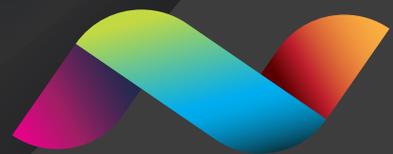


Tasmanian Networks Pty Ltd
Annual Report
2014-15



TasNetworks
Delivering your power

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2014-15 Business highlights

We are delivering benefits as an integrated network business:

We are very proud of our achievements in TasNetworks' first year of operation:

- We strengthened our focus on keeping our people and the public safe
- We minimised our impact on the environment
- We recognised our customers' perspective in all of our activities and decisions
- We undertook public workshops to engage with our customers
- We established a Customer Council
- Our first customer satisfaction score was above the industry benchmark
- We invested significantly in community based safety and educational programs
- We reduced our injury frequency rate to an all time low
- We delivered innovative technical and commercial solutions to meet customer needs
- We reduced our customer complaint levels by 40 per cent
- We received an unprecedented transmission revenue determination
- Our transmission reliability was the best ever recorded
- Our internal engagement was higher than the Australian benchmark
- We commenced negotiations to transition to a single enterprise agreement
- We reduced the recurrent operating cost base of the business by almost \$34 million
- We made a profit after tax of \$112.9 million
- We returned \$377m to our shareholders

As illustrated by these achievements in our very first year, we have already delivered significant benefits from the creation of an integrated network business. Our continuing efforts will create further value for all of our stakeholders.

We also continue to plan and prepare for the future:

Our plans for 2015-16 are based on three key themes:

- Operating our business effectively
- Transforming the way we work
- Preparing our business for the future

To deliver efficient and valued services to our customers we need to operate our business effectively whilst transforming the way we work. We are implementing a transformation project to deliver more efficient processes and business systems to support our service delivery to customers. We will work with our people, our customers and partners to deliver on the 2015-16 performance agreement with our shareholders, and prepare the business for the future in an evolving energy supply landscape.

Our Business Strategy for 2015-16 is illustrated below:

Strategy on a page 2015-16

Vision	Trusted by our customers to deliver today and create a better tomorrow.			
Purpose	We deliver electricity and telecommunications network services, creating value for our customers, our owners and our community.			
	Customers	People	One business	
Strategic goals What do we need to focus on to achieve our vision?	We understand our customers by making them central to all we do.	We enable our people to deliver value.	We care for our assets, delivering safe and reliable network services while transforming our business.	Sustainable shareholder outcomes: <ul style="list-style-type: none"> Returns on assets and equity Dividends Corporate reputation Robust balance sheet
Strategic measures How do we know when we have achieved it?	<ul style="list-style-type: none"> Customer net promoter score Lowest sustainable prices 	<ul style="list-style-type: none"> Culture score Engagement score 	<ul style="list-style-type: none"> Zero harm Network service performance maintained Sustainable cost reduction 	
Initiatives What are the enterprise-wide initiatives we need to focus on now?	<ul style="list-style-type: none"> 'Voice of the Customer' program Framework for predictable and sustainable pricing 	<ul style="list-style-type: none"> Culture development through leadership TasNetworks Enterprise Agreement 	<ul style="list-style-type: none"> Business excellence framework TasNetworks integrated business solution 	
HOW WE WORK				
We care for our people and the community		We collaborate to deliver real value to customers		We innovate and we are a fast follower
We challenge the status quo			We are fit for purpose	
We are one business				

In positioning our business for the future we must deal with a number of issues including:

- Continuing the work to understand our customers and engage with them effectively as part of a 'business as usual' process
- Working with our stakeholders and customers to develop our approach to implementing national rules relating to cost-reflective network tariffs
- Developing our approach to metering service provision, in the context of a national rule change that introduces a number of changes to metering arrangements
- Continuing to develop our strategy for delivering innovative network solutions as the way customers use our network, and technologies available, continues to evolve.



Summary

TasNetworks was established as an integrated network business to deliver better outcomes for Tasmanian customers. The achievements of 2014-15 are already delivering better outcomes and putting us on track to achieve our vision of being trusted by our customers to deliver today and create a better tomorrow.



Company overview

Who are we?

Tasmanian Networks Pty Ltd (TasNetworks) delivers electricity and telecommunications networks services in Tasmania. We commenced operations on 1 July 2014. We were formed as a result of the integration of Transend Networks Pty Ltd, the previous owner and operator of the Tasmanian electricity transmission network, and the distribution business of Aurora Energy Pty Ltd, the previous owner and operator of the Tasmanian electricity distribution network. TasNetworks is owned by the State of Tasmania.

Our vision: To be trusted by our customers to deliver today and create a better tomorrow

Our purpose: We deliver electricity and telecommunications networks services, creating value for our customers, our owners and our community

What do we do?

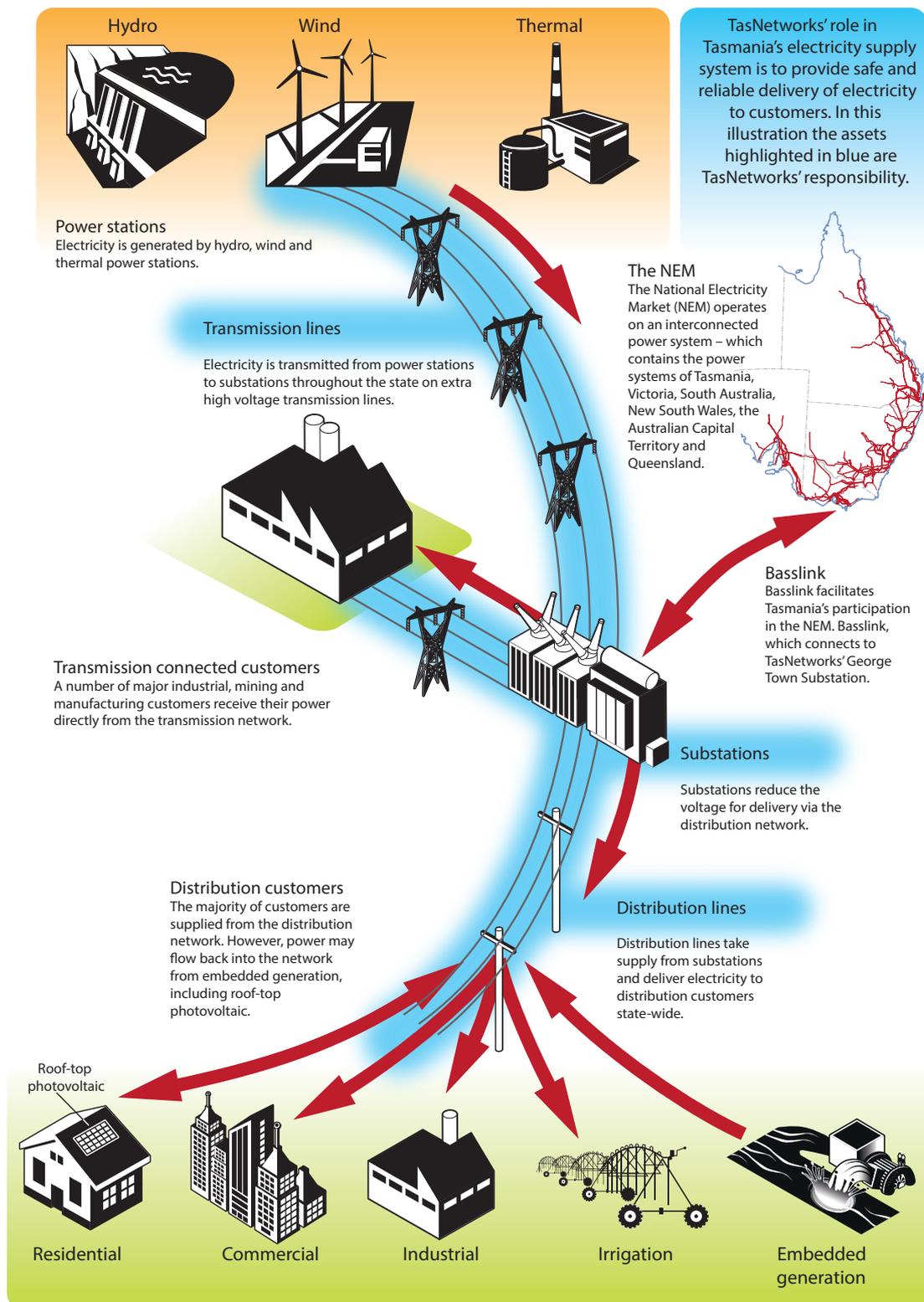
TasNetworks owns and maintains the electricity transmission and distribution network in Tasmania. The Tasmanian power system is shown pictorially in Figure 1. We deliver a safe, cost-effective and reliable electricity supply to residential, commercial and industrial customers. Our responsibilities include:

- 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
- Investing in the network to support capacity growth
- Connecting small and large-scale generation to the network
- Operating the network on a day-to-day basis, including all fault restoration
- Maintaining the public lighting system
- Recording and providing meter data to retailers.

Our asset base is valued at over \$3 billion. TasNetworks is a commercial business. Our shareholders have directed us to perform some non-commercial activities, primarily funding the 'grandfathered' solar feed-in-tariff payment to customers and inspecting private poles until a long-term solution is implemented.

We provide specialist, high reliability telecommunications services to customers including those in the Tasmanian electricity supply industry. Our telecommunications services support power system protection, monitoring and control, voice communications and asset management functions. We also provide wholesale telecommunications which includes supporting the State Government's trunk mobile radio network.

Figure 1 Our place in Tasmania's electricity supply industry



About this report

This report reviews the operations of Tasmanian Networks Pty Ltd and our subsidiaries Auroracom Pty Ltd and Ezikey Group Pty Ltd for the 2014-15 financial year.

Chairman's review

As a recently integrated business, TasNetworks is on a journey of transformation. Network costs make up about 60 per cent of the average Tasmanian residential electricity bill and TasNetworks is working hard to ensure we keep prices low, while continuing to deliver safe and reliable services and an appropriate return to shareholders.

Significant effort has been required to bring the two former network businesses together in an efficient and effective manner whilst still operating under a number of duplicate systems and processes. We have already generated sustainable cost savings, which help put downward pressure on customer prices.

A major achievement during our first year of operation has been our revenue determination for transmission. In an unprecedented decision, the AER accepted our proposal in all material respects. The resulting decision established a significantly lower forward operating and capital program, and downward cost pressure for our customers.

We are currently preparing our 2017 proposal for distribution services. As part of this process, we are engaging with our customers about our forward plans and taking their feedback into account on several other important issues, including our future distribution tariff strategy and improving our customer connection processes. Our focus with network tariffs is to deliver predictable electricity prices that are the lowest possible genuinely sustainable prices over the longer term, without price shocks.

We are implementing a demanding agenda. This involves us operating our business effectively whilst also transforming the way we work, with a focus on preparing our business for the future. This will require us to take advantage of technology advancements to increase the efficiency of the network, continue to engage with our customers to ensure that the technologies we deploy are fit for purpose and deliver customer value, and enabling our customers to use new technologies to manage their electricity consumption.



I would like to acknowledge the contributions of my fellow directors, the TasNetworks Leadership Team and all our staff. I also thank our shareholders for their assistance and guidance over our first year of operation.

TasNetworks was established to deliver better outcomes for our stakeholders. We believe the achievements in 2014-15 put us on track to achieve our vision of being trusted by our customers to deliver today and create a better tomorrow.

Dr Daniel Norton AO
Chairman

CEO's review

2014-15 has been a significant first year of operation for TasNetworks. We have committed ourselves to an exciting long term agenda that will transform the business into a progressive and innovative company that delivers exceptional value to all of our stakeholders.

During the year we strengthened our commitment to the health and safety of our people and the community. We achieved this by extending and expanding Zero Harm education sessions for our people and supporting LifeSafe and leader zero harm interactions across our teams. A combination of all these strategies resulted in our Lost Time Injury Frequency Rate dropping to an all-time low during the year.

The formation of TasNetworks presented some challenges for our team members. Not only was it necessary for them to adapt to our new operating arrangements, they were also presented with a challenging business strategy as we look to leverage the synergies from the Aurora distribution and Transend transmission merger as well as position TasNetworks for the future, in a very dynamic operating environment. To address this we conducted our first organisational culture survey, which enabled us to identify our baseline culture and to develop plans to transform the way we work and build a constructive and achievement oriented culture.

We also conducted our first engagement survey which found that 42 per cent of our team members are engaged with their job and the organisation, comparing favourably with the Australian benchmark of 34 per cent. The survey importantly identified opportunities for improvement which will be addressed by the team based and organisational plans we have developed. We have also implemented a three tiered leadership development program targeting our executive, leader and front line leader roles. During the year we delivered over 1,500 learning events for our leaders across the business, which in combination with the leadership programs will lift their capability.

The business was tested by the severe storms that occurred in late July and early August 2014. Our people responded magnificently and with an emphasis on achieving the required repairs and maintenance in a safe and secure manner. Our customers were also incredibly patient, particularly when about 26,000 homes were without power at the peak of the storms.

We have significantly lifted the level of engagement with our major industrial customers. Pleasingly, our improved engagement has been publically acknowledged by several of our largest customers. A highlight in 2014-15 was our ability to develop an innovative solution to deliver additional load to Bell Bay Aluminium without the need for additional network infrastructure to support that increased load.



Our first customer net promoter score was received, surveying customers who had recently had dealings with our business. Our first result of +2 (in a framework where scores range from -100 to +100) was an outstanding result for our new business, and will set a challenging baseline for us to improve from in the future.

A strong focus during 2014-15 was our ongoing challenge to reduce the impact of the network component of prices on electricity costs. We focussed on generating operational efficiencies and were successful in reducing the recurrent cost base of the business by \$25.9 million in addition to the initial \$8 million of cost reductions achieved on the establishment of our business.

Our expenditure savings helped us to manage the impacts of distribution revenue being materially lower than forecast. These savings were achieved while still keeping our people and the public safe and maintaining the reliability of the network.

For the year we made a profit after tax of almost \$113 million which was only slightly lower than budget. In addition, we were able to deliver returns to our shareholders of \$377 million (including receiving an additional \$205 million in debt transferred from Hydro Tasmania).

I would like to thank and congratulate everyone in the TasNetworks team for all that has been achieved during 2014-15. Our first year of operation has been extremely successful, and has established a great platform for the years to come. I would also like to acknowledge the support given by the Board as we deliver against our challenging agenda.

Lance Balcombe
Chief Executive Officer

Performance agreement

We measure our performance against a range of financial and non-financial targets. These measures were included in a performance agreement between the company and the Shareholder Ministers, which formed part of the Statement of Corporate Intent 2014-15. The tables below outline our results for the measures in that performance agreement.

Table 1 Sustainable Shareholder outcomes

Measure Sustainable Shareholder outcomes	Target ¹ 2014-15	Actual 2014-15	Comments
Dividends paid ² (\$M)	61.1	61.0	We delivered significantly higher returns to Shareholders; predominantly due to the impact of the capital structure review which saw a return of equity and the assumption of new debt.
Guarantee fees (\$M)	13.2	12.1	
Tax equivalents paid (\$M)	83.4	79.1	
Return of equity ³ (\$M)	20.0	225.0	
Total (\$M)	177.7	377.2	

Table 2 Financial outcomes

Measure Financial targets	Target ¹ 2014-15	Actual 2014-15	Comments
Operating profit after tax (\$M)	117.1	112.9	Below budget distribution revenue was offset by strong cost performance.
Return on assets (%)	8.4	7.9	
Return on equity (%)	10.7	11.1	
Gearing (%) [debt/(debt + equity)]	55.0	63.6	Our performance was impacted by the outcomes of the capital structure review.
Pre-tax interest cover	3.0	2.89	
Operating expenditure (\$M)	166.0	145.5 ⁴	Strong controllable cost performance, partially offset by costs of severe weather events.
Capital expenditure (\$M)	188.8	139.3	Capital expenditure was reduced as we took time to review our needs and develop better integrated forward plans.

¹ As outlined in the Statement of Corporate Intent.

² All dividends paid during 2014-15 were in respect of the activities of the predecessor businesses, Transend Networks Pty Ltd and Aurora Energy Pty Ltd.

³ Equity returns are made in instalments in November and May, subject to funding capacity.

⁴ Controllable operating expenditure (excluding grandfathered feed in tariff and contestable services provision)

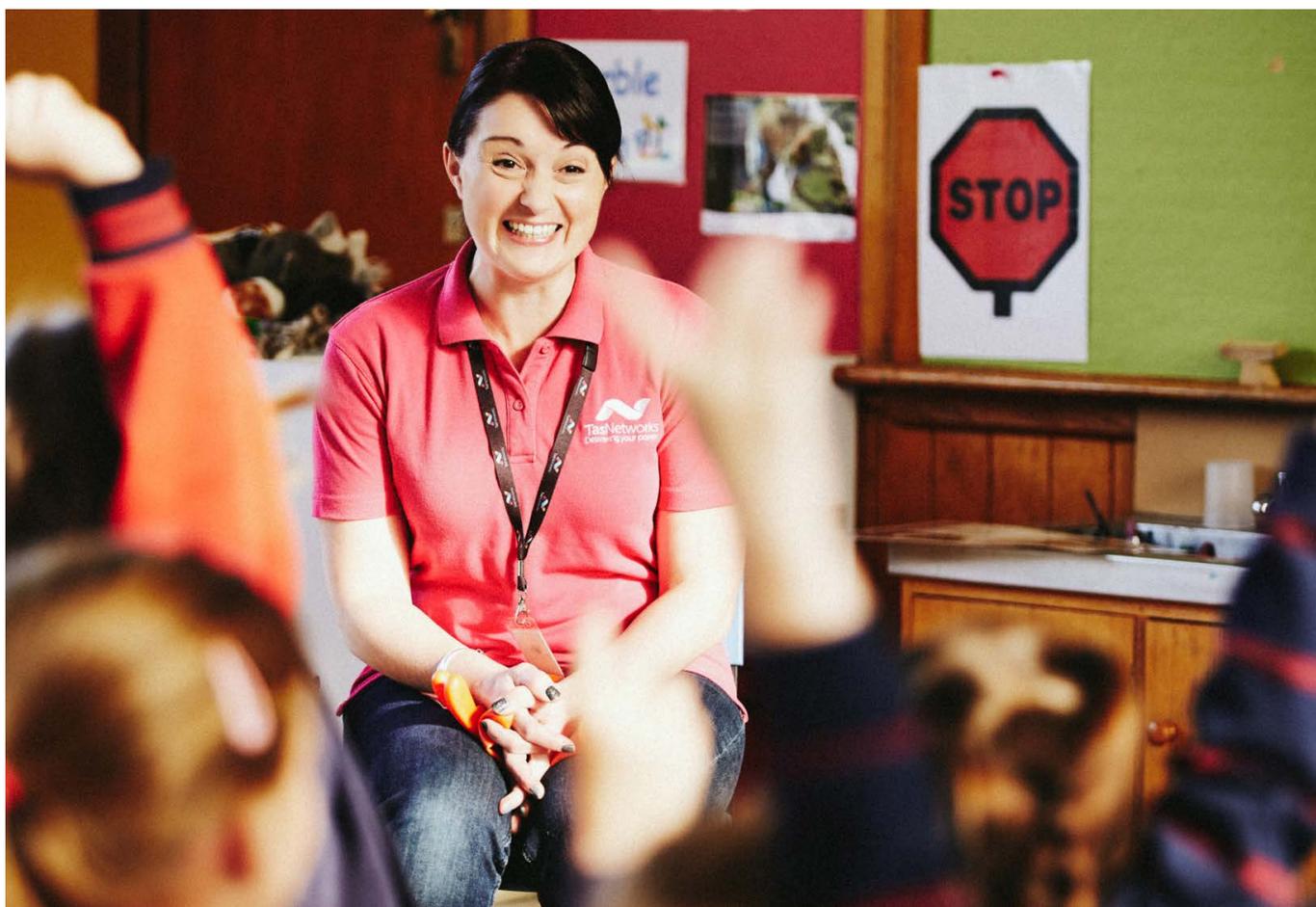


Table 3 Zero Harm outcomes

Measure Zero Harm	Target 2014-15	Actual 2014-15	Comments
Number of LifeSafe observations	≥ 1,500	1,956	Our proactive safety measures were either well ahead or close to target. Incident levels were high due to a number of threatened bird deaths and contractor incidents.
LifeSafe participation (%)	≥ 20	19.3	
Number of significant incidents	≤ 10	15	
Number of reportable incidents	≤ 16	19	



Table 4 Network service outcomes

Measure Network service	Target 2014-15	Actual ⁵ 2014-15	Comments
Transmission loss of supply events ⁶ >0.1 system minutes	≤ 15	4	Best transmission loss of supply results on record.
Transmission loss of supply events ⁶ >1.0 system minutes	≤ 2	0	
Average transmission circuit outage rate – lines	< 31	16	
Average transmission circuit outage rate – lines	< 12	6	
Distribution system average interruption duration index ⁷	≤ 302 minutes	428.4 minutes	Performance was impacted by five days of severe storm activity.
Distribution system average interruption frequency index ⁷	≤ 1.97 events	2.20 events	
Outcome under AER Service Target Performance Incentive Schemes (STPIS)	No net penalties as measured by STPIS	No net penalties	Bonuses received/due for transmission and distribution performance. The impacts of severe storm activity is excluded from the calculation of the distribution STPIS.
Meeting network planning standards	Network planning standards met	Network planning standards met	All standards met.

5 Service performance is reported by calendar year for transmission measures and by financial year for distribution measures.

6 The impact of a loss-of-supply (LOS) event is measured in system minutes. LOS events are split into two categories: large events (measuring > 1.0 system minutes), and all events > 0.1 system minutes (which include the large events).

7 These targets are supported by detailed category reporting to the AER.

REVIEW OF OPERATIONS

Zero Harm

Ensuring zero harm to our people, our contractors,
the community and the environment at all
times and in everything we do.

Zero Harm activities

Building a Zero Harm culture and keeping our people and the public safe

Operating our business safely is paramount. Our Zero Harm policy sets the guiding principles for TasNetworks' health, safety, environment and quality management. It communicates responsibility and expectations that set the culture for a strong health, safety and environment culture by raising awareness and focussing on behaviours to continually improve the way we work.

