimum premium (fixed component paid in the insured year) and a variable component up to an agreed maximum premium. The variable component of the premium is paid in arrears and will vary depending upon TasNetworks' workers compensation performance. TasNetworks is provided an estimate of the outstanding premium at 30 June each year based upon latest available information. This estimate forms the basis of the workers compensation provision that is required at 30 June 2019.

Key Estimates

Workers compensation provision

The workers compensation provision is based on an estimate provided by the insurance broker of claims that are expected to be settled.

Onerous contracts

In 2010 Aurora Energy entered into a 10 year lease for its office premises. The contract was assessed as an onerous contract in 2014 by TasNetworks as the office space was surplus to TasNetworks requirements.

A provision for onerous contract was recognised at that time as the difference between the obligation for future lease payments and expected rental income. The lease for the office premises will expire in March 2020 and TasNetworks has no ongoing obligations in respect to that lease.

Notes to the consolidated financial statements continued
For the financial year ended 30 June 2019

E5. Trade and other payables

	<i>Note</i>	2019 \$'000	2018 \$'000
Current:			
Trade payables		21,803	15,263
Accrued payables		22,872	25,760
Accrued expenses		7,277	8,314
GST payable		1,596	1,659
Accrued interest		27,525	27,163
		81,073	78,159

Recognition and measurement

Trade payables and other accounts payable, including accruals for accounts not yet billed, are recognised when obligations to make future payments have occurred for goods received or services provided. Due to their short-term nature they are not discounted.

E6. Other liabilities

Current:			
Income received in advance		22,585	9,244
Derivative contracts		416	2,261
		23,001	11,505
Non-current:			
Income received in advance		25,848	15,892
Derivative contracts		511	556
		26,359	16,448
Total:			
Income received in advance		48,433	25,136
Derivative contracts	<i>C4(a)</i>	927	2,817
		49,360	27,953

Recognition and measurement

Income received in advance

Income received in advance is predominantly non-prescribed services revenue that has been received from customers for a long term connection to the electricity system. The income is recorded upon receipt and recognised over the life of the agreement to which it pertains (note A1).

The balance of income received in advance is from construction projects currently being undertaken. This income is recognised as revenue when the work has been completed. The increase in income received in advance is predominately due to the adoption of AASB15 (note H5) and deferral of revenue recognition.

Derivative contracts

The value of derivative contracts at the end of each reporting period are recognised in the statement of financial position as either an asset or a liability. The value reflects the projected future cash flows (discounted) on the derivative contract. The other side of the derivative valuation net of tax effect is reflected in the Hedge Reserve (note D3).

Derivative contracts are interest rate swaps. See note C4 for TasNetworks' exposure to risk and fair value information for these swaps.

TasNetworks' people

This section provides information relating to a range of employment and post employment benefits provided to TasNetworks' people, as well as information on the key management personnel of TasNetworks.

F1. Employee benefits

	Note	2019 \$'000	2018 \$'000
Current:			
Annual leave		11,738	10,099
Long service leave		12,550	12,264
Defined benefits superannuation	F2	4,979	5,888
Other employee benefits		2,330	3,646
		31,597	31,897
Non-current:			
Long service leave		3,792	3,640
Defined benefits superannuation	F2	181,137	155,900
Other employee benefits		591	568
		185,520	160,108
		217,117	192,005

Recognition and measurement

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave, when it is probable that settlement will be required and they are capable of being measured reliably. The provision represents the amount that TasNetworks has an obligation to pay resulting from employees' services provided up to the balance date.

Liabilities recognised in respect of short-term employee benefits, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of long term employee benefits are measured at the present value of the estimated future cash outflows to be made by TasNetworks in respect of services provided by employees up to reporting date. These amounts are discounted to determine their present value.

Salaries, annual and long service leave

Annual leave and long service leave provisions are classified as current where the company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. This does not imply that there is an expectation that the current provision will be paid out within the next twelve months.

Movements to these provisions are included in the cost of labour and charged directly to capital jobs or cost centres, and correspondingly, the provisions absorb the cost when employees utilise their benefits.

Key Estimates

Long service leave

The long service leave provision requires management judgement of the key assumptions including:

- future increases in salaries and wages;
- future on-cost rates;
- experience of employee departures and periods of service; and
- application of an appropriate discount rate where liabilities are more than 12 months due.

Termination payments

Termination payments are calculated in accordance with the relevant employee agreements. Provisions are made when it is probable that settlement will be required and they are capable of being measured reliably.

Sick leave

No provision for sick leave is allowed for in the financial statements as sick leave is non-vesting and employee benefits only exist when employees become sick.