As an indication of the importance with which the Zero Harm policy and strategy are viewed by TasNetworks, the Board of TasNetworks and the Leadership Team committed to the policy at a very early stage in the life of the new business, so that on our first day of operation expectations were clear.

Achieving Zero Harm is a key part of enabling TasNetworks to deliver our vision to be trusted by our customers to deliver today and create a better tomorrow.

Our Zero Harm goals are:

- No harm to our people and the public
- Minimising our impact on the environment.

Our Leadership Team and the Board committed to our Zero Harm Policy very early in the life of the business.

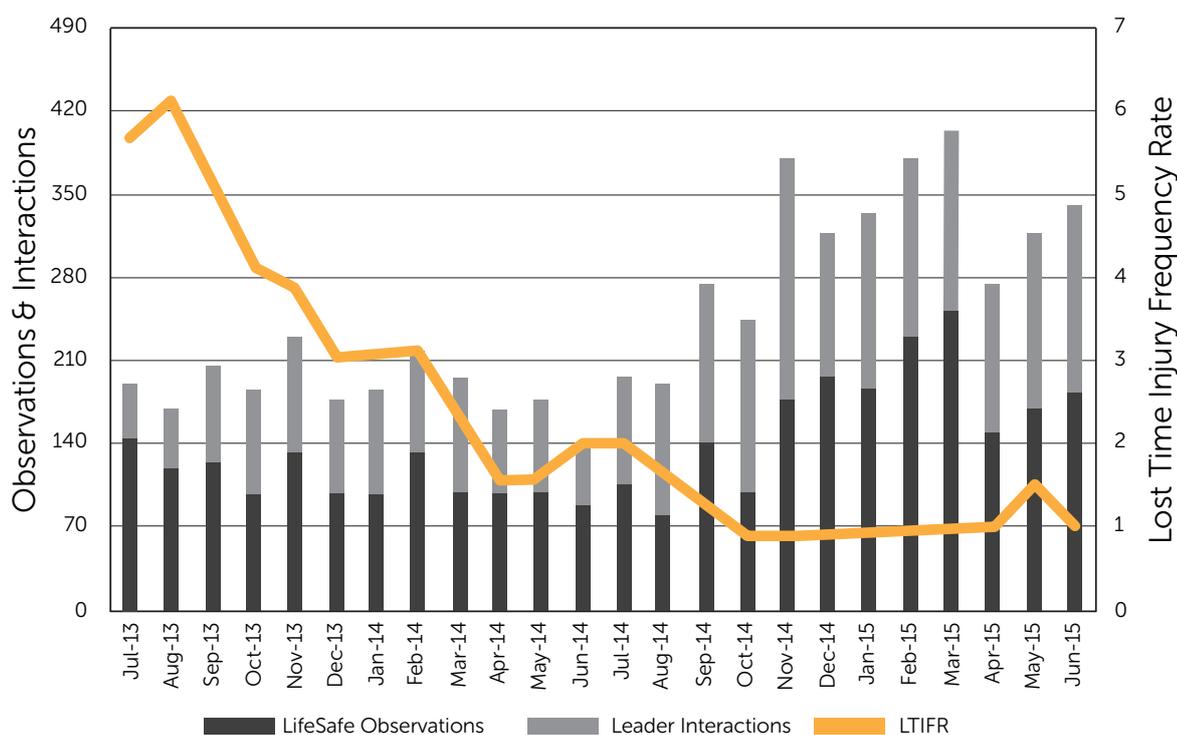
The Zero Harm policy applies to all TasNetworks' activities. TasNetworks will continue to actively engage and consult with our people, our customers and other relevant stakeholders to achieve Zero Harm. Achieving Zero Harm requires ongoing and unwavering commitment from all TasNetworks team members and contractors. This commitment means that our people and contractors are responsible for:

- Working safely – demonstrating a strong safety culture and positively intervening in at-risk situations
- Working in accordance with the law and other requirements
- Demonstrating care for the environment in the way we work.

Our attention to safety has also been evidenced as our Lost Time Injury Frequency Rate (LTIFR) reached an historic low of 0.9 in December 2014 and was 1.0 at June 2015.

Figure 2 below shows how our LTIFR reduction over time has been accompanied by an increase in some of our proactive safety interactions. Whilst there are a number of other actions which have contributed to a decrease in the LTIFR, we believe this graph illustrates the value of our proactive focus on safety.

Figure 2 Safety performance



Assisting in the decline in the LTIFR has been a TasNetworks program to look at and assess tasks that are considered particularly hazardous because of repetition, awkward postures or the force required to perform them.

An ergonomic assessment company consulted with team members, observed the hazardous manual tasks in a variety of working environments and assessed the tasks across the business. From this work, guidance material was developed to assist in delivering training.

This program is benefiting our people by building an improved understanding and appreciation for body movement and how load affects the ability to perform tasks safely. It has also led to an understanding of how a manual handling injury can impact on work and personal life.

This will benefit our team members, and ultimately the business, by reducing the frequency and severity of injuries and supports the elimination or minimisation of some manual tasks that have the potential to cause injury.

Engaging our people in Zero Harm

Zero Harm is about looking after ourselves, our workmates, our contractors, the community and the environment at all times. It is about raising awareness and focusing on behaviours to continually improve the way we work at TasNetworks.

Whether our team members are driving, working on electrical infrastructure, dealing with customers or working at a desk, their personal commitment to Zero Harm directly affects their likelihood of getting home in the same condition in which they arrived at work.

In November 2014, a number of half-day Zero Harm workshops were held across the state to discuss and promote how TasNetworks' team members and contractors could contribute in some way to making Zero Harm a reality. The workshops covered a diverse range of issues, including at-risk intervention, life-preserving standards, inspection of equipment used in the workplace and environmental management.

Representatives from our contractors working in high-risk areas were also invited to attend the sessions to assist in building a shared commitment to achieving Zero Harm.

During May and June 2015, other Zero Harm sessions were held with a focus on safe and sustainable driver safety. Driving is a key risk area for TasNetworks. Our people travel approximately 1 million kilometres in total each month. In addition, most of our team members drive vehicles in our family and personal lives. The driver safety sessions provided an important opportunity to explore ways to improve driver safety, keep safe and potentially save lives.

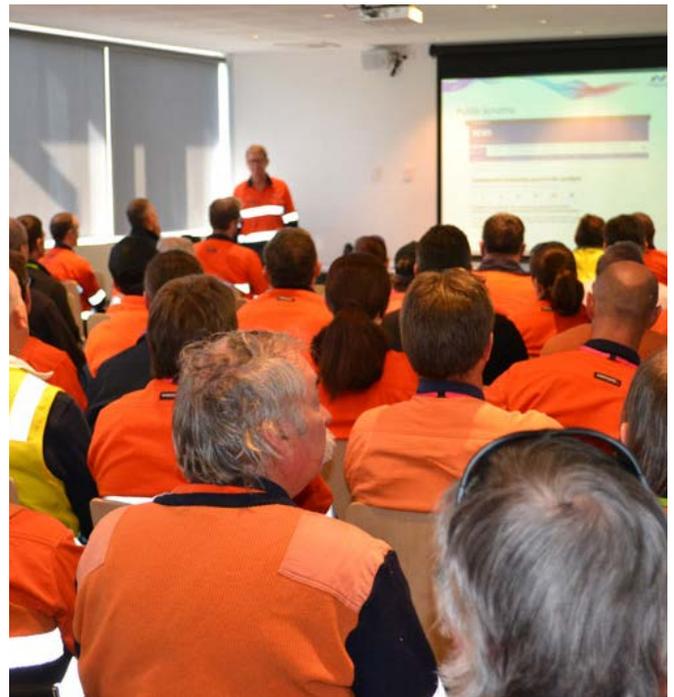
LifeSafe

We have a number of policies, procedures, tools and equipment to help us do our job as safely as possible. LifeSafe is one of the important safety initiatives under Zero Harm, and forms part of our commitment to the safety of our team members.

LifeSafe is about team members looking after themselves and their work colleagues. LifeSafe is used as a tool by observing each other (peer-on-peer) while at work and reinforcing the safe behaviours that are observed, discussing any at risk behaviours and examining ways to make them safe.

During the year, we arranged one-day training courses to assist participants make observations, including open questioning skills, listening skills, and how to break down behaviour.

LifeSafe has its own database to collect observations, so that the gathered information can be shared and discussed at team and tool box meetings across the business. The observations have provided excellent talking points and have led to some real wins for the business and the safety of our people.



Minimising our impact on the environment

Bushfire mitigation

TasNetworks inherited two separate bushfire mitigation strategies. The two strategies were closely aligned, however the specific asset management strategies and risk reflected the variance in asset types.

In the lead up to the 2014-15 bushfire season, we undertook a comprehensive review of our bushfire mitigation risks and established a series of bushfire mitigation activities that were supplementary to, and in support of, our normal seasonal activities. It provided the appropriate framework for us to ensure adequate preparedness for the bushfire season.

We implemented processes and initiatives so that the business achieved its targets for bushfire preparedness.

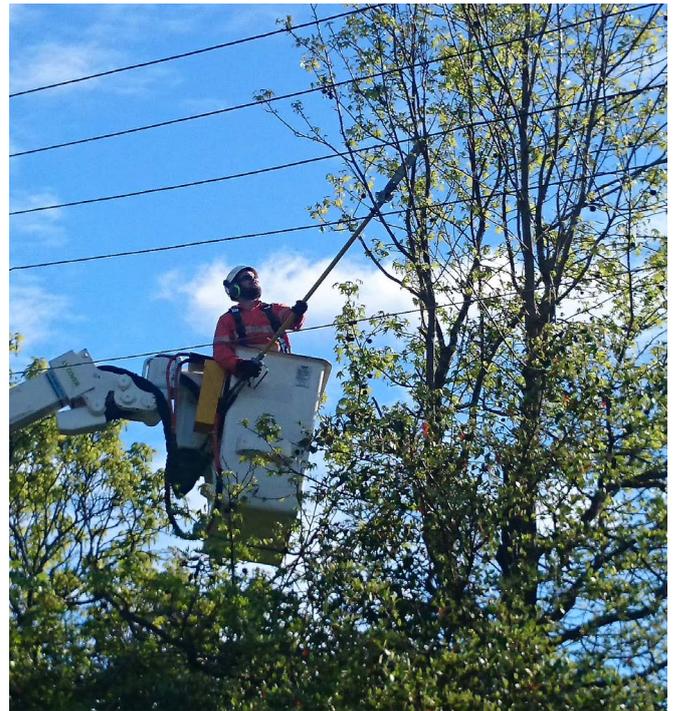
The most significant initiative undertaken on the distribution network was aerial asset inspection, involving coverage of 3,600 kilometres of overhead feeder. The aerial inspections, which were completed in January 2015, identified more than 1,300 substantiated defects of which 100 were classified as requiring priority rectification within 1-7 days. The rectification of these defects supported our readiness for the forthcoming bushfire season.

Tasmania's 2014-15 bushfire season commenced with a day of total fire ban on 28 September 2014. This was only the second time in the last 35 years that a day of total fire ban has been declared in September. Despite the early start to the fire season and early increases in the Soil Dryness Index, the season proved to be ultimately milder in terms of numbers and severity of bushfires than experienced in previous years.

During the bushfire season, we lost eleven distribution poles through exposure to nine bushfires around the State – well below the long term annual average of twenty one poles. No transmission assets were adversely affected as a result of fires.

Overall, no major bushfires occurred as a result of our activities or assets during the bushfire season.

We will build on the improvements made in 2014-15 in preparation of the 2015-16 bushfire season.



Understanding our impact on wedge-tailed eagles

TasNetworks' assets have a significant impact on threatened birds of prey, most notably the endangered Tasmanian wedge-tailed eagle.

There are between 6 and 12 reported deaths of wedge-tailed eagles each year caused by our infrastructure.

We continue to invest in strategic and innovative measures to minimise and mitigate our impact on threatened birds.

In 2014-15, we committed to sponsoring the Trowunna Wildlife Park Wedge-tailed Eagle Rescue, Rehabilitation and Community Awareness Program. The program includes the construction of a new facility for injured wedge-tailed eagles including those birds injured as a result of contact with power lines.

Looking ahead

We are continuing to build a Zero Harm culture through raising awareness and focussing on behaviours to continually improve the way we work. We will achieve this through the following initiatives:

- Zero Harm Leadership Development
- Health, Safety and Environment Quality System process consolidation
- Customer Zero Harm Strategy Development
- Wellbeing Strategy Development.

REVIEW OF OPERATIONS

Our customers

We understand our customers by making them central to all we do.

Customer activities

Understanding our customers

One of TasNetworks' strategic goals is to make our customers central to all that we do. The business has a strong commitment to delivering the services that our customers value, at the lowest sustainable price.

As a combined electricity transmission and distribution business, we have a diverse customer base with many customer touch points. We need to be able to proactively engage, consult and communicate with all customers and to identify ways in which we can enhance customer engagement, satisfaction and trust through provision of a range of services aligned to the needs of diverse customer segments.

Figure 3 TasNetworks Customer Segmentation Model



We define our customers broadly, and include those we work for, and those we work with as shown in figure 3 above. We have developed a customer segmentation plan that assigns responsibility and ownership within the business to each segment. From the segmentation plan we will aim to deliver 'fit for purpose' service propositions for each of our customer segments that are tailored to address the varied needs of our customer base.

Customer service improvements

Establishing a Customer Service Centre

A key piece of work in the lead up to our first day of operation was to establish a standalone network specific Customer Service Centre to assist our customers with enquiries related to the electricity network, including reports of electrical faults.

This newly formed team was hit hard by the severe storms in July and August 2014. Even with support from Aurora Energy our performance measure for the percentage of calls answered within 30 seconds was off to a difficult start, finishing at 52 per cent for July and 49 per cent for August; well short of our target of 73.6 per cent.

With the assistance of our public awareness campaigns to outline our role to the public and further analysis of our resourcing requirements, the call volumes have reduced and call answering performance has improved dramatically. We are also proactively using social media and our internet site, so that customers can access fault outage information without the need to contact our call centre.

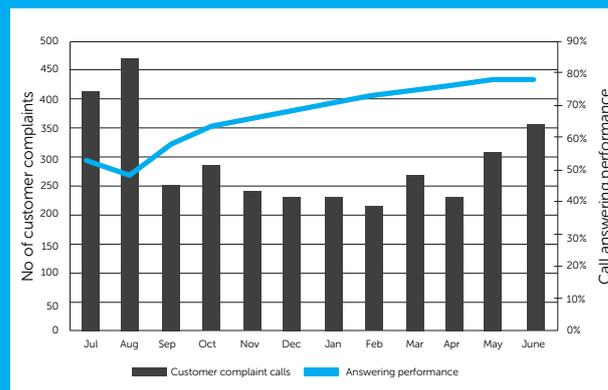
Customer focus produces results

Our commitment to customers is producing results with a 40 per cent reduction in the number of customer complaints received each month against levels experienced early in the 2014-15 year.

This has been achieved by increased knowledge and experience from our new Customer Service Centre, in conjunction with process improvements throughout the business that have led to better customer outcomes.

As figure 4 below shows our call answering performance also steadily improved throughout the year as a combination of better public knowledge of our role and less customer complaints led to a reduction in calls being received by our customer service centre. This reduction in volumes, combined with a number of process improvements led to a much higher level of calls being answered within 30 seconds.

Figure 4 Customer complaints and call answering performance



Positioning our new business in the community

One of the major tasks that required attention prior to the establishment of TasNetworks was the need to position the business within the community and inform customers as to our role and responsibilities in the supply chain. A public education campaign was undertaken to achieve this goal.

In reinforcing our efforts to position our business within the community, we will continue our emphasis on a number of safety and community campaigns. These include campaigns on bushfire mitigation (Safe Growing), overhead power lines (Look Up, Look Out) and fallen power lines.

Voice of the Customer program

The Voice of the Customer program is the cornerstone of our customer service strategy. It ensures that we take the customer's perspective and 'voice' into consideration in our activities and decisions. It establishes a platform from which customer engagement initiatives, customer culture and satisfaction measurement will evolve and is a key input to service excellence improvement planning.

TasNetworks Customer Satisfaction Survey – the net promoter score

We have a strong desire to understand what our customers think about the services that we provide and how this impacts the way they feel about the business overall. To allow us to measure this, we surveyed 384 customers in May 2015 who had recently been in contact with TasNetworks. Despite there being no direct competitor to TasNetworks, customers were still asked how likely they would be to recommend TasNetworks. As figure 5 below shows we achieved a Net Promoter Score of +2 (in a range from -100 to +100) which is a positive outcome for our business (compared to an industry average of -40). We have set future targets at higher levels than the baseline as we strive to improve customer outcomes.

Social media and external websites are an integral part of our customer engagement process. TasNetworks uses the following social media sites:

www.tasnetworks.com.au



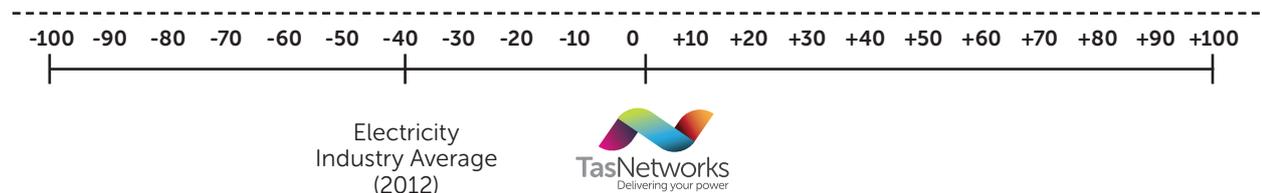
A fresh approach to customer engagement

We have a broad group of stakeholders who have many different contact points across the business. As a newly merged business we have been developing a consistent approach to engaging with our customers, and are committed to improving our engagement through developing a formal, business-wide stakeholder engagement strategy. The key objectives are to:

- Build a consistent approach to customer engagement across the business
- Ensure customers have two-way communication mechanisms so their issues and feedback can be heard and considered
- Proactively engage with customers to build two-way understanding in developing TasNetworks' strategic direction
- Support our people with their customer interactions
- Ensure we meet our regulatory requirement to consult and engage with our customers.

Figure 6 illustrates the range of activities undertaken to gather feedback and understand the concerns of our customers.

Figure 5 Net promoter score – Electricity Industry average (2012) compared to TasNetworks result 2015⁸



⁸ Source: http://www.bain.com/offices/australia/en_us/publications/articles/the-powerful-economics-of-customer-loyalty-in-Australia-au.aspx

Figure 6 Our engagement activities



Workshops help to build trust with our customers

During 2014-15, we held a number of workshops to engage with end-use customers on our future expenditure plans, as part of the 2017 Distribution Determination proposal.

Workshops were held in Hobart and Launceston with 42 customers from diverse backgrounds and from across the state; reflecting the different ages, interests and spending habits of the Tasmanian community.

Topics discussed included:

- Who we are/what we do
- Journey to date (what we have heard and done as a result of our customer engagement)
- Customer engagement activities
- Revenue and price outcomes (work program)
- Reliability and Asset Management
- Network tariffs.

Program Leader, Revenue Resets, John Sayers said that as well as assisting us to achieve our vision, the workshops have allowed us to gain new customer insights, which will be used to help shape our future plans and strategic approach for our 2017 Distribution Determination proposal.

“The feedback from participants from both workshops was overwhelmingly positive. The interactive format provided a forum for lots of discussion with customers and gave us the opportunity to test and confirm previous feedback and to ensure our pricing structure, expenditure and services suit the long term interests of our customers.”

We will use these insights as we finalise our Distribution Regulatory Proposal to be submitted to the Australian Energy Regulator in January 2016, for the period 1 July 2017 to 30 June 2019.



TasNetworks Tariff Reform Working Group

A change to the Rules requires network prices to transition over time to reflect the efficient cost of providing network services to individual consumers. The intended outcome is to allow consumers to make more informed decisions about their electricity usage, their investments and for network tariffs to ultimately be cost reflective. We have commenced developing our network tariff strategy.

As part of developing a network tariff strategy, we established a working group that includes representation from a broad range of stakeholders. We are assessing network tariff options against principles for network tariff development and the constraints that have been identified and agreed with key stakeholders.

We understand community concern about electricity prices. We are engaging with customers to ensure our network tariff strategy carefully transitions from the present framework to a more cost-reflective framework in a way that manages customer outcomes. We anticipate a long network tariff transition period.

Customer Council

We have established a Customer Council to support effective engagement and two-way communication with our customers. The Council meets quarterly and is made up of customer and consumer representatives from our diverse range of customer segments. The Council came together for the first time in June 2015.

The creation of the Council will assist us to develop an ongoing conversation about issues that interest our customers and affect their lifestyles, such as the price, reliability and safety of electricity, the costs and benefits of possible projects, and the environmental impacts of our business.

Agfest

Our first appearance at Agfest provided a unique opportunity to positively interact with our customers, with thousands of people visiting the exhibit.

Agfest attracts about 60,000 patrons each year, providing a great opportunity to build our brand, to interact with our customers on a face-to-face basis and to communicate the role we play in delivering power to communities across Tasmania.

Community focussed safety initiatives

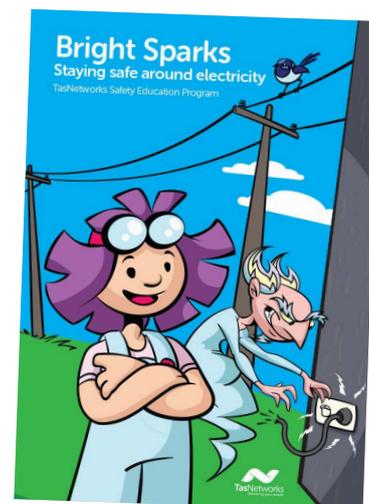
TasNetworks' Safety in Schools Program was launched this year with the help of some brightly coloured characters: Sparks, her nemesis Shocker and a nifty robot called Socket.

The Safety in Schools Program aims to reach 10,000 primary-aged school children each year with important messages about electrical safety and energy efficiency.

The program is an important part of our commitment to educating the general public about how to be safe around electricity.

We also invested in a range of community focused safety initiatives. For instance, during 2014-15 we ran awareness campaigns reminding Tasmanians to ensure their CablePI device was plugged in and switched on.

Our Look Up Look Out program also reminds the community about the overhead dangers of electricity lines; and we run programs reminding all about the dangers of poor vegetation management around electricity lines.





Solar metering issue

During 2014-15, we identified that a specific type of solar meter was incorrectly displaying the amount of energy that customers were exporting back into the network. Although the meter had been recording the correct amount of the export, it had not been displaying the correct information for the meter readers. Customers with this specific type of meter were not receiving the full credits they were entitled to for the energy their household was exporting.

We worked quickly to remove and replace all affected solar meters. Customers who were impacted received a letter to notify them of the timing of the meter exchange. Once the affected customer's solar meter was removed, all relevant readings were retrieved in order to calculate the required reimbursement, plus any applicable interest. Those calculations were based on the actual readings, and no estimates were used. Once the calculations were completed, we promptly sent cheques to the customers for the amounts due.

Approximately 8,000 solar meters are expected to be removed and replaced by the end of the 2015 calendar year. Many customers have recognised the good work TasNetworks has done to identify the issue, communicate with customers and rectify the problem.



(Left to right) Brian Muir, and Barry McCann from Tas Maritime Radio (TMR) with John Sullivan from TasNetworks.

TasNetworks lends a helping hand to water users

We are helping to make it safer on our waters by assisting Tas Maritime Radio (TMR).

We have assisted TMR to establish two new maritime VHF bases on the state's West Coast.

One base is at our radio site at Mt Read. A radio link also goes from Mt Read to the second base at Elliot Range (south of Macquarie Harbour).

This means that radio help is close at hand for water users including cruise boats, racing and cruising yachts and commercial and recreational fishing boats, should they get into trouble. TMR also broadcasts the latest weather information and safety warnings to mariners.

TMR representative Brian Muir said that before the installation of the new bases, there was no VHF wide area coverage on the West Coast.

There is now VHF marine safety coverage on Macquarie Harbour, the Pieman and Gordon Rivers, parts of the Franklin River, parts of Lake Pedder and along the West Coast from near Port Davey to north of Sandy Cape – and as far out to sea as approximately 150km. The bases at Mt Read and Elliot Range have increased TMR's reach by more than 30 per cent.



Nick Reynolds (left) and Brock Nightingale (right) recognised for their good service.

Putting our customers first

New Norfolk depot team members have been thanked for their exceptional customer service by the community organisation Rural Alive & Well (RAW).

Line worker Nick Reynolds and Dual Trade Apprentice Brock Nightingale arrived at a property in the Ellendale area to fix a damaged connection.

The elderly customer at the address had only been discharged from hospital that afternoon after a serious operation which left him with limited mobility. The customer lived alone and had no family and few social connections in Tasmania, and was taken home from hospital by RAW.

Brock and Nick grasped the situation immediately, putting the customer at ease and assuring him that they would rectify the problem before they left the scene.

RAW's Wayne Turale recognised our efforts and said the damaged connection could have left the customer without power to his home.

Southern Regional Leader of Distribution Business Field Operations, David Cornelius said that Nick and Brock's efforts were all part of TasNetworks' values of caring for the community and making customers central to all we do.

Responding to our customers' needs

Restoring power supply

In late July and early August 2014, severe storms left more than 26,000 of our customers without power. Within 24 hours, we were able to reduce that number to about 4,500, with crews, contractors and resources from the South of the state assisting the worst hit areas in the North and North West. The efficiency with which our workers and contractors were able to restore power supplies safely to all areas of the state in such a short time is testament to the hard work and skills of all involved.

The State also experienced severe weather events in May 2015 that caused power outages in the North East and on the West Coast. Again, there was a timely restoration of services and recognition from many customers of the good work our people do to restore supply as promptly as possible. We also appreciated the patience of our customers as we ensured that the necessary work was undertaken safely and under challenging conditions.

Looking ahead

We will continue to work to understand the needs of our customers and make them central to all we do. We aim to increase our customer satisfaction and deliver lowest sustainable prices. Key initiatives include further work on our:

- Customer connections process review
- Customer connection pricing review
- Network tariff strategy for our distribution customers.



Energy Minister Matthew Groom, Bell Bay Aluminium General Manager Ray Mostogl, Treasurer Peter Gutwein and TasNetworks CEO Lance Balcombe at the announcement. (Picture: Rob Burnett).

Our strategy in action – Bell Bay Aluminium

Since April 2014 TasNetworks was involved in negotiations with Bell Bay Aluminium (BBA) in relation to technical issues to support an increase in BBA's load, in stages through to 2018, from 325MW to 355MW. We were formally advised that BBA wanted to increase its load by 30MW to 355MW in February 2015.

To facilitate this request, we came up with an innovative solution where the increased load could be provided without any major augmentation to the transmission network supplying BBA. Other than some minor expenditure which was funded by BBA, there was no investment in further infrastructure to support the additional load.

The outcome is a perfect fit with the State's Energy Strategy and our vision to deliver today and create a better tomorrow.



Lance Balcombe and Ray Mostogl signing off on the agreement.

.....
**Innovative thinking by TasNetworks allowed
Bell Bay Aluminium to increase its load with
minimal investment in new assets**
.....

REVIEW OF OPERATIONS

Our people

We enable our people to deliver value.

Our people activities

Our people strategy 'enabling our people to deliver value' is one of the three pillars of our business strategy. During financial year 2014-15 our focus has been on three areas: establishing a solid business foundation; culture development through leadership and our enterprise agreement initiative.

Solid business foundation

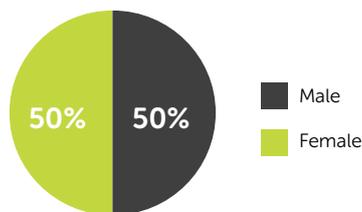
On commencement of TasNetworks we ensured we set ourselves up for success by implementing an innovative recruitment process for all our leadership positions. Our 'resourcing days' were unique and rigorous, encompassing psychometric testing; leadership simulations and interviews as well as an interactive communications session with the new TasNetworks Leadership Team. This process has delivered a highly gender balanced and engaged group of leaders for TasNetworks who have delivered results consistently throughout our first year.

Diversity

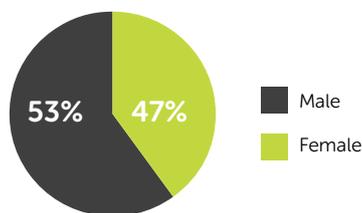
Figure 7 below highlights the gender diversity that has been achieved, particularly in leadership roles. At Board level, Dr Jane Sargison was appointed a director from the commencement of the business on 1 July 2014.

Figure 7 TasNetworks' team members by gender as at 30 June 2015 (%)

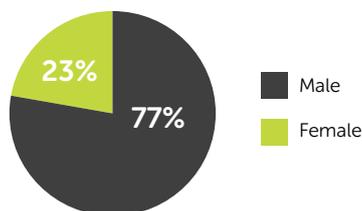
CEO/General Managers



Senior Leaders



All Staff



Bringing our people together

A key early task for our business was to locate our people in the most effective working environments for them to perform their duties and unite them with their new TasNetworks teams.

A huge effort was required throughout the business to organise the logistics and required facilities to achieve these goals. Which included:

- relocating in excess of 60 staff to their new locations at our Cambridge facilities
- relocating over 100 of our people to our Maria Street Head Office in Lenah Valley
- internal reorganisation and workstation establishment to accommodate changes and co-location of new teams
- re-branding of our sites to enable our customers to identify our locations and establish our identity as a new business.

These arrangements were developed with our overall One Business strategic goal in mind as well as minimising the safety impacts of travelling between our locations where possible. To this end we have also enhanced our video conferencing facilities within our sites to reduce the safety risks of additional driving and to enable better collaboration amongst our people

Code of conduct

Our code of conduct reflects the style, behaviours and culture that define TasNetworks. After the launch of our Code we commenced ensuring that we reinforce our Code through regular discussions and ultimately actions that confirm for our people that the Code is more than just words. It defines the standards we will apply to how we run our business.

Achievement review process

On commencement, we ensured that all our people understood how their effort relates to our business by aligning the year's accountabilities and performance measures to our new Strategy on a page. We introduced monthly one-to-one meetings between leaders and team members to build accountability and support and set a target to achieve a minimum of eight per year for each direct report.

Women with Energy Network

TasNetworks hosted the inaugural Women with Energy Network, with support from Aurora Energy, Hydro Tasmania and Entura. The Women with Energy Network is designed to connect people socially throughout TasNetworks and more broadly across the Tasmanian energy industry. We encourage both women and men to attend.

Three inspiring leaders from the energy sector in Tasmania shared their career journeys for the launch of the Women with Energy Network in June.

Aurora Energy CEO Rebecca Kardos, Entura Managing Director Tammy Chu and TasNetworks General Manager Works and Service Delivery Tash Brown provided some great advice including taking risks, having a voice, and making the most of opportunities.

Each speaker provided a very personal account of their career and how they found themselves to be in successful leadership positions.

The launch event provided a great opportunity to network across the three businesses and certainly fulfilled the brief of connecting women with diverse experiences and inspiring them with stories from successful leaders.



Aurora Energy CEO Rebecca Kardos, Entura Managing Director Tammy Chu and TasNetworks General Manager Works and Service Delivery Tash Brown.

Culture development through leadership

We believe that building an achievement culture with constructive behaviours and engaged people will deliver sustainable customer-focussed outcomes.

TasNetworks first Organisational Culture Survey

In late 2014, team members across the business had the opportunity to participate in the 2014 TasNetworks Organisational Culture Survey.

The survey measured our current culture: how we go about our work and how we interact with each other. We achieved a 76 per cent response rate. The results highlighted areas of success upon which we can build and areas where we need to improve.

Understanding our baseline culture has enabled us to make plans to move forward to transform the way we work. All teams across TasNetworks received their results and participated in team workshops where they developed action plans to build towards an achievement culture.

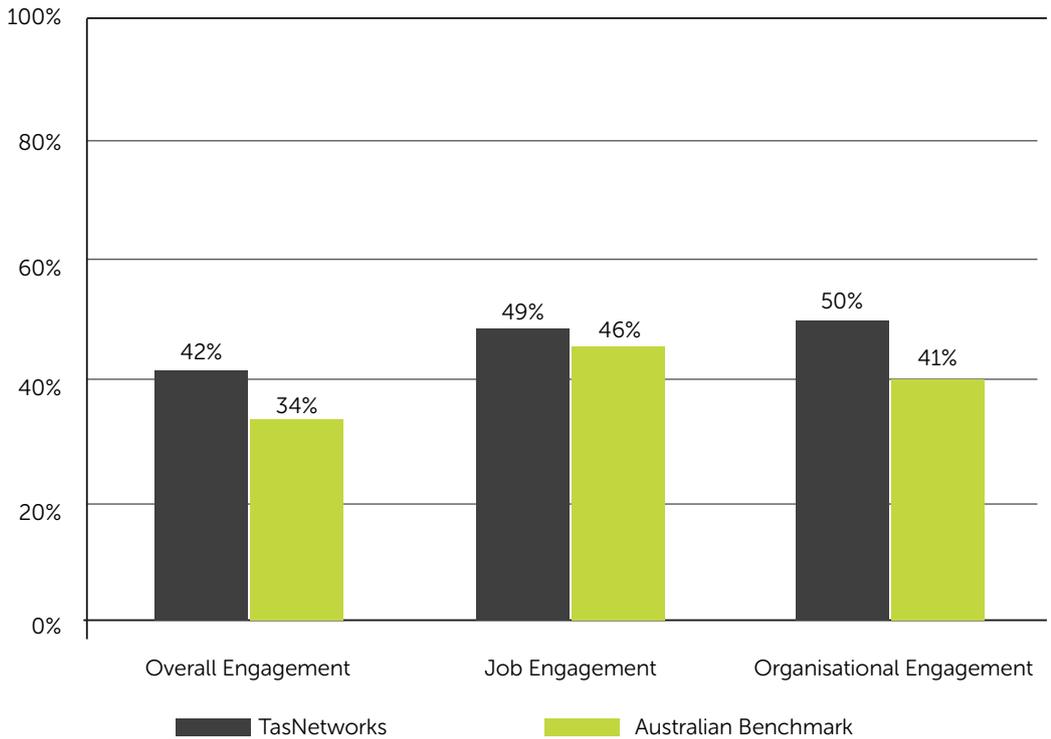
TasNetworks first Internal Engagement Survey

In May 2015, team members across the business had the opportunity to participate in TasNetworks' inaugural internal engagement survey. We undertook an internal engagement survey to show us how engaged our people are; how they feel about working at TasNetworks; what is working well and where we can improve. We again achieved a high response rate of 75 per cent of the organisation.

The survey found that 42 per cent of TasNetworks team members are engaged to both their job and the organisation. This compares particularly favourably with the Australian Benchmark of 34 per cent as shown in figure 8. The survey showed that we have a strong internal focus on safety and our immediate leaders are well regarded by their teams.

We have identified opportunities for improvement in the areas of change management, performance management and providing incentive for performance. Both organisational and team based plans have been developed and are currently being implemented to improve in these areas.

Figure 8 TasNetworks compared to Australian Benchmark



Leadership capability

TasNetworks is committed to focusing on improving leadership capability as a key driver to build an achievement culture. We have designed a three tiered approach to leadership development. Our leadership programs have been created for executive; leader and frontline leader roles. Our inaugural Empowering Leaders Program (frontline leaders) kicked off in 2014-15, providing the opportunity for 35 of our frontline leaders to develop their understanding of leadership at TasNetworks.

The Empowering Leaders Program is an opportunity to develop tools, processes, and a common language to build an achievement culture for TasNetworks.

The Program combines knowledge development and practice to build leadership capability through five, one to two-day workshops over a nine month period. The Program is designed to leverage the skills people already have and facilitate learning from each other.

During our first year we have delivered 1,560 learning events for our leaders which have included leadership programs, culture workshops, business updates and team start-up sessions. The purpose of these sessions has been to support our leaders to drive our 'One Business' strategic pillar with a consistent approach to leadership.



The purpose of the Program is to provide participants with a greater understanding of the business, their role as a leader and to build self-awareness so that they have the capability to lead teams effectively in our rapidly changing industry.



TasNetworks enterprise agreement

On commencement of TasNetworks we inherited two existing enterprise agreements which expired in June 2015. We commenced consultation with our team members in early 2015 and then entered into negotiations with the overarching objective of developing one TasNetworks enterprise agreement for all our people. It is intended that our agreement will support government and business objectives, enable a culture that is dynamic and responsive and provide flexibility to respond to changes in the business environment. It will also underpin our strategy to deliver a sustainable and predictable price path for our customers.



Role in focus: Meter reader

There are a variety of important roles required for TasNetworks to deliver power to our customers. One of these roles is that of our meter readers.

We are responsible for reading, repairing and replacing meters for most Tasmanian customers. Our meter readers travel to different residential and commercial locations on assigned routes, gathering data about the amount of electricity used by our customers. They spend the majority of their day travelling from location to location visiting our customers and physically read meters. During a single day they can visit over 400 properties and read more than 900 meters.

The safety of our meter readers is important to us. Our meter readers, at times, have difficulty gaining access to meters for a number of different reasons. This may be because access to the meter box is unsafe, there is an unrestrained animal, or a gate or door is locked. We continue to work on ensuring the safety of our meter readers whilst seeking to meet our customers' expectations for regular and accurate meter reading services.

Our meter readers perform over 1 million meter reads each and every year

Looking ahead

We have commenced a long-term plan to build an achievement culture based on constructive behaviours. We acknowledge that this plan will require sustained effort and commitment. We are investing in building our internal capability in culture and leadership so that we are set up to support these initiatives efficiently for the long term. We will continue to focus on developing our constructive behaviours and achieving high levels of engagement. We will do this by investing in our leaders at all levels to build self-awareness and leadership capability, focussing on communication, collaboration, business improvement and change management.

REVIEW OF OPERATIONS

Network service

We care for our assets, delivering safe and reliable network services while transforming our business.



Our network service activities

Reliability

In the 2014 calendar year we recorded only four transmission loss-of-supply events, which was significantly better than target.

There was no large loss-of-supply event measuring greater than one system minute.

Transmission circuit availability during the 2014 calendar year was better than target for all three categories (transmission lines – critical and non-critical, and transformers). As a result of this excellent transmission service performance to our customers, we will earn a bonus under the AER's service target performance incentive scheme (STPIS).

88 per cent of our distribution customers experience fewer than 5 outages per year.

Distribution network performance is measured on a financial year basis and was below target, primarily as a result of unseasonal storm activity experienced in late July and early August. These storms extended across the entire distribution network, affecting up to 26,000 customers at the peak of the outages, and impacting on approximately 60,000 overall. As the impacts of these major event days are excluded from STPIS calculations we will also earn a bonus for our service performance on our distribution network.

85 per cent of distribution outages experienced were of less than or equal to 5 hours.

Network investment and maintenance

TasNetworks invested \$105 million in network capital expenditure over 2014-15 to maintain the reliability, security and quality of power supply to our customers. During 2014-15 we achieved practical completion of several major projects, in particular the 110 kV redevelopments of substations and lines at Burnie, Creek Road, Meadowbank and Tungatinah.

Redevelopment of the 110 kV Substation at George Town and the establishment of a new Zone Substation at Rosny Park are well under way. Each of these projects is scheduled for completion during the 2015-16 financial year.

Business cases have also recently been approved for asset replacement works at Port Latta and Railton.

The number of projects to augment the network has continued to reduce in recent years in response to reduced electricity demand. Some projects have been deferred or cancelled as we adjust to a lower growth outlook.

Table 5 on the following page lists the major network projects completed this year.

Table 5 Major Projects (>\$5m)

Project	Description	Total Project Expenditure (\$m)
Creek Road Substation 110 kV redevelopment	Redeveloped the Creed Road Substation site to address risks to the security and reliability of a vital supply point for the Hobart CBD	25.2
Tungatinah Substation 110 kV redevelopment	Replaced a number of ageing assets to sustain the reliable, safe and secure transmission of electricity from major hydro generation sources	26.7
Burnie Substation 110 kV redevelopment	Redeveloped a critical piece of the infrastructure (including replacement of ageing circuit breakers) required to ensure a reliable supply to customers in north-west Tasmania	9.8
Meadowbank Substation 110 kV redevelopment	Replaced a number of assets to secure a reliable electricity supply to customers connected in the Central Highlands area	6.4

In addition to these major projects, our business also invests in a number of capital and operating programs of work in order to effectively operate and maintain the safety and reliability of our network.

Table 6 below lists the major programs of work (operating and capital) during the 2014-15 year.

Table 6 Major Network Programs of Work (Operating and Capital >\$3m)

Program	Description	2014/15 Program Expenditure (\$m)
Vegetation management program	Undertook vegetation management programs to reduce risks and ensure adequate clearance around our assets	10.3
Replace damaged and condemned poles	Renewed poles classified as requiring replacement to maintain supply and ensure the safety of our assets	9.8
Emergency and unscheduled power response and repairs	Responded to fault and emergency activities and unscheduled power system outages that required immediate attention and carried out repairs to restore the system to a safe and stable operation	9.7
Supply underground services to subdivisions	Supplied underground services as initiated by our customers	4.6
Emergency response - Major events	Responded to major events that required immediate attention and carried out repairs to restore the system to a safe and stable operation	4.0
Supply overhead high voltage installations	Supplied overhead high voltage general services as initiated by customers	3.9
Meter reading	Provided quarterly and monthly meter reading service for new and existing customers	3.6
Overhead system asset repairs	Undertook asset repairs to the overhead system and restored them to serviceable condition	3.3
Replace substandard overhead copper conductor	Replaced aged and substandard conductor with new standard conductor	3.0
Install new service connections	Provided the supply and installation of service wires and service fuses to customers	3.0



TasNetworks powers the North West dairy industry

Completion of a new distribution line between Marrawah and Woolnorth will enable future investment in the dairy industry and stimulate economic activity in the state's North West.

The 23 km line features two sections of underground cable, 230 new poles and bird protection measures such as covers and bird perches.

Circular Head Council Mayor Daryl Quilliam said the Council was very pleased with the work undertaken by TasNetworks.

"It is thanks to the good work and professionalism of TasNetworks that this has been achieved so quickly."

The project supports the local dairy industry by allowing for the conversion of land from lower-value beef production to higher-value dairy production.

The new line cost \$1.25 million and was commissioned in November 2014.



Delivering your power

What it takes to deliver your power

The network is made up of:

Transmission

3,500

circuit kilometres of transmission lines

8,500

transmission line support structures

11,000

hectares of easements

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

222,000

poles



Total energy delivered

Total energy delivered reduced significantly due to the significant downturn in exports of Tasmanian generation across Basslink to Victoria. The main reasons for this were the carbon tax repeal that affected incentives for renewable generation and low water storage levels in Tasmania during 2014-15.

Whilst overall energy delivered was lower we were able to deliver more energy to our Tasmanian customers compared to the previous year as shown in table 7 below.