F1. Employee benefits continued

Accumulated superannuation plans

TasNetworks makes contributions for employees to an accumulation superannuation plan in accordance with the Commonwealth's *Superannuation Guarantee (Administration) Act 1992*. Contributions are expensed when incurred.

Defined benefit superannuation plans

The balance of employees are provided with superannuation benefits through a defined benefit superannuation scheme. Past service cost is recognised immediately to the extent that the benefits are already vested and otherwise is amortised on a straight line basis over the average period until the benefits become vested.

The defined benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation, adjusted for unrecognised past service costs, net of the fair value of the plan's assets. The net assets, operating costs and investment returns of the Fund are allocated to TasNetworks based on the percentage of funded past service liabilities for TasNetworks compared to the funded past service liabilities for the whole of government. Any asset resulting from this calculation is limited to past service costs, plus the present value of available refunds and reductions in future contributions to the plan.

F2. Defined benefit superannuation plan

The Retirement Benefits Fund (RBF) is a defined benefit fund that pays lump sum benefits on resignation and lump sum or pension benefits to members upon retirement, death or invalidity (which are calculated as a multiple of the members' final average salaries). The RBF has contributory members, compulsory preserved members and pensioners. The defined benefit section of RBF is closed to new members.

TasNetworks employees who joined the Tasmanian public sector, Hydro Electric Commission (subsequently Hydro Electric Corporation) (Hydro Tasmania) or one of TasNetworks' antecedent businesses Transend Networks or Aurora Energy prior to 1 July 1999 may be members of the defined benefit fund. All other employees are provided with superannuation benefits through accumulation schemes for which TasNetworks meets its employer obligations by periodic contributions. Consequently, TasNetworks does not carry any liability for superannuation in relation to all post 1 July 1999 employees.

The Scheme operates under the *Public Sector Superannuation Reform Act (2016)* and the *Public Sector Superannuation Reform Regulations (2017)*.

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

As an exempt public sector superannuation scheme, the Scheme is not subject to any minimum funding requirements.

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

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

Defined benefit superannuation risks

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

- Investment risk - The risk that investment returns will be lower than assumed and employers will need to increase contributions to offset this shortfall over the long term.
- Salary growth risk - The risk that wages or salaries (on which future benefit amounts will be based) will rise more rapidly than assumed, increasing defined benefit amounts and the associated employer contributions over the long term.
- Inflation risk - The risk that inflation is higher than anticipated, increasing pension payments and the associated employer contributions over the long term.
- Benefit options risk - The risk that a greater proportion of members who joined prior to 1 July 1994 will elect the pension option, which is generally more costly than the alternative lump sum option.
- Pensioner mortality risk - The risk that pensioner mortality will be lower than expected, resulting in pensions being paid for a longer period.
- Legislative risk - The risk that legislative changes could be made which increase the cost of providing the defined benefits.

Significant events

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

Notes to the consolidated financial statements continued
For the financial year ended 30 June 2019

F2. Defined benefit superannuation plan continued

Key Assumptions

Defined benefit superannuation plan

The actuarial assessment and key assumptions that have been used in determining this are as per the State Actuary's (Mercer) report, dated 12 July 2019 and are set out below:

Assumptions to determine defined benefit cost and start of year defined benefit obligation	2019	2018
	%	%
Discount rate (active members)	4.30	4.35
Discount rate (pensioners)	4.30	4.35
Expected salary increase rate	3.00	3.00
Expected rate of increase of compulsory preserved amounts	3.00	3.00
Expected pension increase rate	2.50	2.50

Assumptions to determine end of year defined benefit obligation	2019	2018
	%	%
Discount rate (active members)	3.25	4.30
Discount rate (pensioners)	3.25	4.30
Expected salary increase rate	3.00	3.00
Expected rate of increase of compulsory preserved amounts	3.00	3.00
Expected pension increase rate	2.50	2.50

Fair value of Scheme assets

	30 June 2019*			
	Total \$'000	Quoted prices in active markets for identical assets - Level 1 \$'000	Significant observable inputs - Level 2 \$'000	Unobservable inputs - Level 3 \$'000
Cash deposits	1,827	623	1,204	-
Australian equities	6,976	6,976	-	-
International equities	8,345	6,435	1,910	-
Infrastructure	5,647	1,744	3,903	-
Diversified fixed interest	9,259	-	9,259	-
Property	6,519	-	6,519	-
Alternative investments	2,948	-	2,948	-
TOTAL	41,521	15,778	25,743	-

*Estimated based on assets allocated to TasNetworks as at 30 June 2019 and asset allocation of the RBF Scheme as at 30 June 2018.