Table 7 Tasmania energy delivery by customers

Customer Type	2014-15		2013-14	
	GWh	%	GWh	%
Industrial (transmission connected)	5,928	54	5,791	43
Distribution Network	4,225	38	4,194	31
Auxiliary	60	1	60	1
Total Tasmania	10,213	93	10,045	75
Export	771	7	3,295	25
Total Energy Delivered	10,984	100	13,340	100

Maximum demand on our network

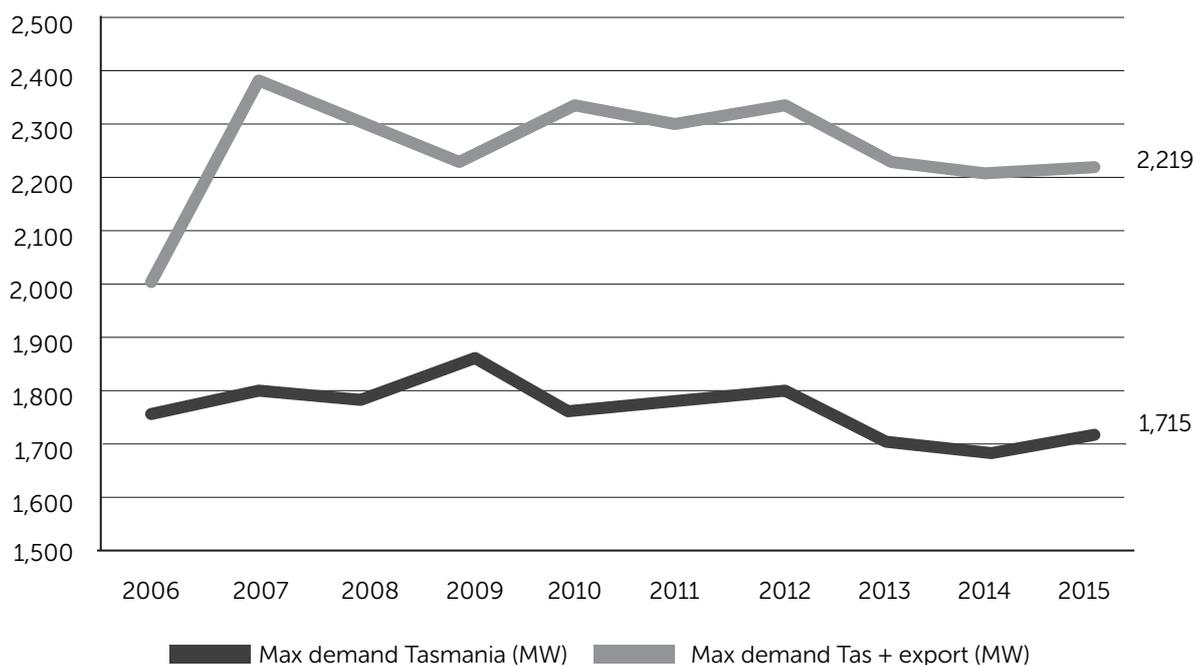
Table 8 below shows Tasmanian peak demand increased slightly during 2014-15 from 2013-14 levels, as did the coincident maximum demand of Tasmanian load and Basslink export. Therefore despite a reduction in overall energy delivered (Tasmania plus Basslink export), our network was actually required to work harder at times of peak demand than during the previous year.

Table 8 Maximum demand for electricity (MW)

Maximum demand (MW)	2014-15	2013-14	Record
Tasmania + export	2,219	2,206	2,395 MW (18 June 2007)
Tasmanian only	1,715	1,685	1,861 MW (21 July 2008)

Figure 9 below illustrates the maximum demand on the transmission system over a ten year period. As illustrated, the 2014-15 levels are still below those seen in the past however the declines in demand of previous years appear to have plateaued.

Figure 9 Transmission system maximum demand, 2005-06 to 2014-15 (MW)



Looking ahead

We will continue to provide safe and reliable services to our customers. We aim to run our network harder, rather than building more, where we safely can.

Key initiatives include:

- Review of the seven worst performance distribution feeders to reduce the impact of outages on affected communities
- Continuous improvement to asset management practices
- Develop a network innovation strategy that provides service benefits and efficiencies to our customers, in a transforming energy landscape.

REVIEW OF OPERATIONS

Shareholder value

Delivering sustainable shareholder outcomes.

Our financial performance

TasNetworks ended the year with an Operating Profit after Tax of \$112.9 million, which was \$4.2 million below target.

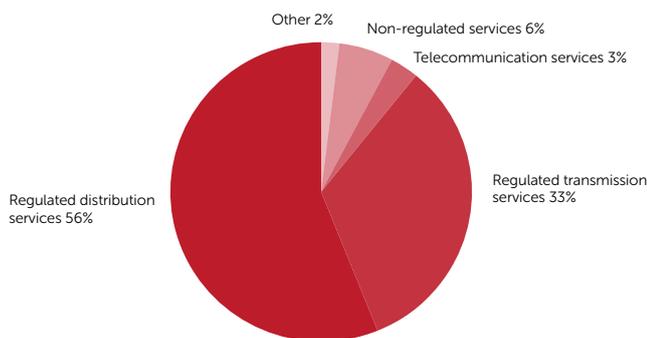
This was a strong performance as the impact of below forecast distribution revenue was reduced by a strong focus on cost control within the business as we reset our operating cost base.

Capital expenditure was \$49.5 million below budget as a result of the removal of some transmission projects consistent with changed customer circumstances, and changed timing of projects.

Where our money came from

Figure 10 below indicates our primary revenue sources for the 2014-15 year.

Figure 10 Sources of revenue 2014-15



Revenue for 2014-15 was \$584 million, which was \$35 million less than budget. This variation was due to a combination of factors, the most significant of which was regulated distribution revenues being \$31 million below budget. This decline was a result of the continued trend of lower than forecast energy consumption, particularly in the residential segment.

Our main expenditure items

During the year we spent \$168 million in operating expenditure to provide services to our customers. After excluding the costs of providing contestable services and the costs of funding the 'grandfathered' solar feed in tariff, our controllable operating expenditure cost base was \$145.4 million. This figure was significantly below our budget for the year and reflects efficiencies created by the formation of our new business. These on-going efficiency programs resulted in recurrent savings of \$25.9 million (excluding non-recurrent storm-related costs) over and above the \$8 million achieved from network integration.

Our income statement includes major line items of \$92 million in financing costs to service our borrowings as well as \$162 million in depreciation charges related to our assets.

Where we invested our funds

During the year we invested over \$139 million in capital expenditure to maintain the reliability of our networks and to support the services we provide to our customers. This was well under our capital expenditure budget for the year as we took time to review our needs and develop better integrated forward plans. We reduced our transmission capital expenditure forecasts in the light of new customer information, including a large customer moving into care and maintenance mode. We provided this lower forecast to the AER, which was approved in our transmission revenue decision.

Funding feed in tariffs (FiT)

We are responsible for funding the difference between the previous 'one-for-one' FiT at the regulated light-and-power tariff or general supply tariff and the new FiT rate as determined by the Tasmanian Economic Regulator (5.551 cents/kWh for 2014-15). The cost of funding the 'grandfathered' FiT scheme for 2014-15 was approximately \$12.9 million, which was \$2.9 million higher than budgeted.

Our returns to our shareholders

During the year we returned \$377 million to our shareholders. This amount included \$61 million in dividends paid on behalf of Transend and Aurora Energy related to the 2013-14 year. We also returned over \$79 million in tax equivalents to settle obligations from the predecessor businesses as well as to fund our obligations for the current year. Guarantee fees paid to the State Government to ensure our competitive neutrality totalled over \$12 million. We also returned equity in the form of a transfer to TasRail of \$20m as well as a debt transfer from Hydro Tasmania of \$205 million.



How much do we own?

At 30 June 2015 we own \$3.2 billion worth of assets on behalf of the people of Tasmania. Primarily this comprises \$3.0 billion in electricity and telecommunications network assets which are measured at their regulatory asset values. These assets were transferred to TasNetworks from the predecessor businesses on 1 July 2014, with further assets constructed during the 2014-15 year. We also own a number of business support assets including facilities, vehicles and information technology equipment and systems.

How much do we owe?

As at 30 June 2015, we managed a debt portfolio of approximately \$1.6 billion dollars to fund our long-term investments and our business operations. Much of this debt was inherited from the predecessor businesses and is structured to manage our risks in line with the funding arrangements under our regulatory framework. This framework establishes a benchmark gearing ratio of 60 per cent. At the end of the year our gearing was slightly higher at 64 per cent.

During the year we were advised by our Shareholding Ministers that the completion of a capital structure review would result in the transfer of a \$205 million debt liability from Hydro Tasmania to TasNetworks. We expect that there will be additional debt transfers during 2016 and 2017 of \$70 million and \$50 million respectively from Hydro Tasmania to TasNetworks, arising from the capital structure review.

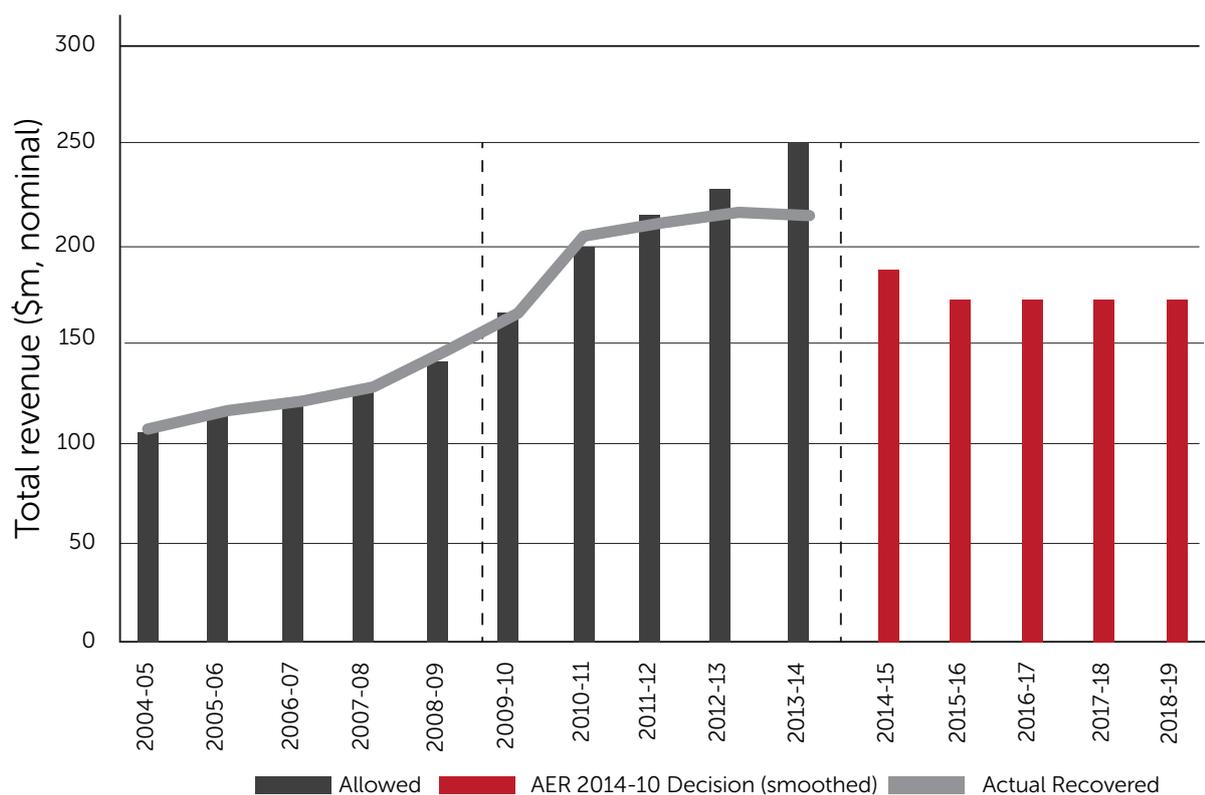


Figure 11 Setting a sustainable path for transmission revenue

Customer focus drives ground-breaking AER decision

On 30 April 2015, the Australian Energy Regulator (AER) published its final transmission determination for TasNetworks. In an unprecedented decision, the AER generally accepted our forecasts for capex, opex and revenue. Our transmission revenue proposal included significant reductions in capital expenditure, operating expenditure and the rate of return, compared to the previous regulatory period.

The decision supported our strategy to deliver the lowest sustainable prices for our customers, while delivering safe and reliable services.

The AER's decision illustrated that our proposed practices and costs were efficient, our service standards and network capability plans made sense, that we had talked to customers and consumers and taken their feedback on board, and that we had set ourselves tougher future targets without the need for the regulator to make the cuts.

In fact, in accepting our proposal, the AER noted "TasNetworks was clearly able to demonstrate that it has listened to its customers and taken steps to lower power prices."

Our result was in sharp contrast to outcomes in a number of other decisions released by the AER. In some cases the AER cut revenues proposed by networks in other states by one third.

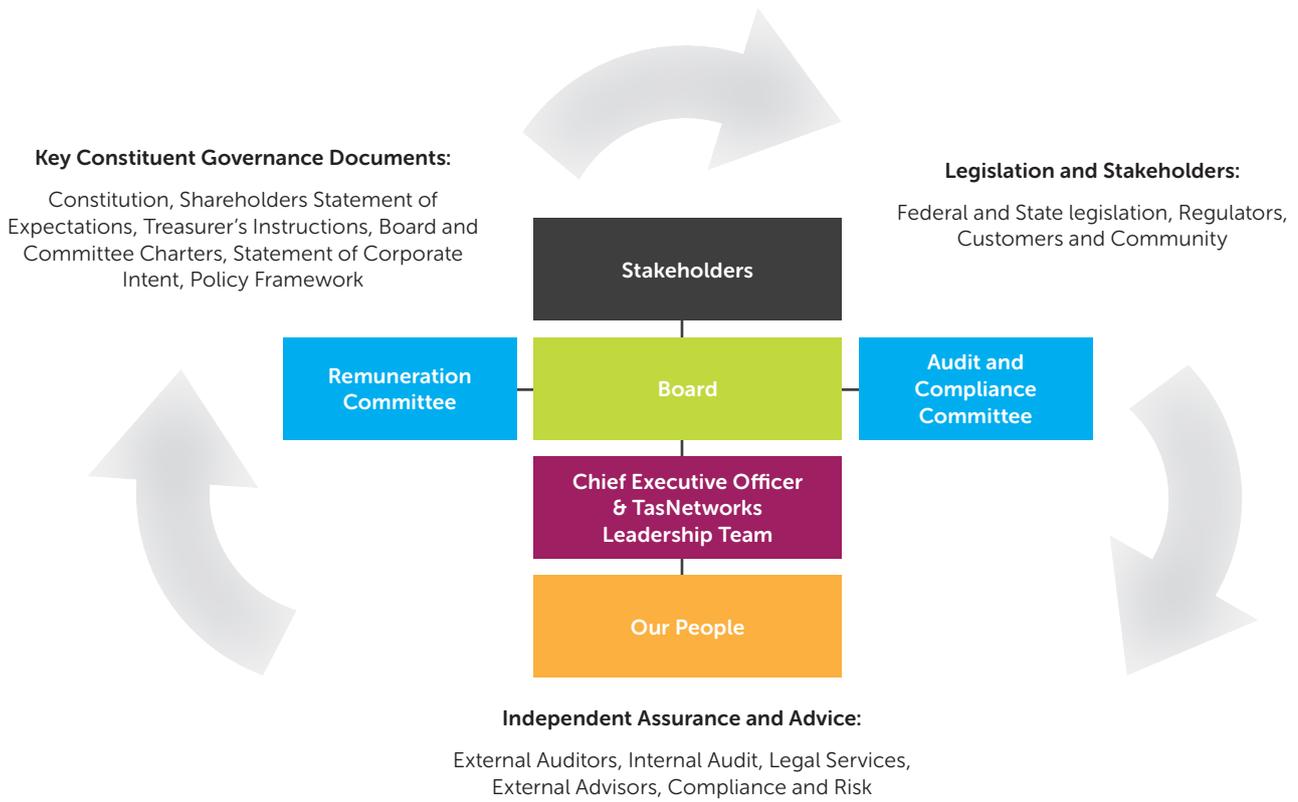
We will continue to strive towards minimising costs and maintaining service levels, enabling us to deliver the lowest sustainable prices for our customers.

Figure 11 above illustrates the transmission revenue path that will be followed over the 5-year period through to 2018-19. The revenue path will result in substantial savings to our transmission customers over the 5-year period.

Note: The actual recovered and allowed figures above include additional amounts allowed to be recovered in these years including service incentives and pass-through amounts. The amounts from 2014-15 do not include any forecasts of these additional items.

CORPORATE GOVERNANCE

Our governance structure



Board of directors



Left to right: Kevin Murray, Jane Sargison, Mervyn Davies, Daniel Norton, Donald Challen and Peter Lowe.

Role and responsibilities of the Board

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

TasNetworks' Board Charter provides the framework for TasNetworks' corporate governance structure and practices. The Charter describes the responsibilities of the TasNetworks 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

The Board currently comprises six non-executive directors, who bring a variety of skills, knowledge and experience to the company.

Dr Daniel Norton AO (Chairman and Director)
BAgric Sci (Hons), MEd, PhD, Hon LLD, FAICD
Appointed 4 February 2014

He is also Chairman of Tasmanian Ports Corporation Pty Ltd (TasPorts), Deputy Chairman, Tasmanian Water & Sewerage Corporation Pty Ltd (TasWater), a Director of WINenergy Pty Ltd and consulting company Trinitas Pty Ltd, and a member of the Board of Infrastructure Australia.

His former positions include: Chairman of the National Electricity Market Management Company (NEMMCO), CEO and Managing Director of Aurora Energy Pty Ltd, CEO and Managing Director of the Hydro Electric Corporation, Secretary, Department of Premier and Cabinet (Tas), Chairman of the Executive Steering Committee Royal Hobart Hospital Re-Development, and, Deputy Secretary, Department of Treasury and Finance (Tas).

Donald Challen AM, BEc(Hons), MEd, FAICD, FCPA, FCA, FIPAA
Appointed 4 February 2014

He is currently chairman of the Tasmanian Public Finance Corporation, chairman of the Motor Accidents Insurance Board, a trustee director of the Retirement Benefits Fund and a director of Tasmanian Symphony Orchestra.

Donald is past Secretary of the Department of Treasury and Finance and was previously chairman of Transend Networks.

Kevin Murray, BEng, Dip Bus Studies, FAICD
Appointed 4 February 2014

He was a director of the Transend Networks Board from December 2010 to June 2014. He is a past director of Essential Energy, an electrical distribution company in New South Wales, and also Energy Industries Superannuation Scheme in NSW. Kevin has 40 years' experience in the electricity supply industry, specifically in the transmission sector. He is a past Chief Executive Officer of Transgrid, the electricity transmission company in NSW.

Mervyn Davies, BEng(Hons), MEng Sc, BCom
Appointed 4 February 2014

He was a director of Aurora Energy's board from November 2010 to June 2014. He held senior management roles with Energy Australia and has been principal and Managing Director of Girna Engineering Management Services since 2003, specialising in the engineering and economics of the electricity distribution industry.

Mervyn is currently a board member of Energex Ltd and NT Power and Water Corporation, and recent board member of Electricity Networks Corporation (Western Power).

Peter Lowe, BCom, MBA, MAICD, FCPA
Appointed 1 July 2014

He was a director of Aurora Energy between February 2006 and June 2014. He was also the chairman of the Board Audit and Risk Committee. His other board memberships include Linking Melbourne Authority, Citywide Service Solutions Pty Ltd, United Energy Distribution Holdings Pty Ltd, and Multinet Group Holdings Pty Ltd.

Dr Jane Sargison, BEng(Hons), DPhil, GAICD, FIEAust, CPEng
Appointed 1 July 2014

Dr Sargison is currently Managing Director of JSA Consulting Engineers. Her recent roles have included Director of the Australian Renewable Energy Agency, TasWater, Southern Water and Australian Institute of Energy, Member of the AusIndustry Clean Technology Innovation Committee, Member of the Tasmanian Rhodes Scholarship Selection Committee and Member of the National Mechanical Board of Engineers Australia.

Jane was a Rhodes Scholar for Tasmania and 2011 National Professional Engineer of the Year. Her former roles have included Deputy Director of the Centre for Renewable Energy and Power Systems and Senior Lecturer in Mechanical Engineering at the University of Tasmania.

Board service

As of 30 June 2015, the directors have held office for the following periods (including as a director of the Network Integration Transition Board, where applicable):

Director	Length of office
Dr Daniel Norton	1 years and 5 months
Donald Challen	1 years and 5 months
Kevin Murray	1 years and 5 months
Mervyn Davies	1 years and 5 months
Peter Lowe	1 year
Dr Jane Sargison	1 year

Directors' meetings

The following tables set out the number of directors' meetings (including committee meetings) held during the financial year and the number of meetings attended by each director.

Director	Board of Directors		Audit and Compliance Committee		Remuneration Committee		Revenue Reset Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Dr Daniel Norton	12	12	-	-	4	4	3	3
Donald Challen	12	12	-	-	4	4	3	3
Kevin Murray	12	12	-	-	4	4	3	3
Mervyn Davies	12	12	5	5	-	-	3	3
Peter Lowe	12	12	5	5	-	-	3	3
Dr Jane Sargison	12	11	5	4	-	-	3	3

Board Committees

The Board has two standing committees: the Remuneration Committee and the Audit and Compliance Committee. Both comprise three non-executive members. In 2014-2015, the Board formed an additional committee, the Revenue Reset Board Committee, to oversee the preparation of TasNetworks' revenue proposals to the Australian Energy Regulator. The committee was comprised of all directors.

Remuneration Committee	Audit and Compliance Committee	Revenue Reset Committee
Kevin Murray (Chair)	Peter Lowe (Chair)	All directors
Dr Daniel Norton	Mervyn Davies	
Donald Challen	Dr Jane Sargison	

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 TasNetworks' corporate reporting, audit and compliance obligations, and oversees the company's internal control activities.

The Audit and Compliance Committee met five times during the 2014-2015 financial year 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 TasNetworks' remuneration, which includes remuneration for the Chief Executive Officer and team members.

The Remuneration Committee met four times during the 2014-2015 financial year and provided the Board with minutes from each meeting.

The Revenue Reset Committee met three times during the 2014-2015 financial year and provided the Board with minutes from each meeting.

Subsidiary companies

TasNetworks has two wholly-owned subsidiary companies:

- **Auroracom Pty Ltd**, which is a non-trading subsidiary that holds a telecommunications carrier licence and has in place a Nominated Carrier Declaration with TasNetworks; and
- **Ezikey Group Pty Ltd**, which is a non-trading subsidiary originally established for the commercialisation of the "Cable PI" device.

The Directors of each company are Lance Balcombe (TasNetworks CEO) and Ross Burridge (TasNetworks General Manager Finance and Business Services). The Company Secretary is Phillippa Bartlett (TasNetworks Company Secretary and General Counsel).

Diversity

Background

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

Policy and procedures

TasNetworks has developed a formal diversity policy and comprehensive procedures. TasNetworks currently addresses diversity through the following mechanisms:

- our Code of Conduct
- a policy on 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.

The new policy and procedures will be launched to all TasNetworks Team Members by September 2015.

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

- setting annual measurable workplace diversity objectives
- supporting the development of TasNetworks Workplace Diversity Strategy
- leading the implementation of the Workplace Diversity Strategy.

Legislative compliance

TasNetworks is committed to complying with all relevant legislative and regulatory obligations. To achieve this commitment, TasNetworks adheres to the Australian/ New Zealand Standard of Compliance Program and has instituted a Compliance Policy and Framework, incorporating:

- active and visible engagement in compliance by the Board, CEO and TasNetworks Leadership Team
- the alignment of compliance policy and business strategy
- appropriate compliance resourcing.

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

Right to Information Act

TasNetworks is subject to the *Right to Information Act 2009 (RTI Act)*. TasNetworks' Right to Information Policy was approved by the Board in June 2014.

During the 2014-2015 financial year, a total of four formal applications for Assessed Disclosure were received. In three of the determinations, the information applied for was provided in full and in the fourth case the information applied for was provided in part. TasNetworks also provided information to another government authority in relation to a Right to Information Application that it had received, in which records relating to TasNetworks were sought and released.

TasNetworks has embraced the objectives of the RTI Act by routinely publishing information that it considers to be of interest to the public, which is significant, appropriate, accurate and not otherwise exempt. TasNetworks' preferred method of disclosure of information is proactive disclosure via its website and Customer Service Centre.

Public Interest Disclosures Act

TasNetworks is subject to the *Public Interest Disclosures Act 2002 (PID Act)*.

TasNetworks' Public Interest Disclosure Policy was approved by the Board in June 2014. TasNetworks is awaiting confirmation from the Ombudsman that its draft procedures, which were submitted to the Ombudsman's office in December 2014, are approved.

During the 2014-2015 financial year TasNetworks received one disclosure purportedly made pursuant to the provisions of the PID Act. However, it determined that the disclosure in question was not a disclosure as defined by the Act. Reasons were provided. As such, no further investigation or action was taken pursuant to the PID Act in relation to the matter.

Personal Information Protection Act

TasNetworks is subject to the *Privacy Act 1988 (Cth)*, the Australian Privacy Principles and the *Personal Information Protection Act 2004 (Tas)*. TasNetworks' Privacy Policy,

which was approved by the Board in June 2014, sets out how it collects, uses, discloses and otherwise manages personal information it holds.

During the 2014-2015 financial year TasNetworks received several general enquires pursuant to the governing legislation. All enquiries have been determined or resolved.

Corporate governance principles

TasNetworks' Board Charter is based on the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, as adjusted to apply to an unlisted, State-owned company in line with the Tasmanian Government Business Corporate Governance Principles.

The company's corporate governance practices relating to each of these principles are summarised below.

Principle 1: Lay solid foundations for management and oversight

The TasNetworks Board is made up of six independent, non-executive directors.

The Board's responsibilities are summarised at page 43 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 Chief Executive Officer, 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 at page 45 of this report.

Principle 2: Structure the board to add value

All TasNetworks 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 pages 43-44 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 TasNetworks. 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 Chairman 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. TasNetworks maintains a Board Skills Matrix, setting out the mix of skills and diversity that 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 Chairman, may take independent professional advice in connection with their duties at the company's expense.

TasNetworks has a process for periodically evaluating the performance of the Board, its committees and individual directors. The Remuneration Committee advises and assists the Board with setting key performance indicators for the CEO and the TasNetworks Leadership team. The TasNetworks performance evaluation process has been reviewed in the 2014-2015 period and the Board is satisfied that it continues to be sound. Evaluations have been conducted for the 2014-2015 financial year in line with this process.

Principle 3: Act ethically and responsibly

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

TasNetworks' Code of Conduct applies to all our people: Board Members, Leaders, Team Members, contractors and subcontractors. The Code is published on our website at <http://www.tasnetworks.com.au/about-us/policies/code-of-conduct>. 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.

TasNetworks also has 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, Compliance Policy, Fraud and Corruption Policy, Public Interest Disclosures ('Whistleblowers') Policy, Workplace Behaviour Policy and Zero Harm (HSEQ) Policy.

A Director who has a material personal interest in a matter relating to the affairs of TasNetworks must disclose that interest to the Board. The Company Secretary maintains a register of interests disclosed. To the extent that there is a conflict of interest pertaining to a matter for resolution, the Board will consider whether a Director should not be present in the meeting for consideration of the matter.

Principle 4: Safeguard 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 TasNetworks' 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 45-45 of this report.

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

TasNetworks' 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 TasNetworks is not a listed company, it is not required to comply with the ASX Listing Rule disclosure requirements. However, as a State-owned business, TasNetworks ensures 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 State.

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

TasNetworks complies with the public disclosure obligations it has under the National Electricity Law, National Electricity Rules, TasNetworks' distribution and transmission licences and other applicable instruments.

Details about disclosures made under the Right to Information 2009 are set on page 45.

Principle 6: Respect the rights of security holders

The Board has procedures for communication with Members to ensure that 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 TasNetworks Risk Management Policy and Risk Framework to ensure that 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 TasNetworks' 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.

TasNetworks' fundamental, underlying risk management principles are consistent with AS/NZS ISO 31000:2009.

TasNetworks' 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 travelling and other expenses properly incurred by them, in accordance with TasNetworks' Directors Travel and Expense Policy.

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

The TasNetworks 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 TasNetworks Leaders Remuneration Policy. More information about the Remuneration Committee is included on page 44-45 of this report.

TasNetworks Leadership Team



Left to right: Phillippa Bartlett, Natasha Brown, Wayne Tucker, Lance Balcombe, Ross Burridge, Justine McDermott, Mike Paine and Bess Clark.

TasNetworks' executive management team comprises a chief executive officer and seven executive managers.

Lance Balcombe BCom, FCPA, FCA
Chief Executive Officer

Phillippa Bartlett BA, LLB
Company Secretary and General Counsel

Wayne Tucker Grad Dip Eng Maint, Assoc Dip Elect Eng, MBA, GAICD
General Manager Strategic Asset Management

Bess Clark BCom, Grad Dip Urb Reg Plan, GAICD
General Manager Strategy and Stakeholder Relations

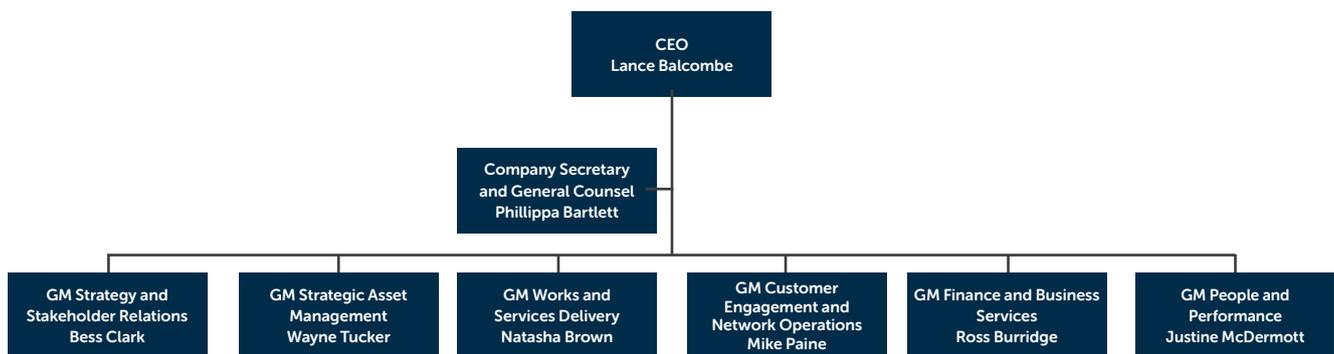
Natasha Brown BCom
General Manager Works and Services Delivery

Mike Paine BEng, Grad Dip Eng, FIE Aust, GAICD
General Manager Customer Engagement and Network Operations

Ross Burridge BCom, FCPA, FAICD, FFTP
General Manager Finance and Business Services

Justine McDermott BA (Hons Psych), MAPS (COP), FAHRI
General Manager People and Performance

Organisational structure



Company Secretary and General Counsel

The Company Secretary and General Counsel is responsible for providing advice and counsel to the Board and management, supporting the review and implementation of business practices and procedures, supporting corporate governance and legislative compliance, and providing general legal services.

Strategy and Stakeholder Relations

Strategy and Stakeholder Relations is responsible for corporate strategy, business performance, strategic risk, economic regulation, pricing strategy and frameworks, market reform activities, external and internal communications, brand strategy, government and shareholder relations, and stakeholder engagement.

Strategic Asset Management

Strategic Asset Management is responsible for asset strategy and planning, network analysis and planning, operational and power system technology, smart networks as well as demand side management and other new technologies.

Works and Service Delivery

Works and Service Delivery is responsible for asset stewardship, including design and estimation, works program management and reporting, project and program works delivery, contract management, field operations, works schedule and dispatch, safety and

environment policy, strategy and implementation, the TasNetworks Training Centre, and quality accreditation processes.

Customer Engagement and Network Operations

Customer Engagement and Networks Operations is responsible for network operations and the Control Centre, network access management, large customer and market relationships, retailer management, the Customer Contact Centre, connection point management and charging, meter data management and publishing, billing enquiries and dispute resolution, and telecommunications asset, network and customer management.

Finance and Business Services

Finance and Business Services is responsible for treasury, corporate modelling, financial reporting, risk management and insurance, procurement, fleet, property and facilities, accounts payable and receivable, audit, corporate IT and information management.

People and Performance

People and Performance is responsible for Human Resources (HR) strategy, change management, HR policies, leadership and development, culture and engagement, industrial relations, recruitment, learning and development, HR advice and support, and payroll and timekeeping.

Tasmanian Government reporting requirements

Purchases from Tasmanian Businesses

Purchases from Tasmanian Businesses	
% of purchases from Tasmanian businesses	77.09%
Value of purchases from Tasmanian businesses	\$180,022,607

Consultancies valued at more than \$50,000 (ex GST)

Name of Consultant	Location	Description	Period of engagement	Amount (\$)
Aecom Australia Pty Ltd	Sydney, NSW	Preparation of mobile generator documentation	01/07/14-2/12/14	50,580
B M Cummings T/A Know2Inform Consulting	Tranmere, TAS	Redevelop Competency Framework for field operations	01/07/14-30/06/15	350,291
Consulting Elements Pty Ltd	Hawthorn, VIC	Consultancy services for the TasNetworks Integrated Business Solution Project (TIBS)	01/07/14-30/06/15	261,218
Customer Service Benchmarking	Melbourne, VIC	Customer Satisfaction Survey	03/02/15-30/06/15	63,000
Deloitte Access Economics Pty Ltd	Melbourne, VIC	Consultancy Services relating to the development of Tariff Strategy and Distribution Determination Project	15/09/14-30/06/15	155,957
Deloitte Touche Tohmatsu	Hobart, TAS	Consultancy Advice on Business Transformation Projects and Customer connection process review	16/09/14-30/06/15	105,563
Deloitte Touche Tohmatsu	Hobart, TAS	Preparation of Risk Appetite Statement	25/08/14-30/06/15	50,073
Harding Katz Pty Ltd	Melbourne, VIC	2017 Distribution Determination	02/03/15-30/06/15	61,360
Kinnect Pty Ltd	Woolloongabba, QLD	Specialist advice on Identifying, Assessing and Controlling Hazardous Manual Tasks	16/02/15-30/06/15	54,594
K & L Gates	Melbourne, VIC	Consultancy services for the TasNetworks Integrated Business Solution Project (TIBS)	01/07/14-30/06/15	128,205
KPMG	Hobart, TAS	Co-Sourced Internal Audit	01/07/14-30/06/15	166,883
Jacks House 9 Pty Ltd (Mindset Matter Group)	Balmain, NSW	Establishment of a culture baseline for the business	01/07/14-30/06/15	63,038
Jacks House 9 Pty Ltd (Mindset Matter Group)	Balmain, NSW	Development of internal culture action planning capability	01/07/14-30/06/15	116,098
Jacks House 9 Pty Ltd (Mindset Matter Group)	Balmain, NSW	Enhance internal leadership capability including program design and delivery	01/07/14-30/06/15	123,022
Jacks House 9 Pty Ltd (Mindset Matter Group)	Balmain, NSW	Development of internal capability in strategy and prioritisation	01/07/14-30/06/15	99,278

Name of Consultant	Location	Description	Period of engagement	Amount (\$)
Partners in Performance International Pty Limited	Sydney, NSW	End to end Process Review (Works & Service Delivery and Strategic Asset Management)	01/07/14-30/06/15	150,000
Partners in Performance International Pty Limited	Sydney, NSW	Metering end to end process review	01/07/14-30/06/15	159,460
Premier Quality Management Consultants Pty Ltd	Ashburton, VIC	Provision of Consultancy Services Required to Integrate systems	01/07/14-30/06/15	88,282
Sandstone Services Pty Ltd	Melbourne, VIC	Consultancy services for the TasNetworks Integrated Business Solution Project (TIBS)	01/07/14-30/06/15	129,053
The Pitt Crew Pty Ltd	Sydney, NSW	Develop IT Sourcing Strategy	28/07/14-03/05/15	146,680
Total				2,522,637
There were 38 consultants engaged for \$50,000 or less totalling				988,577
Total Payments to Consultants				3,511,213

Accounts due or paid within each year

Measure	
Creditor Days (average days to pay)	40.42
Number of accounts due for payment	32,841
Number of accounts paid on time	22,306
Amount due for payment	\$313,498,682
Amount paid on time	\$263,569,868
Number of payments for interest on overdue accounts	3,872
Interest payable on overdue accounts	\$181,339

TasNetworks' payment of accounts performance was impacted by the transition of the previous businesses to TasNetworks on 1 July 2014 and from operating with duplicate procurement and financial systems and processes during the 2014-15 financial year.

Statement of Corporate Intent 2015-16

Performance agreement

Our performance measures and targets represent our present assessment of improved future performance. As we gain more information we will continue to assess our targets. We recognise that it may not always be appropriate to improve performance above target if there is not sufficient benefit to our customers compared to the cost of achieving that target.

Sustainable shareholder outcomes

Our goal is to deliver sustainable shareholder outcomes. We aim to provide an appropriate return on assets and equity, dividends to shareholders and a robust balance sheet while maintaining our corporate reputation.

Performance measure	Target 2015-16	Forecast 2016-17	Forecast 2017-18	Forecast 2018-19
Financial targets				
Operating profit after tax (\$m)	79.6	88.4	65.2	57.2
Return on assets (%)	6.2	6.3	4.9	4.5
Return on equity (%)	8.4	9.5	6.7	5.6
Gearing (%)	66.2	66.3	65.8	64.8
Pre-tax interest cover	3.56	3.46	3.48	3.48
Returns to Government				
Dividends (\$m)	58.8	58.2	72.8	51.7
Guarantee fees (\$m)	11.8	10.9	8.0	7.9
Income tax equivalent payments (\$m)	59.3	54.7	48.2	40.7
Equity withdrawal (\$m)	50.0	-	-	-
Total Returns to Government (\$m)	179.9	123.7	129.1	100.3

Customers

Our goal is to understand our customers and make them central to all we do. We aim to increase customer satisfaction and deliver lowest sustainable prices.

Performance measure	Target 2015–16	Forecast 2016–17	Forecast 2017–18	Forecast 2018–19
Customer net promoter score	> 5% improvement over 2014-15 baseline score	Improvement over 2015-16 score	Improvement over 2016-17 score	Improvement over 2017-18 score
Customer complaints – volume	< 4,000	< 3,900	< 3,800	< 3,700
Connections completed within standard or agreed timeframes	100%	100%	100%	100%
Call answering – combined Fault/Service Centre	In accordance with performance incentive scheme targets set by the AER	In accordance with performance incentive scheme targets set by the AER	In accordance with performance incentive scheme targets set by the AER	In accordance with performance incentive scheme targets set by the AER

People

Our goal is to enable our people to deliver value. We aim to develop our constructive culture and achieve high levels of employee engagement. We have developed a 2014-15 baseline Culture Score and Employee Engagement Score. Our target for these measures for 2015-16 will be to achieve an improvement over the 2014-15 baseline results, and to carry those improvements forward in succeeding years.

One business

Our goal is that we care for our assets, delivering safe and reliable network services while transforming our business and reducing our costs. We aim for zero harm to our people, customers and the public. We aim to sustain present network service performance. Just to keep costs at current levels in nominal terms requires us to find efficiencies. We also need to invest in improving our business.

Zero Harm

Performance measure	Target 2015–16	Forecast 2016–17	Forecast 2017–18	Forecast 2018–19
Number of LifeSafe observations	≥ 1,500	≥ 1,550	≥ 1,600	≥ 1,650
LifeSafe participation (%)	≥ 20	≥ 21	≥ 22	≥ 23
Number of significant incidents <ul style="list-style-type: none"> • Our people • Contractors • Customers and the public • Environmental 	≤ 9	≤ 8	≤ 8	≤ 7
Number of reportable incidents	≤ 14	≤ 12	≤ 12	≤ 10
Leadership zero harm interaction (%)	100	100	100	100
Lost time injury frequency rate (12 month rolling)	0	0	0	0

Network service

We aim to sustain present network service performance. We care for our assets to ensure safety is not compromised and take a whole of life approach to optimise cost and service outcomes for our customers.

Performance measure	Target 2015–16	Forecast 2016–17	Forecast 2017–18	Forecast 2018–19
Outcomes under Service Target Performance Incentive Schemes (STPIS) determined by the AER	No net penalties as measured by STPIS			
Transmission loss of supply event > 1.0 system minutes (measured for calendar years)	≤ 3	≤ 3	≤ 3	≤ 3
Transmission loss of supply event > 0.1 system minutes (measured for calendar years)	≤ 10	≤ 10	≤ 10	≤ 10
Distribution system average interruption duration index (SAIDI)*	≤ 231 minutes	≤ 231 minutes	≤ 231 minutes	≤ 231 minutes
Distribution system average interruption frequency index (SAIFI)*	≤ 1.90 events	≤ 1.90 events	≤ 1.90 events	≤ 1.90 events

* These targets are supported by detailed category reporting to the Australian Energy Regulator and exclude major event days.

Sustained cost reduction

Performance measure	Target 2015–16	Forecast 2016–17	Forecast 2017–18	Forecast 2018–19
Operating expenditure (\$m)*	\$138.9	\$140.1	\$137.1	\$133.1
Capital expenditure (\$m)	\$175.4	\$177.3	\$181.3	\$168.9

* Controllable operating expenditure (excluding grandfathered feed in tariff and contestable services provision)

Directors' Report

The directors present their report together with the financial report of Tasmanian Networks Pty Ltd (TasNetworks) for the financial year ended 30 June 2015.

Directors

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

- Dr Daniel Norton AO (Chairman and Director)
- Donald Challen AM
- Kevin Murray
- Mervyn Davies
- Peter Lowe (appointed 1 July 2014)
- Dr Jane Sargison (appointed 1 July 2014)

Principal activities

The principal activity of TasNetworks is to build, own and operate the transmission, distribution and communication networks of the Tasmanian electricity system.

Review of operations

TasNetworks recorded an after-tax profit of \$112.9 million for the year ended 30 June 2015 and the company invested almost \$139 million in a number of capital projects.

A more detailed review of the company's operations during the year is contained in the Annual Report and financial statements.

Shareholders' directions, capital reductions and distributions

Under TasNetworks' constitution, the directors must comply with any lawful directions given in writing by the shareholder ministers.

During the year, the Shareholder Ministers directed the company to comply with the matters contained in the *Guidelines for Tasmanian Government Businesses*, *Payment of Accounts* and the *Guidelines for Tasmanian Government Businesses, Buy Local*, pursuant to Member Directions dated 16 October 2014.

During 2014-2015 the company made two Shareholder mandated capital reductions of \$10 million each pursuant to Transfer Notices made by the Treasurer under section 10A of the *Government Business Enterprises Act 1995*. This responded to a Shareholder direction provided to Transend Networks Pty Ltd in June 2011 and resulted in a total transfer of \$20 million from TasNetworks to Tasmanian Railway Pty Ltd in 2014-15. There was an equity transfer of \$30 million to Forestry Corporation (**Forestry Tasmania**) made on 1 July 2015 pursuant to a Transfer Notice also made under section 10A of the *Government Business Enterprises Act 1995*.

Additionally, \$205 million of debt liabilities were transferred to TasNetworks from Hydro-Electric Corporation pursuant to a Transfer Notice made by the Treasurer under section 19 of the *Electricity Reform Act 2012*. It is expected there will be further transfers of debt totalling \$70m in 2015-16 and \$50m in 2016-17.

Changes in state of affairs

On 1 July 2014, TasNetworks assumed responsibility for electricity transmission, distribution and related telecommunications services within Tasmania pursuant to Transfer Notices issued by the Treasurer and published in the Tasmanian Government Gazette on 25 June 2014 in accordance with section 19(1) of the *Electricity Reform Act 2012*. The specific assets, liabilities and rights transferred to TasNetworks on this date are outlined in Note 34 to the financial statements and elsewhere in the Annual Report.

Environmental regulation

TasNetworks' operations are subject to many environmental regulatory requirements including the *Environmental Management and Pollution Control Act 1994*. No environmental protection notices were served nor prosecutions launched against TasNetworks under environmental legislation during the year. However, there were fourteen reportable environmental incidents during the year. Three oil spills were reported to the Environmental Protection Authority Tasmania, and eleven incidents of threatened animals being killed by TasNetworks operations (seven Tasmanian wedge-tailed eagles, two grey goshawks, one white-bellied sea eagle, and one eastern barred bandicoot) were reported to the Department of Primary Industries, Parks, Water, and Environment.

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

Dividends

All dividends paid during 2014-15 were in respect of the activities of the predecessor businesses, Transend Networks Pty Ltd and Aurora Energy Pty Ltd.

The obligation to pay the dividends in respect of the 2013-14 year of Transend Networks Pty Ltd and Aurora Energy Pty Ltd transferred to TasNetworks pursuant to the Transfer Notices published in the Tasmanian Government Gazette on 25 June 2014 in accordance with section 19(1) of the *Electricity Reform Act 2012*.

In respect of these dividends, as detailed in the respective businesses directors' reports for that year, TasNetworks paid to its shareholders a dividend of \$61.0 million during 2014-15.

In respect of the 2014-15 financial year TasNetworks' intention is to pay a dividend based upon 60 per cent of Adjusted Net Profit after Tax. In accordance with our shareholders' revised dividend guideline this is expected to increase to 90 per cent from 2017-18, subject to funding capacity.

Indemnities and insurance

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

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

The company has not otherwise, during or since the end of the financial year, indemnified or agreed to indemnify an officer or auditor of the 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 the 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 98/0100.