Fair value of own financial instruments

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

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

Assets are not held separately for each reporting entity but are held for the Fund as a whole. The fair value of Scheme assets for each reporting entity was estimated by allocating the total Fund assets in proportion to the value of each reporting entity's funded liabilities, calculated using the assumptions outlined in this report, with the exception of the discount rate. For the purposes of allocating assets to each reporting entity, we have used the Government Bond yield of 1.80%, in order to be consistent with the allocation of assets reported to the Department of Treasury and Finance.

Notes to the consolidated financial statements continued
For the financial year ended 30 June 2019

F2. Defined benefit superannuation plan continued

Amounts included in the balance sheet arising from TasNetworks' obligation in respect of its defined benefit plan

	<i>Note</i>	2019 \$'000	2018 \$'000
Present value of defined benefit obligations at beginning of financial year		227,636	205,969
Total defined benefit obligation		227,636	205,969
RBF contributory scheme assets		41,520	44,181
Net liability at end of financial year		186,116	161,788
Movements in net liabilities			
Net liability at beginning of financial year		161,788	159,958
Expense recognised in profit or loss	<i>A2(c)</i>	9,257	9,328
Other comprehensive income recognised		23,408	(1,875)
Employer contributions		(8,337)	(5,623)
Net liability at end of financial year		186,116	161,788
Current net liability	<i>F1</i>	4,979	5,888
Non-current net liability	<i>F1</i>	181,137	155,900
		186,116	161,788
Expense recognised in profit or loss			
Employer service cost		2,448	2,488
Net interest cost	<i>A2(c), A3</i>	6,809	6,840
Expense recognised in profit or loss		9,257	9,328
Other comprehensive income recognised			
Superannuation actuarial (gains)/losses	<i>D1</i>	23,408	(1,875)
Other comprehensive income recognised		23,408	(1,875)

Employee benefits expense is included in the operating expenses line item of the statement of profit or loss and the superannuation actuarial gains/(losses) line item in the statement of comprehensive income. Interest costs are included within finance costs. Employer contributions of \$8.337m reflects the amount paid by TasNetworks during the 2018-19 financial year.

Fair value of plan assets

RBF contributory scheme assets at beginning of financial year	44,181	41,484
Interest Income	1,873	1,702
Actual return / (diminution) on plan assets less interest income	(2,923)	2,147
Employer contributions	6,825	5,623
Contributions by plan participants	971	1,005
Benefits paid	(9,402)	(7,775)
Taxes, premiums and expenses paid	(5)	(5)
RBF contributory scheme assets at end of financial year	41,520	44,181

F2. Defined benefit superannuation plan continued

	2019 \$'000	2018 \$'000
Defined benefit obligations inclusive of contributions tax for disclosure purposes		
Present value of defined benefit obligation at beginning of financial year	205,969	201,442
Employer service costs	2,448	2,488
Interest costs	8,682	8,542
Contributions by plan participants	971	1,005
Benefits paid	(10,914)	(7,775)
Taxes, premiums and expenses paid	(5)	(5)
Expected defined benefit obligation at year end	207,151	205,697
Actuarial (gain)/loss arising from changes in demographic assumptions	-	-
Actuarial (gain)/loss arising from changes in financial assumptions	30,664	1,369
Actuarial (gain)/loss arising from liability experience	(10,179)	(1,097)
Present value of defined benefit obligation at end of financial year	227,636	205,969

Effect of the asset ceiling

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

Sensitivity Analysis

The defined benefit obligation as at 30 June 2019 under several scenarios is presented below.

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

Scenario A: 1% pa lower discount rate assumption

Scenario B: 1% pa higher discount rate assumption

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

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

	Base Case	Scenario A -1% pa discount rate	Scenario B +1% pa discount rate	Scenario C -1% pa pension rate	Scenario D +1% pa pension rate
Discount rate	3.25% pa	2.25% pa	4.25% pa	3.25% pa	3.25% pa
Pension increase rate	2.50% pa	2.50% pa	2.50% pa	1.50% pa	3.50% pa
Defined benefit obligation (\$'000)	227,636	265,902	199,793	205,621	257,751

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

Asset-Liability matching strategies

TasNetworks is not aware of any asset and liability matching strategies adopted by the Fund.

Funding arrangements

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

Expected contributions

TasNetworks expects to pay employer contributions for the year ended 30 June 2019 of \$6.491m (2018: \$5.888m).

Maturity profile of defined benefit obligation

The weighted average duration of the defined benefit obligation for TasNetworks is 14.8 years.