Auditor's independence declaration

The auditor's independence declaration is included in the Annual Report.

Signed in accordance with a resolution of the directors

D T Norton AO
Chairman

12 August 2015

The Board of Directors
Tasmanian Networks Pty Ltd
P O 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 Tasmania Networks Pty Ltd for the financial year ended 30 June 2015, 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; and
- (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



H M Blake
Auditor-General

...1 of 1

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Independent Auditor's Report

To the Members of Tasmanian Networks Pty Ltd

Consolidated Financial Report for the Year Ended 30 June 2015

Report on the Consolidated Financial Report

I have audited the accompanying consolidated financial report (the financial report) of Tasmanian Networks Pty Ltd (the Company), which comprises the statement of financial position as at 30 June 2015 and the statements of profit or loss, comprehensive income, changes in equity and cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the Directors' declaration on the financial report on the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Auditor's Opinion

In my opinion:

- (a) the Company's financial report is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of its own and the consolidated entity's financial position as at 30 June 2015 and their financial performance for the year ended on that date
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(a).

The Responsibility 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*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1(a), the Directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report complies with International Financial Reporting Standards.

...1 of 2

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Auditor's Responsibility

My responsibility is to express an opinion on the financial report based upon my audit. My audit was conducted in accordance with Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance as to whether the financial report is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on my judgement, including the assessment of risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, I considered internal control relevant to the Directors' preparation and fair presentation of the financial report in order to design audit procedures that are appropriate to the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting my audit, I have complied with the independence requirements of the *Corporations Act 2001*. The *Audit Act 2008* further promotes independence by:

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

I confirm that the independence declaration required by the *Corporations Act 2001*, provided to the Directors dated 12 August 2015 and included in the Directors' Report, would be unchanged if provided to the Directors as at the date of this auditor's report.

Tasmanian Audit Office



H M Blake
Auditor-General

Hobart
14 August 2015

...2 of 2

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FINANCIAL STATEMENTS

Statement of Profit or Loss

For the financial year ended 30 June 2015

	<i>Note</i>	Consolidated 2015 \$'000	Parent 2014 \$'000
Revenue	3(a)	583,613	966
Operating expenses	3(b)	(168,750)	(966)
Depreciation and amortisation expenses	3(c)	(161,518)	-
Finance costs	4	(91,949)	-
Total expenses		(422,217)	(966)
Profit before income tax equivalent		161,396	-
Income tax equivalent expense on profit	5(a)	(48,465)	-
Net profit for the year		112,931	-

The 2014 figures relate to the parent entity and cover the 5 month period from 1 February 2014 to 30 June 2014. They consist of management and establishment costs not operational results.

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

Statement of Comprehensive Income

For the financial year ended 30 June 2015

	<i>Note</i>	Consolidated 2015 \$'000	Parent 2014 \$'000
Net profit for the year		112,931	-
Items that will not be reclassified subsequently through profit or loss:			
Fair value movements	18	56,117	-
Superannuation actuarial gains/(losses)	20	23,091	-
Income tax equivalent expense on items that will not be reclassified subsequently through profit and loss	5(b)	(23,762)	-
		55,446	-
Items that may be reclassified subsequently through profit or loss:			
Hedge reserve			
– Gain taken to equity	18	2,109	-
– Transferred to profit for the year	18	(2,727)	-
Income tax equivalent expense on items that may be reclassified subsequently through profit and loss	5(b)	185	-
		(433)	-
Total comprehensive income for the year		167,944	-

The 2014 figures relate to the parent entity and cover the 5 month period from 1 February 2014 to 30 June 2014. They consist of management and establishment costs not operational results.

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

Statement of Financial Position

As at 30 June 2015

	Note	Consolidated 2015 \$'000	Parent 2014 \$'000
Current assets			
Cash and cash equivalents	31(a)	768	-
Trade and other receivables	6	105,500	1,083
Inventories	7	17,029	-
Current tax asset	5(c)	11,951	-
Other current assets	8	4,505	-
Total current assets		139,753	1,083
Non-current assets			
Other non-current assets	8	1,449	-
Intangible assets	9	38,624	-
Property, plant and equipment	10	2,994,905	-
Total non-current assets		3,034,978	-
Total assets		3,174,731	1,083
Current liabilities			
Trade and other payables	11	52,406	70
Borrowings	12	189,427	-
Employee benefits	13	22,113	697
Provisions	14	7,309	-
Other current liabilities	15	10,736	235
Total current liabilities		281,991	1,002
Non-current liabilities			
Borrowings	12	1,454,291	-
Net deferred tax equivalent liabilities	5(d)	237,302	-
Employee benefits	13	147,785	81
Provisions	14	3,085	-
Other non-current liabilities	15	34,227	-
Total non-current liabilities		1,876,690	81
Total liabilities		2,158,681	1,083
Net assets		1,016,050	-
Equity			
Retained earnings	16	129,095	-
Contributed equity	17	242,555	-
Reserves	18	644,400	-
Total equity		1,016,050	-

The 2014 figures relate to the parent entity only as at 30 June 2014.

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

Statement of Changes in Equity

For the financial year ended 30 June 2015

	Note	Consolidated				
		Contributed Equity \$'000	Asset Revaluation Reserve \$'000	Hedge Reserve \$'000	Retained Earnings \$'000	Total \$'000
At 1 July 2014		-	-	-	-	-
Profit for the year		-	-	-	112,931	112,931
Other comprehensive income:						
Gain/(loss) on revaluation of property, plant and equipment	18	-	56,117	-	-	56,117
Superannuation actuarial gains/(losses)	20	-	-	-	23,091	23,091
Hedges	21	-	-	(618)	-	(618)
Income tax relating to components of other comprehensive income	5(b)	-	(16,835)	185	(6,927)	(23,577)
Total comprehensive income for the year		-	39,282	(433)	129,095	167,944
Transactions with owners in their capacity as owners:						
Capital contributed by owners	32	467,555	611,956	(6,405)	-	1,073,106
Return of capital	17	(20,000)	-	-	-	(20,000)
Distribution to owners	17	(205,000)	-	-	-	(205,000)
Dividends paid	16	-	-	-	-	-
As at 30 June 2015		242,555	651,238	(6,838)	129,095	1,016,050

No table is presented for the 2013-14 year as the company had no transactions that impacted on equity.

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

Statement of Cash Flows

For the financial year ended 30 June 2015

	Note	Consolidated 2015 \$'000	Parent 2014 \$'000
Cash flows from operating activities:			
Receipts from customers		569,169	-
Interest received		16	-
Payment to suppliers and employees		(206,909)	-
Interest paid		(60,439)	-
Guarantee fee paid		(11,954)	-
Income tax equivalents paid*		(79,089)	-
Net cash provided by operating activities	31(b)	210,794	-
Cash flows from investing activities:			
Proceeds from sale of property, plant and equipment		1,469	-
Payment for property, plant and equipment		(139,764)	-
Payment for software assets		(3,157)	-
Net cash used in investing activities		(141,452)	-
Cash flows from financing activities:			
Cash transferred in	32	665	-
Proceeds from borrowings		1,386,453	-
Repayment of borrowings		(1,169,692)	-
Return of shareholder capital	17	(225,000)	-
Dividends paid	14	(61,000)	-
Net cash provided by financing activities		(68,574)	-
Net increase/(decrease) in cash and cash equivalents		768	-
Cash and cash equivalents at the beginning of the financial year		-	-
Cash and cash equivalents at the end of the financial year	31(a)	768	-

* Income tax equivalents paid include \$15m paid by TasNetworks for the 30 June 2014 taxation liability of Aurora Energy Pty Ltd.

The financing of all transactions for TasNetworks for the period ended 30 June 2014 was paid from the bank accounts of Transend Networks Pty Ltd.

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

Notes to the financial statements

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Notes to the financial statements (continued)

For the financial year ended 30 June 2015

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.

The *Electricity Reform Act 2012 (Tas)*, which was enacted in December 2012, facilitated the implementation of reforms to the electricity supply industry in Tasmania. With effect from 1 July 2014, this Act enabled the transfer of the electricity network businesses owned by Aurora Energy Pty Ltd and Transend Networks Pty Ltd to TasNetworks.

In 2013-14 costs were incurred in relation to the creation and establishment of TasNetworks, these costs were recovered from Aurora Energy Pty Ltd and Transend Networks Pty Ltd and form the basis of comparative financial information for the 2013-14 financial period.

Transfer of the assets, rights, liabilities, reserves and obligations to TasNetworks was for no consideration and as a result there is no gain or loss recorded in the Statement of Comprehensive Income, the gain is reflected as contributed equity.

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, and the requirements of the *Corporations Act 2001*. 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.

The financial statements were authorised for issue by the directors on 12 August 2015.

The financial statements have been prepared on the basis of historical cost except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets.

In the application of TasNetworks' accounting policies, as described below, 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.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in note 2.

The accounting policies as set out in note 35 have been applied in preparing the financial statements for the financial year ended 30 June 2015 and the comparative information presented in these financial statements for the period ended 30 June 2014. The changes made to these accounting policies for the financial year ended 30 June 2015 are detailed in note 34. The 2014 financial statements were for a 5 month period from 1 February 2014 to 30 June 2014 during which there were limited administrative and management transactions for the parent company only.

All values expressed in the financial statements and notes are expressed in Australian dollars, to the nearest thousand dollars unless otherwise stated.

Notes to the financial statements (continued)

For the financial year ended 30 June 2015

2. Critical accounting judgements, estimates and assumptions

In preparation of the financial statements, management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect the financial results or the financial position reported in future periods.

Fair value of asset and liability balances transferred

TasNetworks has elected to apply the 'Acquisition (fair value) accounting' approach as outlined in AASB 3 *Business Combinations* to determine its opening balances. In applying this approach, various assumptions and judgements were made with respect to the fair value of all assets, liabilities, reserves, rights and obligations transferred to the company on 1 July 2014.

A summary of the opening fair values recognised by TasNetworks, including adjustments processed, is provided in note 32.

Unbilled revenue

Unbilled use of system is an estimate of the value of use of system 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.

Defined benefits plan

Various actuarial assumptions are required when determining TasNetworks' post-employment obligations. These assumptions and the relative carrying amounts are disclosed in note 20.

Employee entitlements

Management judgement is applied in determining the following key assumptions used in the calculation of long service leave at reporting date;

- 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.

Fair value of assets and liabilities

A number of TasNetworks' accounting policies require the measurement at fair value, both for financial assets and financial liabilities.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. TasNetworks uses its judgement when measuring fair value and uses observable market data as far as possible. See note 21 for details on the fair value of financial instruments.

TasNetworks applies escalation factors to reflect movements in fair values of property, plant and equipment each year. Further details on these escalation factors are disclosed in note 35(l).

In estimating the fair value of an asset market observable data is used to the extent it is available. Where observable inputs are not available TasNetworks engages third party qualified valuers to perform the valuation. Information about the valuation techniques and inputs in determining the fair value of property plant and equipment is disclosed in note 10.

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation technique as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Notes to the financial statements (continued)

For the financial year ended 30 June 2015

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.

Any transfers between hierarchy levels is recognised at the end of the period during which the change occurred.

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.

Impairment

TasNetworks assesses impairment of all assets at each reporting date. If impairment occurs, an estimate of the recoverable amount for each of the cash generating units is made. Further details on the value in use calculations and adjustments for impairment are disclosed in note 35(o).

2a. Change in estimate

During the year TasNetworks changed the discount rate used in its calculation of long-term employee benefits. A study commissioned by the Group of 100 and conducted by Milliman Australia in 2015 has concluded that a deep market in high quality corporate bonds now exists in Australia. As a result, TasNetworks used market yields on high quality corporate bonds to discount its defined benefit plan obligations and long service provision for the first time in the current year. Previously, it used market yields on government bonds.

The impact of this change in estimate resulted in a decrease in the defined benefit superannuation liability of \$66.7m and is included in the assumptions as detailed in note 20. These actuarial gains are recognised directly in equity via the Statement of Comprehensive Income. The defined benefit cost was unaffected in the current period as the change in discount rate occurred after the start of the annual reporting period. However, TasNetworks estimates the impact of this change on the defined benefit costs in the next reporting period will be a reduction of \$157,000.

TasNetworks also decreased the carrying amounts of annual leave and long-service leave by \$9,775 and \$433,345 respectively, in the current year upon application of this change in estimate. This change is reflected in the Statement of Profit or Loss.

Due to the inherent uncertainty in measuring net defined benefit obligation, TasNetworks is unable to predict the impact of the change in the discount rate in periods beyond the next reporting period.

Notes to the financial statements (continued)

For the financial year ended 30 June 2015

3. Net profit for the year

(a) Revenue

See accounting policy in note 35(c)

Revenue consists of the following items:

Provision of regulated distribution services

Provision of regulated transmission services

Provision of non-regulated telecommunication services

Provision of other non-regulated services

Rent and lease income

Interest received

Other revenue

Note	Consolidated 2015 \$'000	Parent 2014 \$'000
	328,200	-
	192,780	-
	17,599	-
	36,982	-
	1,734	-
	16	-
	6,302	966
	583,613	966

(b) Operating expenses

Employee benefits expenses

Services

Rent and lease expenses

Feed-in-tariff* expenses

Guaranteed Service Level and Charter payments

Licence fees

(Gain)/loss on disposal of property, plant and equipment

Other expenses

3(d)	103,427	966
	40,478	-
	1,886	-
	12,865	-
	3,516	-
	4,729	-
	(152)	-
	2,001	-
	168,750	966

* Feed-in-tariff represents the reimbursements paid to retailers under section 44I of the Electricity Supply Industry Act 1995 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.

(c) Depreciation and amortisation expenses

Depreciation of property, plant and equipment

Amortisation of intangible assets

10	148,955	-
9	12,563	-
	161,518	-

Notes to the financial statements (continued)
For the financial year ended 30 June 2015

3. Net profit for the year (continued)

(d) **Employee benefits expenses***

See accounting policy in note 35(d)

Post employment benefits:

Defined benefit plan

Defined contribution plan

Termination benefits

Other employee benefits

Total employee benefit expenses

Interest on defined benefit plan

Employee benefits expenses in profit or loss

Note	Consolidated 2015 \$'000	Parent 2014 \$'000
20	10,732	-
	8,454	70
	19,186	70
	2,501	-
	88,591	896
	110,278	966
4	(6,851)	-
3(b)	103,427	966

* These employee benefits are split between the statement of profit or loss line items, direct expenses and finance costs.

4. Finance costs

Finance costs incurred during the financial year

Government guarantee fee

Interest costs on defined benefit plan

Total financing costs

	73,144	-
	11,954	-
20	6,851	-
	91,949	-

Notes to the financial statements (continued)
For the financial year ended 30 June 2015

5. Income tax equivalents (continued)

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

	Transfer In 1 July 2014 \$'000	Recognised in income \$'000	Recognised in equity \$'000	Balance 30 June 2015 \$'000
Gross deferred tax equivalent liabilities:				
Property, plant and equipment	(289,831)	11,615	(16,835)	(295,051)
Receivables	(433)	433	-	-
	(290,264)	12,048	(16,835)	(295,051)
Gross deferred tax equivalent assets:				
Employee benefits	58,787	(1,314)	(6,927)	50,546
Provisions	4,368	(676)	-	3,692
Derivatives	2,649	29	185	2,863
Other items	905	(257)	-	648
	66,709	(2,218)	(6,742)	57,749
Net deferred tax equivalent liabilities	(223,555)	9,830	(23,577)	(237,302)

Notes to the financial statements (continued)

For the financial year ended 30 June 2015

6. Trade and other receivables

See accounting policy in note 35(i)

Current:

Trade receivables

Accrued income

Unbilled use of system (UoS)

Allowance for impairment

	Consolidated 2015 \$'000	Parent 2014 \$'000
Trade receivables	12,863	1,083
Accrued income	46,390	-
Unbilled use of system (UoS)	46,481	-
Allowance for impairment	(234)	-
	105,500	1,083

Movement in the allowance for impairment of debts:

Balance at transfer date

Impairment gain/(loss) recognised on receivables

Amounts written off as uncollectable

Balance at the end of the year

	(426)	-
	7	-
	185	-
	(234)	-

Ageing of trade receivables that were past due but not impaired:

Less than 30 days overdue

Between 31 and 60 days overdue

Between 61 and 90 days overdue

Greater than 90 days overdue

	2,325	-
	296	-
	789	-
	787	-
	4,197	-

Information about TasNetworks exposure to credit and market risks for trade and other receivables is included in note 21.

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 extensive analysis of customer credit risk.

Notes to the financial statements (continued)

For the financial year ended 30 June 2015

7. Inventories

See accounting policy in note 35(j)

Current:

Inventory
Allowance for impairment on inventory

	Consolidated 2015 \$'000	Parent 2014 \$'000
Inventory	17,294	-
Allowance for impairment on inventory	(265)	-
	17,029	-

During the financial year ended 30 June 2015, \$361,026 was recognised as inventory expense in the Statement of Profit or Loss.

Movement in the allowance for impairment of inventory:

Balance at transfer date
Impairment loss provided for
Inventory written off during the year
Balance at the end of the year

Balance at transfer date	(152)	-
Impairment loss provided for	(269)	-
Inventory written off during the year	156	-
Balance at the end of the year	(265)	-

8. Other assets

Current:

Prepayments
Other

Prepayments	4,500	-
Other	5	-
	4,505	-

Non-Current:

Prepayments

Prepayments	1,449	-
	1,449	-
	5,954	-

Notes to the financial statements (continued)
For the financial year ended 30 June 2015

9. Intangible assets

See accounting policy in note 35(m)

Computer software – at cost

Gross carrying amount

Transferred at fair value

Additions

Balance at 30 June

Amortisation and impairment losses

Transferred

Amortisation expense

Balance at 30 June

Carrying amount

Balance at 30 June

<i>Note</i>	Consolidated 2015 \$'000	Parent 2014 \$'000
	155,899	-
	3,157	-
	159,056	-
	(107,869)	-
3(c)	(12,563)	-
	(120,432)	-
	38,624	-

Amortisation expense is included in the line item of 'depreciation and amortisation expenses' in the Statement of Profit or Loss.

Notes to the financial statements (continued)

For the financial year ended 30 June 2015

10. Property, plant and equipment

See accounting policy in note 35(l)

Network Assets – Transmission

Network Assets – at fair value
Accumulated depreciation
Carrying Amount

Network Assets – Distribution

Network Assets – at fair value
Accumulated depreciation
Carrying Amount

Communications Assets

Communications assets – at fair value
Accumulated depreciation
Carrying Amount

Easements

Easements – at fair value

Land & Buildings

Land & Buildings – at fair value
Accumulated depreciation
Carrying Amount

Other plant and equipment

Other plant and equipment – at cost
Accumulated depreciation
Carrying Amount

Capital works in progress – at cost

	Consolidated 2015 \$'000	Parent 2014 \$'000
Network Assets – at fair value	1,871,377	-
Accumulated depreciation	(568,411)	-
Carrying Amount	1,302,966	-
Network Assets – at fair value	2,965,703	-
Accumulated depreciation	(1,576,194)	-
Carrying Amount	1,389,509	-
Communications assets – at fair value	44,273	-
Accumulated depreciation	(19,074)	-
Carrying Amount	25,199	-
Easements – at fair value	75,321	-
Land & Buildings – at fair value	100,781	-
Accumulated depreciation	(9,648)	-
Carrying Amount	91,133	-
Other plant and equipment – at cost	173,486	-
Accumulated depreciation	(109,372)	-
Carrying Amount	64,114	-
Capital works in progress – at cost	46,663	-
	2,994,905	-

Notes to the financial statements (continued)
For the financial year ended 30 June 2015

10. Property, plant and equipment (continued)

Reconciliation of carrying amount

Gross Value

	2015							
	Network Assets – Transmission	Network Assets – Distribution	Communications	Easements	Land & Buildings	Other plant & equipment	Capital works in progress	Total
	at fair value	at fair value	at fair value	at fair value	at fair value	at cost	at cost	Total
Note	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Carrying amount at beginning of financial year	-	-	-	-	-	-	-	-
Transferred at fair value	32 1,818,342	2,839,464	41,562	74,151	96,935	169,172	40,878	5,080,504
Additions during the year	-	-	-	-	-	-	139,279	139,279
Disposals	(1,193)	-	-	-	-	(4,709)	-	(5,902)
Transfers to non-current assets	25,632	94,496	2,099	4	2,240	9,023	(133,494)	-
Net revaluation increments/ (decrements)	28,596	31,743	612	1,166	1,606	-	-	63,723
Carrying amount at end of financial year	1,871,377	2,965,703	44,273	75,321	100,781	173,486	46,663	5,277,604

Reconciliation of carrying amount

Accumulated depreciation and impairment losses

	2015							
	Network Assets – Transmission	Network Assets – Distribution	Communications	Easements	Land & Buildings	Other plant & equipment	Capital works in progress	Total
	at fair value	at fair value	at fair value	at fair value	at fair value	at cost	at cost	Total
Note	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening balance	-	-	-	-	-	-	-	-
Transferred	32 (515,314)	(1,498,306)	(15,605)	-	(7,506)	(94,040)	-	(2,130,771)
Disposals	331	-	-	-	-	4,302	-	4,633
Net revaluation increments/ (decrements)	(7,437)	-	(169)	-	-	-	-	(7,606)
Depreciation charge for the year	3(c) (45,991)	(77,888)	(3,300)	-	(2,142)	(19,634)	-	(148,955)
Carrying amount at end of financial year	(568,411)	(1,576,194)	(19,074)	-	(9,648)	(109,372)	-	(2,282,699)
Carrying amount at 30 June 2015	1,302,966	1,389,509	25,199	75,321	91,133	64,114	46,663	2,994,905

Carrying amount of assets had they been recognised at cost

At 30 June 2015	1,282,554	1,359,609	24,812	74,155	89,565	64,114	46,663	2,941,472
Balance transferred on 1 July 2014*	32 1,303,028	1,341,158	25,957	74,151	89,429	75,132	40,878	2,949,733

*Cost is reflective of final adjusted fair value of take-on assets at transfer date.

Notes to the financial statements (continued)
For the financial year ended 30 June 2015

10. Property, plant and equipment (continued)

Assets measured at fair value

Asset	Fair Value as at 30 June 2015 \$'000	Fair Value Hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Network Assets Transmission & Distribution	2,692,475	Level 3	The Network assets are revalued to their value in use, based on the regulated revenue that the assets are allowed to earn under the National Electricity Rules.	The Australian Energy Regulator (AER) has made a determination of asset values and the applicable weighted average cost of capital (WACC) (8.27% Distribution and 6.48% Transmission) post tax nominal to be used for determining the revenue allowed to be earned in the future from network assets. The recoverable amount of TasNetworks' network assets has been taken as the value placed on the assets by the AER and equates with fair value.	The Regulated Asset Base (RAB) methodology requires network assets to be increased by CPI. CPI ranges from 1.3% to 2.9%. The higher the CPI rate the higher the fair value. Revaluation can also occur if the AER resets the asset base.	An increase (decrease) in CPI increases (decreases) the fair value of assets.
Communications	25,199	Level 3	The Communications assets (including bearer, multiplexers and site infrastructure assets) are measured at fair value as determined by independent valuers Brothers Newton with an effective date of 28 April 2009. The value is inflated to 30 June 2015 values by applying escalation factors as required by the RAB methodology.	Depreciated replacement cost is established by reference to the cost of modern equivalent assets and adjusting these to reflect current capacity, age, design and estimated remaining useful life.	The RAB methodology requires communications equipment to be increased by CPI. CPI ranges from 1.3% to 2.9%. The higher the CPI rate the higher the fair value. Revaluation can also occur if the AER resets the asset base.	An increase (decrease) in CPI increases (decreases) the fair value of assets.

Notes to the financial statements (continued)
For the financial year ended 30 June 2015

10. Property, plant and equipment (continued)

Asset	Fair Value as at 30 June 2015 \$'000	Fair Value Hierarchy	Valuation Technique(s) and key input(s)	Significant unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Easements	75,321	Level 3	The fair value of Easements is based upon replacement cost determined by an independent valuer in 2003, less any subsequent accumulated depreciation and impairment losses (where applicable). The value is inflated to 30 June 2015 values by applying escalation factors as required by the RAB methodology.	Replacement cost is established by reference to the cost of modern equivalent assets and adjusting these to reflect current capacity.	The RAB methodology requires easements to be increased by CPI. CPI ranges from 1.3% to 2.9%. The higher the CPI rate the higher the fair value. Revaluation can also occur if the AER resets the asset base.	An increase in CPI increases the fair value of assets.
Buildings – Office buildings	68,358	Level 3	The fair value of Buildings assets are determined periodically by independent valuation. Where no formal valuation has taken place fair value is considered to be the value as determined by the Valuer General. The most recent valuations undertaken by the Valuer General occurred during the 2010-11 to 2014-15 financial years.	Value is based on a notional lease for 20 years at a current market rent adjusted annually for CPI.	The value is calculated with reference to expected market rental growth and occupancy rates.	The estimated fair value would increase (decrease) if the expected market rental growth were higher (lower) and occupancy rates were higher (lower)
Buildings – Other			The fair value of land was determined by independent valuation by Opteon with an effective date of 1 July 2011. Where no formal valuation has taken place fair value is considered to be the value as determined by the Valuer General.	Value is based on a notional lease for 10 years at a current market rent adjusted annually for CPI.		
Land	22,775	Level 2	The fair value of land was determined by independent valuation by Opteon with an effective date of 1 July 2011. Where no formal valuation has taken place fair value is considered to be the value as determined by the Valuer General.	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.	Not Applicable	Not Applicable

Transfers between hierarchy levels

There were no transfers between level 2 and 3 classifications in the 2014-15 year.

Notes to the financial statements (continued)

For the financial year ended 30 June 2015

12. Borrowings (continued)

Fair value disclosed is the market value provided by TasNetworks' external borrowings provider Tascorp. The market value is determined as the discounted cash flows of the instruments using the applicable yield curve.

The fair values disclosed below are level 2 disclosures in the fair value hierarchy under AASB 7 as they are calculated using a discounted cash flow model with inputs based upon observable market interest rates. These liabilities are recognised at amortised cost as TasNetworks expects to repay the carrying amount fully by holding them to maturity.

The fair values together with the carrying amounts shown in the balance sheet are as follows:

Carrying amount 2015 \$'000	Fair value 2015 \$'000
1,643,718	1,741,193

Unused borrowing facilities at balance date

	Limit 2015 \$'000	Drawn 2015 \$'000	Undrawn 2015 \$'000
Unsecured bank overdraft facility	2,500	2	2,498
Corporate MasterCard	8,650	198	8,452
Guarantee facility	75,000	-	75,000
Tascorp master loan facility*	1,840,000	1,645,474	194,526

As a result of moving to one bank from 1 July 2015, TasNetworks held facilities with 3 banks at 30 June 2015 during transition.

*The amount drawn from the Tascorp master loan facility includes interest rate swaps.

13. Employee benefits

See accounting policy in note 35(d)

Current:

Note	Consolidated 2015 \$'000	Parent 2014 \$'000
Annual leave	8,443	309
Long service leave	9,847	361
Defined benefits superannuation	20 1,593	-
Other employee benefits	2,230	27
	22,113	697

Non-current:

Long service leave	3,248	81
Defined benefits superannuation	20 142,915	-
Other employee benefits	1,622	-
	147,785	81
	169,898	778

Notes to the financial statements (continued)

For the financial year ended 30 June 2015

14. Provisions

See accounting policy in note 35(u)

	Note	Workers Compensation \$'000	Metered Services \$'000	Onerous Contracts \$'000	Dividend \$'000	Restructure \$'000	TOTAL \$'000
Transferred at fair value	32	558	6,007	5,731	61,000	639	73,935
Provision made during the year		570	-	-	-	-	570
Provisions used during the year		-	(1,386)	(1,086)	(61,000)	(639)	(64,111)
Balance at 30 June 2015		1,128	4,621	4,645	-	-	10,394
Current Provisions		807	4,621	1,881	-	-	7,309
Non-Current Provisions		321	-	2,764	-	-	3,085
		1,128	4,621	4,645	-	-	10,394

Workers Compensation

The provision for workers compensation relates to the final workers compensation premium adjustments for the three prior financial years. These claims are subject to variation as outstanding workers compensation claims are settled, however it is expected that payment of these amounts will be required.

Metered Services

Embedded Generation

TasNetworks became aware of a solar meter programming issue in late 2014 that affected 8,200 customers that have embedded generation connected in Tasmania. It was determined that the customers have not been credited correctly for the energy that has been recorded on these meters since January 2012.

The provision is the amount of compensation that TasNetworks is required to pay to customers for the reimbursement of energy as well as for the rectification of the meters.

Irrigation Meters

An issue has been recently identified with irrigation metering (TAS75 tariff) that pre-dates 30 June 2014. It is estimated that at least 157 meters need to be exchanged and approximately 1,400 meters audited to ensure the metering of the irrigation program is working correctly.

Provision has been made for the reimbursement that TasNetworks will be required to pay to customers who have been incorrectly charged as well as for the rectification of the meters.

Onerous Contracts

Management have identified 2 contracts that are considered onerous.

In 2010 Aurora Energy entered into a 10 year lease for their office premises. Subsequently Aurora's Distribution business and Transend Networks merged and the office space is surplus to TasNetworks requirements.

Notes to the financial statements (continued)

For the financial year ended 30 June 2015

14. Provisions (continued)

Onerous Contracts (continued)

A portion of the space is being sublet for the longer term whilst the remainder of the building is vacant. TasNetworks is actively seeking tenants however the likelihood of recovering the full costs of the lease from other parties has been assessed as low.

The provision has been calculated as the obligation for future lease payments, net of expected rental income.

TasNetworks assumed responsibility for a 3 year contract with an external party to provide IT support services, a decision was made to discontinue the contract. The opening balance of the onerous contract provision reflects the costs of this contract for the 2014-15 year which have now been fully expended.

Dividend

TasNetworks assumed the obligation to pay the dividends from the 2013-14 year profits from Aurora Energy Pty Ltd and Transend Networks Pty Ltd. Both provided for their respective dividend amounts which were transferred to TasNetworks and have subsequently been paid.

Restructure

The opening balance relates to redundancy arrangements for three (3) employees who transferred to TasNetworks from Aurora Energy Pty Ltd and Transend Networks Pty Ltd. The provision was transferred to TasNetworks on 1 July 2014 and all restructuring costs have now been paid.

15. Other liabilities

Current:

Income received in advance
Derivative contracts
Other

<i>Note</i>	2015 \$'000	2014 \$'000
	7,834	-
21	2,902	-
	-	235
	10,736	235
	27,583	-
21	6,644	-
	34,227	-

Non-current:

Income received in advance
Derivative contracts

Income received in advance

See accounting policy in note 35(c)

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, reflecting the performance of the contractual obligations.

Derivative Contracts

Derivative Contracts are interest rate swaps. See note 21 for TasNetworks' exposure to risk and fair value information for these swaps.

Notes to the financial statements (continued)

For the financial year ended 30 June 2015

16. Retained earnings

	Consolidated 2015 \$'000	Parent 2014 \$'000
Net profit for the year	112,931	-
Actuarial gains/(losses)	20 23,091	-
Deferred tax effect on actuarial movement	5(b) (6,927)	-
Dividends paid during the year	14 -	-
Balance at end of financial year	129,095	-

Retained earnings comprises the transfer of net profit for the year and characterises the profit available for distribution as dividends in future years. No dividends were distributed from retained earnings during the year.

17. Contributed equity

	Consolidated 2015 \$'000	Parent 2014 \$'000
Equity contributed on transfer	32 467,555	-
Capital reductions	(20,000)	-
Distribution to owners	(205,000)	-
Balance at end of financial year	242,555	-

During 2014-15 two Shareholder mandated capital reductions of \$10m each were effected pursuant to Transfer Notices made by the Treasurer under section 10A of the *Government Business Enterprises Act 1995*. This responded to a Shareholder direction provided to Transend Networks Pty Ltd in June 2011 and resulted in a total transfer of \$20m from TasNetworks to Tasmanian Rail Networks Pty Ltd in 2014-15. There was an equity transfer of \$30m to Forestry Tasmania made on 1 July 2015 pursuant to a Transfer Notice also made under section 10A of the *Government Business Enterprises Act 1995*.

Additionally, TasNetworks reduced its contributed equity by \$205m as a result of a transfer of debt from Hydro-Electric Corporation to TasNetworks mandated by a Transfer Notice made by the Treasurer under section 19 of the *Electricity Reform Act 2012*. It is expected there will be further transfers of debt totalling \$70m in 2015-16 and \$50m in 2016-17.

Notes to the financial statements (continued)

For the financial year ended 30 June 2015

18. Reserves

Reserves comprise

Asset revaluation reserve
Hedge reserve

<i>Note</i>	Consolidated 2015 \$'000	Parent 2014 \$'000
	651,238	-
	(6,838)	-
	644,400	-

Asset revaluation reserve

Amounts transferred in
Revaluation of assets during the year
Deferred tax liability arising on revaluation
Balance at end of financial year

32	611,956	-
10	56,117	-
5(b)	(16,835)	-
	651,238	-

The revaluation reserve relates to 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

Amounts transferred in
Gain/(loss) recognised
Transferred to profit or loss
Deferred tax arising on hedges
Balance at end of financial year

32	(6,405)	-
	2,109	-
	(2,727)	-
5(b)	185	-
	(6,838)	-

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.

19. 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.

Notes to the financial statements (continued)

For the financial year ended 30 June 2015

20. 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. All new members receive accumulation only benefits.

TasNetworks employees who joined the Tasmanian public sector or one of TasNetworks' antecedent businesses Transend Networks or Aurora Energy prior to 1 July 1999 may be members of the defined benefits fund. All other employees are provided with superannuation benefits through defined contribution 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 *Retirement Benefits Act 1993* and the *Retirement Benefits Regulations 2005*. 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 RBF Board elects) up to the amount of "untaxed" benefits paid to members in the year.

The RBF Board (the Board) is responsible for the governance of the Scheme. As Trustee, the Board has a legal obligation to act solely in the best interests of Scheme beneficiaries. The Board has the following roles:

- Administration of the Scheme and payment to the beneficiaries when required in accordance with the Scheme rules;
- Management and investment of the Scheme assets; and
- Compliance with the Heads of Government Agreement referred to above.

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.
- 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.
- Inflation risk – The risk that inflation is higher than anticipated, increasing pension payments and the associated employer contributions.
- Benefit options risk – The risk is 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 is that pensioner mortality will be lower than expected, resulting in pensions being paid for a longer period.
- Legislative risk – The risk is that legislative changes could be made which increase in the cost of providing the defined benefits.

Significant events

There were no plan amendments, curtailments or settlements during the year.

Notes to the financial statements (continued)

For the financial year ended 30 June 2015

20. Defined benefit superannuation plan (continued)

The key assumptions that were used to determine these amounts are set out in a report prepared by the State's Actuary (Mercer), dated 13 July 2015. The key assumptions were:

Assumptions to determine defined benefit cost and start of year defined benefit obligation

	2015 %
Discount rate (active members)	4.10
Discount rate (pensioners)	4.10
Expected salary increase rate	3.00
Expected rate of increase of compulsory preserved amounts	4.50
Expected pension increase rate	2.50

Assumptions to determine end of year defined benefit obligation

	2015 %
Discount rate (active members)	4.10
Discount rate (pensioners)	4.10
Expected salary increase rate	3.00
Expected rate of increase of compulsory preserved amounts	4.50
Expected pension increase rate	2.50

Fair value of Scheme assets

	30 June 2015*			
	Total	Quoted prices in active markets for identical assets – Level 1	Significant observable inputs – Level 2	Unobservable inputs – Level 3
	\$'000			
Asset category:				
Cash and cash equivalents	7,135	7,135	-	-
Equity instruments	28,057	12,771	12,321	2,965
Debt instruments	5,512	1,496	2,263	1,753
Derivatives	76	-	76	-
Real estate	334	-	334	-
Total	41,114	21,402	14,994	4,718

*Estimated based on assets allocated to TasNetworks as at 30 June 2015 and asset allocation of the RBF Scheme as at 30 June 2014.

Notes to the financial statements (continued)

For the financial year ended 30 June 2015

20. Defined benefit superannuation plan (continued)

Fair value of own financial instruments

The fair value of Scheme assets includes no amounts relating to any of TasNetworks' own financial instruments or property occupied by, or other assets used by TasNetworks.

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

	2015 \$'000
Present value of defined benefit obligations	185,622
Total defined benefit obligation	185,622
RBF contributory scheme assets	(41,114)
Deficit/(surplus)	144,508

Movements in net liabilities

	Note	2015 \$'000
Net liability/(asset) in balance sheet transferred in		-
Past service cost		169,631
Employee benefits expense recognised in profit or loss	3(d)	10,732
Employee benefits gain recognised in other comprehensive income		(23,091)
Actual employer contributions		(12,764)
Net liability/(asset)		144,508
Current net liability	13	1,593
Non-current net liability	13	142,915
		144,508
Profit or loss amounts		
Employer service cost		3,881
Interest cost	4	6,851
Expected return on plan assets		-
Expense recognised		10,732
Other comprehensive income amounts		
Recognised actuarial gains/(losses)	16	23,091
Other comprehensive income recognised		23,091

Employee benefits expense is included in the direct expenses line item of the Statement of Profit or Loss and superannuation actuarial gains/(losses) line item in the Statement of Comprehensive Income. Interest costs are included within financing costs.

Notes to the financial statements (continued)
For the financial year ended 30 June 2015

20. Defined benefit superannuation plan (continued)

Fair value of plan assets

	2015 \$'000
Fair value of plan assets transferred in	-
Interest Income	1,525
Actual return on plan assets less interest income	5,507
Employer contributions	12,764
Contributions by plan participants	1,225
Benefits paid	(17,305)
Taxes, premiums and expenses paid	(318)
Transfers in	37,716
Fair value plan assets at year end	41,114

Defined benefit obligations inclusive of contributions tax for disclosure purposes

	2015 \$'000
Total defined benefit obligation transferred in	-
Past service cost	169,631
Employer service costs plus operating costs	3,881
Interest costs	8,375
Actual participants' contributions	1,225
Transfers in	37,716
Actual benefit paid	(17,305)
Taxes, premiums and expenses paid	(318)
Expected defined benefit obligation at year end	203,205
Actuarial (gain)/loss arising from changes in demographic assumptions	-
Actuarial (gain)/loss arising from changes in financial assumptions	(20,632)
Actuarial (gain)/loss arising from liability experience	3,049
Actual total defined benefit obligations at year end	185,622

Effect of the asset ceiling

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

Notes to the financial statements (continued)

For the financial year ended 30 June 2015

20. Defined benefit superannuation plan (continued)

Sensitivity Analysis

The defined benefit obligation as at 30 June 2015 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: 0.5% pa lower discount rate assumption

Scenario B: 0.5% pa higher discount rate assumption

Scenario C: 0.5% pa lower expected pension increase rate assumption

Scenario D: 0.5% pa higher expected pension increase rate assumption

	Base Case	Scenario A	Scenario B	Scenario C	Scenario D
		-0.5% pa discount rate	+0.5% pa discount rate	-0.5% pa pension increase rate	+0.5% pa pension increase rate
Discount rate	4.8% pa	4.30% pa	5.30% pa	4.80% pa	4.80% pa
Pension increase rate	2.50% pa	2.50% pa	2.50% pa	2.00% pa	3.00% pa
Defined benefit obligation (\$'000)	185,622	200,016	172,770	175,917	196,330

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

Asset-Liability matching strategies

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

Funding arrangements

The employer 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 2016 of \$1,593,000

Maturity Profile of Defined Benefit Obligation

The weighted average duration of the defined benefit obligation for TasNetworks is 15.1 years.

Notes to the financial statements (continued)
For the financial year ended 30 June 2015

21. Financial instruments

Classification and fair value measurement of financial instruments

	Note	Carrying Amount			Fair Value		
		Hedging Instrument \$'000	Loans and Receivables \$'000	Other Liabilities \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
Financial assets not measured at fair value:							
Cash and cash equivalents	31(a)	-	768	-			
Trade and other receivables	6	-	105,500	-			
Total financial assets		-	106,268	-			
Financial liabilities measured at fair value:							
Interest rate swaps	15	9,546	-	-	-	9,546	-
Financial liabilities not measured at fair value:							
Trade and other payables	11	-	-	52,406			
Borrowings – fixed rate	12	-	1,384,291	-	-	1,476,102	-
Borrowings – floating rate	12	-	259,427	-	-	265,091	-
Total financial liabilities		9,546	1,643,718	52,406	-	1,750,739	-
Other financial liabilities not measured at fair value:							
Forward start borrowing commitments		-	55,000	-	-	1,580	-

Fair values of financial instruments

The carrying amount of financial assets and liabilities recorded in the financial statements, except for the borrowing from Tascorp (see note 12) 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 only used 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 account of the underlying exposures being held.

Notes to the financial statements (continued)

For the financial year ended 30 June 2015

21. Financial instruments (continued)

Financial Instruments measured at fair value

Type	Valuation Technique(s) and key input(s)	Significant unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Interest Rate Swap	Market Comparison Technique: The fair values are based on broker quotes.	If quoted prices are not available/appropriate then the fair value is calculated using 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.	Not Applicable	Not Applicable

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 the Board's 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.

Debt to total capital ratio

	Note	2015 \$'000
Debt (borrowings)	12	1,643,718
Cash and cash equivalents	31(a)	768
Net debt		1,642,950
Total capital (net debt + total equity)		2,659,000
Debt to total capital ratio		62%

Notes to the financial statements (continued)

For the financial year ended 30 June 2015

21. Financial instruments (continued)

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 Board approved 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 and electricity retailers and customers.

Liquidity risk

The liquidity risk management parameters contained in the Board approved Treasury Risk Management Policy establish 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 1 million in line with the Board approved Treasury Risk Management Policy.

TasNetworks entered into one forward foreign exchange contract during the year ended 30 June 2015 however no exposure existed at year end.

Interest rate risk

TasNetworks is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. This risk is managed primarily through setting an interest rate exposure profile for the portfolio aligned to the regulatory regime within which TasNetworks operates.

TasNetworks' exposure to interest rates on financial assets and financial liabilities is detailed in the following table.

Notes to the financial statements (continued)

For the financial year ended 30 June 2015

21. Financial instruments (continued)

Interest rate exposures and liquidity

TasNetworks' exposure to interest rate risk on financial instruments and contractual maturity thereof for financial liabilities and expected maturity for financial assets as at 30 June 2015:

	Weighted average effective interest rate	Fixed and floating interest maturing in				Non-interest bearing	Total	
		0 to 1 year	1 to 2 years	2 to 5 years	5+ years			
		\$'000	\$'000	\$'000	\$'000			\$'000
Financial assets:								
Cash and cash equivalents	31(a)	2.75%	768	-	-	-	-	768
Trade and other receivables	6	n/a	-	-	-	-	105,500	105,500
Total financial assets			768	-	-	-	105,500	106,268
Financial liabilities:								
Trade and other payables	11	n/a	-	-	-	-	52,406	52,406
Borrowings – fixed rate	12	4.65%	153,624	612,536	320,980	560,947	-	1,648,087
Borrowings – floating rate	12	2.50%	105,531	73,940	73,112	26,021	-	278,604
Forward start borrowing commitments		3.46%	(53,834)	1,902	29,290	35,970	-	13,328
Interest rate swaps		4.56%	4,173	3,759	3,214	-	-	11,146
Total financial liabilities			209,494	692,137	426,596	622,938	52,406	2,003,571
Net financial assets/(liabilities)			(208,726)	(692,137)	(426,596)	(622,938)	53,094	(1,897,303)

Interest rate sensitivity analysis

A 100 basis point movement in interest rates will have the following effect on TasNetworks' profit before tax. A 100 basis point increase would have a positive impact of \$0.3m, and a 100 basis point decrease would adversely impact by \$0.3m.

A 100 basis point movement in interest rates will have the following effect on TasNetworks' equity after tax. A 100 basis point increase would positively impact by \$2.8m and a 100 basis point decrease would adversely impact by \$2.9m.

Notes to the financial statements (continued)

For the financial year ended 30 June 2015

21. Financial instruments (continued)

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.

As at 30 June 2015 TasNetworks had 10 pay fixed/receive floating interest rate swaps with an aggregate face value of \$230m.