F3. Key Management Personnel compensation

The aggregate compensation to key management personnel of TasNetworks is set out below:

	Director Remuneration		Executive Remuneration		Consolidated	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Short-term employee benefits	353	331	2,686	2,357	3,039	2,688
Post-employment benefits	28	26	239	222	267	248
Other long-term employment benefits	-	-	15	(113)	15	(113)
Termination Benefits	-	-	-	400	-	400
	381	357	2,940	2,866	3,321	3,223

For Director remuneration, short term employment benefits includes Director fees, Committee fees and other benefits. Post employment benefits represents superannuation contributions.

For Executive remuneration, short-term employment benefits includes base salary, vehicles, other benefits and other non-monetary benefits. Post employment benefits represents superannuation contributions and other long-term employee benefits includes leave movements. Termination benefits are as provided for below.

Remuneration for the Board of Directors

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

2019 Director Remuneration¹

Name	Position	Period	Director Fees \$'000	Committee Fees \$'000	Superannuation ² \$'000	Total \$'000
Non-Executive Directors						
Dr D Norton AO	Chairperson	Full term	117	-	11	128
Dr J Sargison	Director	To 1/11/2018	21	-	2	23
Mrs J Doyle ³	Director	Full term	59	-	-	59
Mr P McIntyre	Director	Full term	54	-	5	59
Mr R Gill	Director	Full term	54	-	5	59
Dr J Beeby	Director	From 20/11/2018	31	-	3	34
Mrs S Merridew	Director	From 20/2/2019	17	-	2	19
Total			353	-	28	381

2018 Director Remuneration¹

Name	Position	Period	Director Fees \$'000	Committee Fees \$'000	Superannuation ² \$'000	Total \$'000
Non-Executive Directors						
Dr D Norton AO	Chairperson	Full term	114	-	11	125
Mr K Murray	Director	To 27/11/2017	24	-	2	26
Dr J Sargison	Director	Full term	53	-	5	58
Mrs J Doyle ³	Director	Full term	58	-	-	58
Mr P McIntyre	Director	Full term	53	-	5	58
Mr R Gill	Director	From 27/11/2017	29	-	3	32
Total			331	-	26	357

Board remuneration notes and statements

1. Amounts are all forms of consideration paid, payable or provided by TasNetworks.
2. Superannuation means the contribution to the superannuation fund of the individual.
3. Mrs J Doyle's directors fees were paid directly to her employer.

Notes to the consolidated financial statements continued
For the financial year ended 30 June 2019

F3. Key Management Personnel compensation continued

Non-Executive Directors

Non-executive directors are appointed by the Shareholding Ministers following Cabinet approval. Each instrument of appointment is for a maximum period of three years and prescribes the relevant remuneration provisions. Directors can be re-appointed in accordance with the relevant *Guidelines for Tasmanian Government Businesses - Board Appointments*.

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

Superannuation is paid at the appropriate rate as prescribed by superannuation guarantee legislation. No other leave, termination or retirement benefits are accrued or paid to directors. Directors are entitled to reimbursement of reasonable expenses incurred while attending to Board business. Non-executive Directors' remuneration is reviewed periodically with increases subject to approval by the Treasurer and Portfolio Minister.

Executive Remuneration

The following tables disclose the remuneration details for each person that acted as a senior executive during the current and previous financial year:

2019 Executive Remuneration

Name	Position	Period	Base Salary ¹ \$'000	Super-annuation ² \$'000	Vehicles ³ \$'000	Total Remuneration Package \$'000	Termination Benefits ⁴ \$'000	Other Long-term Benefits ⁵ \$'000	Total ⁶ \$'000
Mr L Balcombe	Chief Executive Officer	Full year	477	21	-	498	-	1	499
Ms B Clark	General Manager Project Marinus	Full year	274	26	-	300	-	14	314
Mr W Tucker	General Manager Regulation, Policy and Strategic Asset Management	Full year	266	34	-	300	-	6	306
Mr M Paine	General Manager Operations and Customer Service Delivery	Full year	284	27	-	311	-	(13)	298
Mr R Burridge	General Manager Strategy, Finance and Business Services	Full year	292	38	-	330	-	(5)	325
Ms J McDermott	General Manager People, Culture and Community	Full year	285	27	-	312	-	5	317
Mrs P Bartlett	Company Secretary and General Counsel	Full year	249	24	-	273	-	(3)	270
Mr M Westenberg	General Manager Technology and Performance	Full year	274	21	-	295	-	(16)	279
Mr M Ash	General Manager Network, Commercial and Major Customer	Full year	285	21	-	306	-	26	332
Total			2,686	239	-	2,925	-	15	2,940

Notes to the consolidated financial statements continued
For the financial year ended 30 June 2019

F3. Key Management Personnel compensation continued

2018 Executive Remuneration

Name	Position	Period	Base Salary ¹ \$'000	Super-annuation ² \$'000	Vehicles ³ \$'000	Total Remuneration Package \$'000	Termination Benefits ⁴ \$'000	Other Long-term Benefits ⁵ \$'000	Total ⁶ \$'000
Mr L Balcombe	Chief Executive Officer	Full year	466	20	-	486	-	20	506
Ms B Clark	General Manager Strategy and Stakeholder Relations	Full year	263	25	-	288	-	8	296
Mr W Tucker	General Manager Strategic Asset Management	Full year	252	32	7*	291	-	(4)	287
Ms N Brown	General Manager Works and Service Delivery	To 06/04/2018	238	29	-	267	400	(178)	489
Mr M Paine	General Manager Customer Engagement and Network Operations	Full year	266	25	-	291	-	19	310
Mr R Burrige	General Manager Finance and Business Services	Full year	283	36	-	319	-	4	323
Ms J McDermott	General Manager People and Performance	Full year	274	26	-	300	-	18	318
Mrs P Bartlett	Company Secretary and General Counsel	Full year	242	23	-	265	-	(7)	258
Mr M Westenberg	General Manager Technology and Performance	From 04/06/2018	14	1	-	15	-	-	15
Mr M Ash	General Manager Network, Commercial and Major Customer	From 04/06/2018	21	2	-	23	-	2	25
Sub-Total			2,319	219	7	2,545	400	(118)	2,827
Acting arrangements									
Mr M Ash	Acting General Manager Works and Service Delivery	14/04/2018 to 03/06/2018	31	3	-	34	-	5	39
Sub-total			31	3	-	34	-	5	39
Total			2,350	222	7	2,579	400	(113)	2,866

Executive remuneration notes and statements

Amounts are all forms of consideration paid, payable or provided by TasNetworks.

1. Base salary includes all forms of consideration paid and payable for services rendered, compensated absences during the period and salary sacrifice amounts. The 2018 comparatives have been amended to include pre tax salary sacrificed amounts for novated leased vehicles.
2. Superannuation means the contribution to the superannuation fund of the individual. Superannuation benefits for members of a defined benefit scheme were calculated using a notional cost based on 12.8%
3. Includes total cost of providing and maintaining vehicles provided for private use, including registration, insurance, fuel and other consumables, maintenance cost and parking (including notional value of parking provided at premises that are owned or leased and fringe benefits tax). *This amount is being recovered from the employee.
4. Termination benefits were paid to Ms N Brown upon termination of her employment which was effective 6 April 2018. This include annual and long service leave entitlements (\$169,066), three months salary in lieu of notice (\$67,110) and a redundancy payment (\$163,571). These payments were in accordance with her employment contract entitlements.
5. Other long-term benefits consists of annual and long service leave movements.
6. Executive remuneration may vary year to year due to the timing of refunds on expired novated vehicle lease contracts.

TasNetworks does not pay bonuses or any other short term incentive payments to any member of key management personnel.

F3. Key Management Personnel compensation continued

Executive Remuneration

Remuneration levels for key management personnel of TasNetworks are competitively set to attract and retain appropriately qualified and experienced Executives. The remuneration structure takes into account the capability and experience of the relevant Executive and the achievement of measurable organisational and individual goals.

Remuneration levels for future key management personnel will be set in accordance with the Director and Executive Remuneration Guidelines, dated October 2015. Under these Guidelines, remuneration bands for Chief Executive Officers (CEOs) are determined by the Government Business Executive Remuneration Panel, reflect the principles outlined in the Guidelines, and broadly align with State Service Heads of Agency. Positioning within the bands depends on the complexity and size of the business and the environment in which the business operates. Remuneration for other senior executives is set with reference to the CEO's salary. The appointment and setting of the initial remuneration for TasNetworks current CEO and Executive team predates the June 2014 Shareholder Direction to comply with the guidelines, and the establishment of the Executive Remuneration Panel.

The CEO is appointed by the Board. The Board consults with the Government Business Executive Remuneration Advisory Panel when determining the CEO's remuneration package.

The employment terms and conditions of senior executives are contained in individual employment contracts, which prescribe total remuneration, superannuation, annual and long service leave, vehicle and salary sacrifice provisions. In addition to their salaries, TasNetworks also provides non-monetary benefits and contributes to post-employment superannuation plans on their behalf.

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

No key management personnel appointed during the period received a payment as part of his or her consideration for agreeing to hold the position.

Termination benefits

There were no termination benefits paid during the current financial year.

Acting arrangements

When members of key management personnel are unable to fulfil their duties, consideration is given to appointing other members of senior staff to their position during their period of absence.

Individuals are considered members of key management personnel when acting arrangements are for more than a period of one month.

During the current financial year the General Manager Strategy, Finance and Business Services acted for the CEO for a period of five weeks. No additional remuneration was provided during this time.

Statement of compliance

TasNetworks has complied with the Government's Director and Executive Remuneration Guideline for the year ended 30 June 2019 with the exception of three variations. These are the confidentiality and termination provisions contained in executive contracts and the setting of initial remuneration of the TasNetworks current CEO which pre-date the June 2014 Shareholders Direction to comply with the Guidelines.

F4. Related party disclosures

For all Tasmanian Government businesses, related parties are considered to include:

- a subsidiary or joint venture;
- key management personnel or close family members of key management personnel;
- Ministers or close family members of Ministers;
- any entities controlled or jointly controlled by key management personnel or their close family members; and
- any entities controlled or jointly controlled by Ministers or their close family members.

Equity interest in related parties

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note H3 to the financial statements.

Key management personnel compensation

Details of key management personnel compensation are disclosed in note F3 to the financial statements.

Transactions with key management personnel and related parties

Some key management persons, or their related parties, transacted with TasNetworks in the reporting period as residents or owners of properties to which TasNetworks provides network services. The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel.

Apart from the details disclosed in note F3, no director or executive has entered into a material contract with the company since the end of the previous financial year and there were no material contracts involving directors' or executives' interests subsisting at year end.

There are no material related party transactions requiring disclosure in accordance with the Tasmanian Government Business Guideline.

Controlling entity

The shares of the parent entity of Tasmanian Networks Pty Ltd are held in trust for the Crown in Right of the State of Tasmania.

The group transmits and distributes electricity and provides telecommunication services and undertakes other transactions with government entities on an arm's length basis in the normal course of business and on commercial terms and conditions.

Commitments

This section contains information about the commitments TasNetworks has made.

G1. Operating Leases

Operating leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2019 \$'000	2018 \$'000
Within one year	1,428	1,726
One year or no later than five years	487	1,821
Greater than five years	982	1,187
	2,897	4,734

TasNetworks leases communication sites, land and some office space and communications equipment under operating leases.

Sublease

The future minimum sublease payments expected to be received is \$0.786m (2018: \$1.701m) until the lease expires in March 2020.

Operating leases as lessor

TasNetworks leases out part of its business premises and transmission system assets and power poles under operating leases. The future minimum lease payments under non-cancellable leases are as follows:

Within one year	2,891	3,017
One year or no later than five years	8,118	8,786
Greater than five years	18,289	18,640
	29,298	30,443

Recognition and measurement

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the risks and rewards of ownership to TasNetworks (see note C2 for details of finance leases). All other leases are classified as operating leases.

Operating lease payments are recognised as expenses on a straight-line basis as this reflects the pattern in which economic benefits of the leased assets are consumed.

G2. Commitments for expenditure

Capital expenditure commitments[†]:

Property, plant and equipment

Within one year	100,331	86,377
One year or later and no later than five years	39,979	51,386
Greater than five years	355	358
	140,665	138,121

Operating expenditure commitments*:

Other expenses (excluding leases disclosed in note G1)

Within one year	53,592	37,783
One year or later and no later than five years	21,106	20,260
Greater than five years	41	221
	74,739	58,264

*Operating expenditure commitments relate predominately to asset maintenance services.

[†]Capital expenditure commitment increases predominately relate to contracts entered to purchase long-lead time materials required for the future capital program.

G3. Contingent liabilities and contingent assets

At the time of publication of these accounts there were nil claims related to property loss, personal injury (excluding claims by employees for personal injuries), contractual and other matters with TasNetworks (2018: \$0.015m). TasNetworks is actively defending claims and the directors are of the opinion, based on legal advice, that no provision for a liability is required.

The ARENA grant funding agreement contains certain repayment conditions where the grant revenue of \$6.5m (note A1) received to support the Project Marinus second interconnector feasibility study and business case would be required to be repaid to ARENA.

TasNetworks is currently investigating a possible legacy herbicide exposure attributable to former Hydro Electric Commission (Hydro) employees spraying vegetation under transmission lines dating back to the 1960-70's. The possible exposure passes to TasNetworks under the respective transfer notices for business restructuring in 1998 (from Hydro to Transend Networks Pty Ltd) and 2014 (from Transend Networks Pty Ltd) respectively. The investigation is in the discovery phase and no liability has been provided for in the 2018-19 Financial Statements.

In June 2019 a claim against TasNetworks by Brocklands Pty Ltd was dismissed but subject to appeal. TasNetworks has applied to the court seeking orders that judgement be entered for TasNetworks for the cost of the action as agreed or taxed. The full value of the amount recoverable cannot be reliably estimated and as such the directors have determined that no asset provision is required.

Other information

This sections includes additional information that is required by either accounting standards or Guidelines for Tasmanian Government Businesses.

H1. Auditor's remuneration

	2019 \$	2018 \$
Amounts received, or due and receivable:		
Audit of financial statements for the group	231,240	223,760
Audit of regulatory financial statements	8,665	12,870
Audit of Regulatory Information Notice*	235,535	321,200
	475,440	557,830

*A Regulatory Information Notice is an annual data gathering instrument that is issued by the Australian Energy Regulator to all network businesses. This is a mandatory requirement that must be complied with.

H2. Overseas travel

	2019 No. of trips	2018 No. of trips	2019 \$	2018 \$
Travel undertaken	12	6	115,087	54,647
Travel by CEO	0	1	-	20,929
Travel by Board	0	0	-	-
			115,087	75,576

H3. Consolidated entity

The consolidated financial statements are prepared by combining the financial statements of all entities that comprise the Group, being the company (the parent entity) and its controlled entities. Controlled entities are all those entities over which the parent entity has the power to govern the financial and operating policies so as to obtain benefits from their activities. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

The consolidated financial statements include the information and results of each controlled entity from the date on which the company obtains control and until such time as the company ceases to control that entity. In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the Group, are eliminated in full.

Reference to TasNetworks in these financial statements is referring to the Group.

Notes to the consolidated financial statements continued
For the financial year ended 30 June 2019

H3. Consolidated entity continued

Name of entity	Footnotes	Country of incorporation	Ownership interest	
			2019 %	2018 %
Parent entity				
Tasmanian Networks Pty Ltd		Australia		
Subsidiaries				
TasNetworks Holdings Pty Ltd	1	Australia	100	100
FortyTwo24 Pty Ltd*	2	Australia	100	100
Marinus Link Pty Ltd*	3	Australia	100	-
Large Scale Renewables Pty Ltd*	4	Australia	100	-

* FortyTwo24 Pty Ltd, Marinus Link Pty Ltd and Large Scale Renewables Pty Ltd are 100% owned subsidiaries of TasNetworks Holdings Pty Ltd.

Footnote

1. TasNetworks Holdings Pty Ltd was incorporated on 24 May 2018.
2. FortyTwo24 Pty Ltd was incorporated on 9 May 2018.
3. Marinus Link Pty Ltd was incorporated on 23 November 2018 and was not operational during the 2018-19 financial year.
4. Large Scale Renewables Pty Ltd was incorporated on 20 May 2019 and was not operational during the 2018-19 financial year.

H4. Parent entity disclosures

As at, and throughout the financial year ended 30 June 2019, the parent entity of the Group was Tasmanian Networks Pty Ltd.

The accounting policies of the parent entity, which have been applied in determining the financial information shown below, are the same as those applied in the consolidated financial statements.

	Parent	
	2019 \$'000	2018 \$'000
Result of parent entity		
Profit for the year	36,677	59,230
Other comprehensive income for the period	11,415	30,533
Total comprehensive income for the period	48,092	89,763
Financial position of parent entity at year end		
Current assets	113,872	114,112
Non current asset	3,333,760	3,250,974
Total assets	3,447,632	3,365,086
Current liabilities	368,788	274,520
Non current liabilities	2,125,285	2,137,165
Total liabilities	2,494,073	2,411,685
Total equity of the parent entity comprising of:		
Contributed equity	62,724	62,724
Reserves	758,188	730,365
Retained earnings	132,647	160,312
Total equity	953,559	953,401

Parent entity notes

Contingent liabilities of the parent entity are set out in note G3 and are the same for the consolidated entity.

Capital commitments for the acquisition of property plant and equipment are set out in note G2 and are the same for the consolidated entity.

Notes to the consolidated financial statements continued
For the financial year ended 30 June 2019

H5. Changes in accounting policies

Accounting standards adopted

In the current year, TasNetworks has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the current annual reporting period.

TasNetworks has reviewed, and where relevant, adopted the following standard:

AASB amendment	Affected standard	Nature of change to accounting policy
AASB 15	Revenue from contracts with customers	New standard replaces AASB 118 Revenue and applies to all contracts with customers except leases, financial instruments and insurance contracts. The standard requires revenue to be recognised when the performance obligation has been met. TasNetworks has conducted a detailed assessment of its revenue contracts on adoption of the standard, which has been applied from 1 July 2018 using the modified approach. As a result comparative information has not been restated. The impact of this standard on transition is to defer the recognition of previously recorded income. The impact of this change results in an adjustment to retained earnings (reduction) and income in advance (increase) of \$6.903m on 1 July 2018.
AASB 2014-5	Amendments to standards arising from AASB 15	
AASB 2016-3	Amendments to Standards - Clarification to AASB 15	
AASB 9	Financial Instruments	The final version of AASB 9 replaces AASB 139 Financial Instruments: Recognition and Measurement. Introduces new requirements for classifying and measuring financial assets, maintains the existing amortised cost measurement basis for financial liabilities. A new impairment model based on expected credit losses was applied and a new hedge accounting model has been put in place that is more closely aligned with how TasNetworks undertakes its risk management activities. The adoption of AASB 9 did not have a material impact on the financial statements and as such no adjustment to retained earnings on transition was required.

Future pronouncements

The following standards and amendments were available for early adoption but have not been applied by TasNetworks in these financial statements.

AASB amendment	Affected standard	Nature of change to accounting policy	Effective date	Application date for TasNetworks
AASB 16	Leases	This standard replaces AASB 117 Leases. AASB 117 requires entities to bring leases onto the Statement of Financial Position. TasNetworks has completed an initial assessment of the potential impact on its consolidated financial statements but has not yet completed its detailed assessment. Due to the low number and value of leases Management does not expect a material impact to the financial statements on the introduction of this standard. Please see below for further information on the application of this standard.	1 January 2019	30 June 2020
AASB 1059	Service Concession Arrangements: Grantors	AASB 1059 has been issued to provide accounting guidance for public sector entities (grantors) who enter into service concession arrangements with private sector operators. The standard requires grantors to recognise a service connection asset or liability on the balance sheet. This standard will not impact the financial statements as TasNetworks does not have any public or private service concession arrangements in place whereby an operator provides a public service on behalf of TasNetworks.	1 January 2020	30 June 2021
AASB 2018-5	Amendments to Standards - Defers application date			

These standards and interpretations will be first applied in the financial report of TasNetworks that relates to the annual reporting period beginning after the effective date of each pronouncement.

H5. Changes in accounting policies continued

TasNetworks is required to adopt AASB 16 Leases from 1 July 2019. TasNetworks has assessed the estimated impact that the initial application of these standards will have on its consolidated financial statements. The estimated impact of the adoption of these standards on TasNetworks' equity as at 1 July 2019 is based on assessments undertaken to date and is summarised below. The actual impacts of adopting the standards at 1 July 2019 may change due to:

- TasNetworks has not finalised the testing and assessment of controls over its new processes; and
- the new accounting policies are subject to change until TasNetworks presents its first financial statements that include the date of initial application.

AASB 16 Leases

The actual impact of applying AASB 16 Leases on the financial statements in the period of initial application will depend on future economic conditions, including TasNetworks' borrowing rate at 1 July 2019, the composition of TasNetworks' lease portfolio at that date, TasNetworks' latest assessment of whether it will exercise any lease renewal options and the extent to which TasNetworks chooses to use practical expedients and recognition exemptions.

TasNetworks plans to apply AASB 16 initially on 1 July 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting AASB 16 will be recognised as an adjustment to the opening balance of retained earnings at 30 June 2019, with no restatement of comparative information.

When applying the modified retrospective approach to leases previously classified as operating leases under AASB 117, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. Management is assessing the potential impact of using these practical expedients.

TasNetworks is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease.

The nature of expenses related to leases will change as AASB 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

H6. Subsequent events

Dividends

Subsequent to the end of the financial year, the Board recommended a dividend of \$28.907m (2018: \$43.104m) in respect to the current financial year. The dividend recommended is in line with the Tasmanian Government Dividend Policy. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2019.

Other

Aside from the items discussed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors to affect significantly the operations of TasNetworks, the result of those operations or the state of affairs of TasNetworks in future financial years.

DIRECTORS' DECLARATION

For the year ended 30 June 2019

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that Tasmanian Networks Pty Ltd will be able to pay its debts as and when they become due and payable;
- (b) the financial statements comply with international financial reporting standards as disclosed in these notes to the financial statements;
- (c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including being in compliance with Australian Accounting Standards and giving a true and fair view of the financial position and performance of Tasmanian Networks Pty Ltd; and
- (d) the directors have been provided with declarations from the Chief Executive Officer and the General Manager Strategy, Finance and Business Services for the financial year.

Signed in accordance with a resolution of the directors made pursuant to section 295(5) of the *Corporations Act 2001*.

On behalf of the directors



Dr Dan Norton AO

Chairman
Hobart

12 August 2019



Mrs Joanne Doyle

Director
Hobart

12 August 2019

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