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

Outstanding floating for fixed contracts

	Average contracted fixed interest rate 2015 %	Notional principal amount 2015 \$'000	Fair value 2015 \$'000
Less than 1 year	4.60	40,000	(331)
1 to 2 years	4.32	85,000	(2,699)
2 to 5 years	4.92	105,000	(6,516)
		230,000	(9,546)

Forward start borrowing commitments

TasNetworks enters into forward start borrowing agreements with Tascorp to manage liquidity risk and/or interest rate risk. Forward start borrowings can be either fixed or floating depending on the risk being managed.

As at 30 June 2015 TasNetworks had two forward start borrowings totalling \$55m.

The notional principal amount and term of the forward start borrowing contracts at reporting date has been detailed in the liquidity table above.

Notes to the financial statements (continued)

For the financial year ended 30 June 2015

22. Leases

See accounting policy in note 35(k)

Operating leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2015 \$'000	2014 \$'000
Less than one year	744	-
Between one and five years	2,429	-
Greater than five years	1,169	-
	4,342	-

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 \$2,850,000 from 2016 until the lease expires in 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:

Less than one year	3,470	-
Between one and five years	12,492	-
Greater than five years	34,142	-
	50,104	-

Finance leases

TasNetworks has no finance lease liabilities.

Notes to the financial statements (continued)

For the financial year ended 30 June 2015

23. Commitments for expenditure

Capital expenditure commitments:

Property, plant and equipment

Within one year

One year or later and no later than five years

Greater than 5 years

Operating expenditure commitments:

Other expenses (excluding leases disclosed in note 22)

Within one year

One year or later and no later than five years

Greater than 5 years

	2015 \$'000	2014 \$'000
Within one year	48,000	-
One year or later and no later than five years	22,883	-
Greater than 5 years	6	-
	70,889	-
Within one year	22,427	-
One year or later and no later than five years	4,484	-
Greater than 5 years	97	-
	27,008	-

Other operating expenditure commitments relate to procurement of maintenance and facilities related services.

24. Contingent liabilities and contingent assets

Claims related to property loss, personal injury (excluding claims by employees for personal injuries), contractual and other matters, and with an estimated potential cost to TasNetworks of \$625,000 were outstanding at the date of publication of these accounts. TasNetworks is actively defending these claims and the directors are of the opinion, based on legal advice, that no provision is required.

25. Auditor's remuneration

Amounts received, or due and receivable by the Auditor-General for services provided to TasNetworks:

Audit of Financial Statements

Audit of Regulatory Financial Statements

Audit of Revenue Reset Regulatory Information Notice*

	\$	\$
Audit of Financial Statements	234,300	5,000
Audit of Regulatory Financial Statements	11,620	-
Audit of Revenue Reset Regulatory Information Notice*	292,000	-
	537,920	5,000

*A Revenue Reset 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.

26. Overseas Travel

During the year 5 overseas trips were undertaken by employees of TasNetworks at a total cost of \$24,974. One of the five trips was for the CEO and the cost associated with that trip was \$1,891.

In addition 2 overseas trips at a cost of \$18,252 were paid for and will be undertaken in 2015-16.

There were no overseas trips taken by Board members during 2014-15.

Notes to the financial statements (continued)

For the financial year ended 30 June 2015

27. Key management personnel compensation

The key management personnel of TasNetworks during the year were:

Dr Dan Norton AO (Chairman and Director)
 Mr Donald Challen AM (Director)
 Mr Kevin Murray (Director)
 Mr Mervyn Davies (Director)
 Dr Jane Sargison (Director)
 Mr Peter Lowe (Director)
 Mr Lance Balcombe (Chief Executive Officer)
 Ms Bess Clark (General Manager Strategy and Stakeholder Relations)
 Mr Wayne Tucker (General Manager Strategic Asset Management)
 Ms Natasha Brown (General Manager Works and Service Delivery)
 Mr Mike Paine (General Manager Customer Engagement and Network Operations)
 Mr Ross Burrige (General Manager Finance and Business Services)
 Ms Justine McDermott (General Manager People and Performance)
 Mrs Phillippa Bartlett (Company Secretary and General Counsel) (on leave until 1 January 2015)
 Ms Maryanne Young (acting Company Secretary and General Counsel to 31 December 2014)

Apart from the details disclosed in this note, 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.

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

	2015 \$'000	2014 \$'000
Short-term employee benefits	2,667	882
Post-employment benefits	242	69
Other long-term benefits	-	-
Termination benefits	-	-
	2,909	951

Comparative remuneration is lower in 2013-14 due to TasNetworks only operating for part of the financial year and no directors fees being paid during the period.

Notes to the financial statements (continued)
For the financial year ended 30 June 2015

27. Key management personnel compensation (continued)

Director remuneration for the financial year

	Directors' Fees \$'000	Committee Fees \$'000	Superannuation¹ \$'000	Other \$'000	Total 2014-2015 \$'000
Dr D Norton	107	-	10	-	117
Mr D Challen AM ²	95	-	9	-	104
Mr K Murray	51	-	5	-	56
Mr M Davies	48	-	7	-	55
Dr J Sargison	49	-	5	-	54
Mr P Lowe	50	-	5	-	55
	400	-	41	-	441

1. Superannuation means the contribution to the superannuation fund of the individual.

2. Donald Challen Director's Fees include fees for his role as Chairman of Transend Networks Pty Ltd until after its final AGM in November 2014.

Director remuneration for the previous financial year

No directors fees were paid during 2013-14.

Notes to the financial statements (continued)
For the financial year ended 30 June 2015

27. Key management personnel compensation (continued)

Executive remuneration for the financial year

	Commencement Date	Salary ¹	Short Term Incentives ²	Termination Benefits ³	Superannuation ⁴	Vehicle Allowances ⁵	Other Benefits ⁶	Total Cash	Other non-monetary benefits ⁷	Total 2014-15
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Mr L Balcombe	14-Oct-13	439	-	-	19	-	-	458	20	478
Ms B Clark	17-Feb-14	232	-	-	22	-	-	254	(2)	252
Mr W Tucker	17-Feb-14	236	-	-	30	-	-	266	4	270
Ms N Brown	18-Apr-14	273	-	-	26	-	-	299	17	316
Mr M Paine	11-Feb-14	236	-	-	22	-	-	258	8	266
Mr R Burridge	31-Mar-14	257	-	-	32	-	-	289	13	302
Ms J McDermott	05-Feb-14	260	-	-	25	-	-	285	10	295
Mrs P Bartlett	17-Mar-14	179	-	-	17	-	-	196	-	196
Acting Senior Executive:										
Ms M Young	1 Jul 14 to 31 Dec 14	83	-	-	8	-	-	91	2	93
		2,195	-	-	201	-	-	2,396	72	2,468

Executive remuneration for the previous period*

	Commencement Date	Salary ¹	Short Term Incentives ²	Termination Benefits ³	Superannuation ⁴	Vehicle Allowances ⁵	Other Benefits ⁶	Total Cash	Other non-monetary benefits ⁷	Total 2013-14
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Mr L Balcombe	14-Oct-13	289	-	-	18	7	-	314	16	330
Ms B Clark	17-Feb-14	74	5	-	7	1	-	87	9	96
Mr W Tucker	17-Feb-14	85	5	-	11	4	-	105	11	116
Ms N Brown	18-Apr-14	47	-	-	4	-	-	51	10	61
Mr M Paine	11-Feb-14	86	-	-	8	2	-	96	9	105
Mr R Burridge	31-Mar-14	49	-	-	7	1	-	57	4	61
Ms J McDermott	05-Feb-14	96	-	-	9	-	-	105	10	115
Mrs P Bartlett	17-Mar-14	56	-	-	5	-	-	61	6	67
		782	10	-	69	15	-	876	75	951

1. Salary received includes all forms of consideration paid and payable for services rendered, compensated absences during the period and salary sacrifice amounts.

2. Short term incentive payments are non-recurrent payments which depend on achieving specific performance goals within specified timeframes.

3. Termination benefits include all forms of benefits paid or accrued as a consequence of termination.

4. Superannuation means the contribution to the superannuation fund of the individual. This balance includes defined benefit amounts which were calculated using a notional superannuation rate of 13.2%

5. Includes total cost of providing and maintaining vehicles provided for private use, including registration, insurance, maintenance cost, fuel and other consumables. TasNetworks no longer administers vehicle allowances. The business use component is paid directly to the Novated Lease vendor.

6. Other benefits include all other forms of employment allowances (excludes reimbursements such as travel, accommodation or meals), payments in lieu of leave, and any other compensation paid and payable.

7. Other non-monetary benefits include annual and long service leave movements and non monetary benefits expensed.

* Comparative remuneration is lower in 2013-14 due to TasNetworks only operating for part of the financial year.

Notes to the financial statements (continued)

For the financial year ended 30 June 2015

27. Key management personnel compensation (continued)

Director remuneration principles

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

Director remuneration arrangements

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.

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

Executive remuneration principles

Remuneration levels for Executive staff (including the Chief Executive Officer (CEO)) of TasNetworks are competitively set to attract and retain appropriately qualified and experienced Executives. TasNetworks' Board obtains independent advice on the appropriateness of remuneration packages of all Executive positions given trends in comparative entities both locally and interstate and the objectives of TasNetworks' remuneration policy. Remuneration levels are set in accordance with the Director and Executive Remuneration Guidelines, as revised in December 2014. Under these guidelines, remuneration for the CEO is determined by the Government Business Executive Remuneration Panel and reflect the principles outlined in the Guidelines and broadly align with State Service Heads of Agency.

The remuneration structures take into account:

- the capability and experience of the relevant Executive; and
- achievement of measurable organisational and individual goals.

Executive remuneration arrangements

The employment terms and conditions of Executive staff with the exception of the CEO are contained in individual employment contracts which prescribe total remuneration, superannuation, annual and long service leave, allowances and salary sacrifice provisions. TasNetworks' Executive remuneration structure is comprised of fixed total remuneration which is reviewed at least annually by the CEO with approval from the Board. Short-term incentive or performance payments must be approved by the Board, however TasNetworks does not currently provide any short term incentive payments. The performance of each senior executive, including the CEO, is reviewed annually by the Board and includes a review of the remuneration package.

The CEO is appointed by the Board. Independent professional advice is obtained prior to entering into, or extending an employment agreement and when determining the CEO's remuneration package. The Board consults with the Treasurer and Portfolio Minister prior to finalising the CEO's remuneration package. The CEO's remuneration is reviewed annually by the Board.

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. In the current year Ms Young was appointed to the position shown above whilst Mrs Bartlett was on parental leave.

Statement of compliance

TasNetworks has complied with the Government's Director and Executive Remuneration Guidelines for the year ended 30 June 2015 with the exception of two variations. These are the confidentiality and termination provisions contained in executive contracts which pre-date the June 2014 Shareholders Direction to comply with the Guidelines.

Notes to the financial statements (continued)

For the financial year ended 30 June 2015

28. Consolidated entity

Name of Entity	Country of Incorporation	Ownership Interest	
		2015 %	2014 %
Parent Entity			
Tasmanian Networks Pty Ltd	Australia		
Subsidiaries			
Ezikey Group Pty Ltd	Australia	100	-
Auroracom Pty Ltd	Australia	100	-

29. Related party disclosures

Equity interest in related parties

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 28 to the financial statements.

Key management personnel compensation

Details of key management personnel compensation are disclosed in note 27 to the financial statements.

Transactions with key management personnel

Donald Challen AM is the Chairman of the Tasmanian Public Finance Corporation (Tascorp). TasNetworks has long-term borrowings from Tascorp (note 12). The total amount of borrowing from Tascorp is \$1,644m. The interest paid to Tascorp during the year was \$70.19m.

A number of key management persons, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. Some of these entities transacted with TasNetworks in the reporting period.

In addition, 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.

Where a matter for resolution was discussed in respect of such a transaction, the Board considered whether a material conflict of interest existed to determine whether a Director should not be present in the meeting for consideration of the matter.

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.

Notes to the financial statements (continued)

For the financial year ended 30 June 2015

30. Parent entity disclosures

As at, and throughout the financial year ended 30 June 2015 the parent entity of the Group was Tasmanian Networks Pty Ltd.

	Parent 2015 \$'000	Parent 2014 \$'000
Result of parent entity		
Profit for the period	112,931	-
Other comprehensive income	55,013	-
Total comprehensive income for the period	167,944	-
Financial position of parent entity at year end		
Current assets	129,248	1,083
Non current assets	3,034,978	-
Total asset	3,164,226	1,083
Current liabilities	271,486	1,002
Non current liabilities	1,876,690	-
Total liabilities	2,148,176	1,083
Total equity of the parent entity comprising of:		
Contributed equity	242,555	-
Reserves	644,400	-
Retained earnings	129,095	-
Total equity	1,016,050	-

Parent entity contingent liabilities

Contingent liabilities of the parent entity are set out in note 24, and are the same for the consolidated entity.

Parent entity capital commitments for the acquisition of property plant and equipment

Capital expenditure commitments:

Property, plant and equipment

Within one year	48,000	-
One year or later and no later than five years	22,883	-
Greater than 5 years	6	-
	70,889	-

Notes to the financial statements (continued)

For the financial year ended 30 June 2015

31. Notes to the Statement of Cash Flows

(a) Reconciliation of cash and cash equivalents

See accounting policy in note 35(g)

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:

	Note	2015	2014
		\$'000	\$'000
Cash and cash equivalents		768	-
		768	-

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

Net profit for the year		112,931	-
Depreciation and amortisation of non-current assets	3(c)	161,518	-
(Gain)/loss on sale of property, plant and equipment	3(b)	(152)	-
(Gain)/loss on revaluation of non-current assets	10	-	-
Increase/(decrease) in tax equivalent liabilities		(6,310)	-
(Increase)/decrease in receivables		(14,961)	(1,083)
(Increase)/decrease in inventories		(290)	-
(Increase)/decrease in other assets		(3,038)	-
Increase/(decrease) in creditors and accrued expenses		(32,624)	70
Increase/(decrease) in provisions and employee benefits		(6,562)	1,013
Increase/(decrease) in other liabilities		282	-
Net cash provided by operating activities		210,794	-

(c) Non-cash financing activities

There were no non-cash financing activities during 2014-15.

Notes to the financial statements (continued)

For the financial year ended 30 June 2015

32. Transfer of assets and liabilities

On 1 July 2014 all assets, rights, liabilities, reserves, obligations of Transend Networks Pty Ltd and the distribution business of Aurora Energy Pty Ltd were transferred to TasNetworks.

TasNetworks has elected to apply AASB 3 *Business Combinations* and as such all assets, rights, liabilities, reserves and obligations are recorded at their fair values on acquisition date (note 2). As these items have been transferred at no consideration, the net position arising from the transfers is reflected as contributed equity.

The net assets transferred to TasNetworks of \$467m have been recognised as contributed equity (note 17). The fair value of each major class of asset, liability or reserve at acquisition date was as below. The profit or loss increase for the 2014-15 financial year as a result of the take on adjustments, was \$8.9m. There has been an increase in revenue of \$4.6m and a reduction in operating expenditure of \$4.3m. The profit or loss impact of these take on adjustments that would have occurred in future years from 2015-16 to 2019-20, will be provided for in the balance sheet and drawn down as the expenditure is incurred. This will ensure that there is no impact to the profit or loss statement in future years as a result of the take on balances.

Class of asset, liability or reserve transferred		Unadjusted balance at 30 June 2014	Adjustment on Acquisition	Adjusted balances recognised at 1 July 2014
	Note	\$'000	\$'000	\$'000
Cash and cash equivalents	31	665		665
Trade and other receivables ¹	6	95,139	(4,600)	90,539
Inventories	7	16,738		16,738
Other assets – current	8	2,877		2,877
Property, plant and equipment ²	10	3,174,847	(225,114)	2,949,733
Intangible assets	9	48,350	(320)	48,030
Other assets – non current	8	39		39
Trade and other payables	11	(79,036)		(79,036)
Borrowings – current	12	(74,639)		(74,639)
Current tax liabilities	5	(3,701)	24	(3,677)
Employee benefits – current	13	(26,495)		(26,495)
Provisions – current ³	14	(61,018)	(3,485)	(64,503)
Other liabilities – current	15	(9,077)		(9,077)
Borrowings – non-current	12	(1,352,279)		(1,352,279)
Net deferred tax liabilities ⁴	5	(295,183)	84,203	(210,980)
Employee benefits – non-current	13	(170,509)		(170,509)
Provisions – non-current ³	14		(9,432)	(9,432)
Other liabilities – non-current	15	(34,888)		(34,888)
Asset revaluation reserve ²	18	(769,452)	157,496	(611,956)
Hedge reserve	18	6,405		6,405
TOTAL		468,783	(1,228)	467,555

- The adjustment to trade and other receivables is to correct the value of Unbilled Use Of System (UBUOS) recorded at 30 June 2014. TasNetworks has determined that this value was overstated in the previous business at 30 June 2014, due to applying a higher tariff price.
- The adjustment to property, plant and equipment and to the asset revaluation reserve reflects the write down of transmission assets to the Regulated Asset Base (RAB). These assets were valued in the previous business at Depreciated Optimised Replacement Cost (DORC). TasNetworks' policy is that all network assets are to be valued in line with the Regulated Asset Base.
- The adjustment to provisions balance relates to liabilities inherited by TasNetworks on merger, which relate to the previous businesses. These liabilities were not previously provided for by those businesses. These amounts relate to costs incurred to rectify metering issues and reimburse customers, the final workers compensation premium adjustments and onerous contracts inherited (see note 14).
- The adjustment to net deferred tax liabilities represents the tax impact of the acquisition adjustments.

Notes to the financial statements (continued)

For the financial year ended 30 June 2015

33. Subsequent events

Dividends

Subsequent to the end of the financial year, the Board recommended a dividend of \$63.2m in respect to the current financial year. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2015. No other dividends were paid or declared by TasNetworks during the year ended 30 June 2015.

Other

Aside from the item 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.

34. Changes in accounting policies

The statements prepared for the year ended 30 June 2014 were special purpose financial statements that were prepared in accordance with the *Corporations Act 2001*. TasNetworks chose to apply all issued and applicable Australian Accounting Standards in the 2013-14 financial year and therefore the change to general purpose financial statements has had no material impact.

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 standards:

AASB Amendment	Affected Standard	Nature of Change to Accounting Policy
AASB 2013-9 and AASB 2014-1	Conceptual Framework and Accounting Standards	Makes amendments to standards to delete references to AASB 1031 <i>Materiality</i> (which is being withdrawn). This has no material impact on the financial statements.
AASB 2012-3	AASB 132 Financial Instruments	Addresses inconsistencies when applying the offsetting criteria in this standard. This has no material impact on the financial statements.
AASB 2013-3	AASB 136 Impairment	Small scope amendments regarding the disclosure of recoverable amounts of impairments on disposal of assets. This has no material impact on the financial statements.
AASB 2014-1	AASB 119 Employee Benefits	Narrow scope adjustment to apply contributions from employees or third parties to defined benefit plans simplifying the accounting treatment for contributions. This has no material impact on the financial statements.

Notes to the financial statements (continued)

For the financial year ended 30 June 2015

34. Changes in accounting policies (continued)

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 2014-4	AASB 116 Property Plant & Equipment and AASB 138 Intangible Assets	Amending Standard – provides additional guidance on how depreciation or amortisation should be calculated. This standard will not have a material impact on the financial statements.	1 January 2016	30 June 2017
AASB 15	Revenue from contracts with customers	New standard that replaces AASB 118 <i>Revenue</i> . Requires revenue to be recognised in line with contractual obligations. This is generally current practice for TasNetworks.	Expected to be 1 January 2018	Expected for 30 June 2019
AASB 9	Financial Instruments	The final version of AASB 9 replaces AASB 139 <i>Financial Instruments: Recognition and Measurement</i> . This version adds a new expected impairment model and limited amendments to classification and measurement for financial assets.	1 January 2018	30 June 2019

Management are currently reviewing and anticipate that the adoption of these standards and interpretations in future periods will have no material financial impact on the financial statements of TasNetworks. However the introduction of AASB 15 *Revenue from Contracts with Customers* will see significantly increased disclosure requirements.

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.

Notes to the financial statements (continued)

For the financial year ended 30 June 2015

35. Significant accounting policies

(a) Principles of consolidation

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 except in notes 28-30 when it relates to the parent entity only.

(b) Comparative amounts

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.

(c) Revenue recognition

Revenue is recognised at fair value of the consideration received or receivable net of the amount of Goods and Services Tax (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. Income earned from the provision of electricity is the value of electricity units supplied to electricity retail customers during the year.

Included in this income is unbilled use of system (UoS). Unbilled UoS is an estimate of the value of electricity units supplied to customers between the date of the last meter reading and the year end.

Regulated service revenue is not accrued or deferred for amounts that are allowed to be recovered from customers (or credited to them) through regulatory pricing mechanisms in future years.

Provision of non-regulated services

Revenue is recognised in the statement of profit or loss in proportion to the stage of completion of TasNetworks obligations under the contract at balance date where appropriate.

Included in non-regulated services is income received in advance. This is 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.

Notes to the financial statements (continued)

For the financial year ended 30 June 2015

35. Significant accounting policies (continued)

Interest

Interest revenue is recognised as it accrues on a time proportionate basis that takes into account the effective yield on the financial asset.

Asset sales

Profit or loss on sale is recognised in the statement of profit or loss when significant risks and rewards of ownership of the goods have been passed to the buyer.

Rental income

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

Customer contributions

Contributions from customers that relate to capital projects are treated as revenue under accounting Interpretation 18 *Transfer of Assets from Customers*. The amount of revenue recognised in each financial year is determined by reference to TasNetworks' obligations under each contract and the relevant stage of completion of each obligation. Where capital works are incomplete, the portion of customer contributions received in advance for the incomplete works is included as a liability in the statement of financial position.

(d) Employee benefits

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.

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.

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.

Salaries, annual and long service leave

Provision is made for benefits accruing to employees in respect of 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.

Adjustments 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. An annual adjustment is made to the provisions in order to represent the fair value of the provision at year-end.

Termination payments

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

Notes to the financial statements (continued) For the financial year ended 30 June 2015

35. Significant accounting policies (continued)

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.

Workers compensation

TasNetworks is insured by an external organisation for liabilities arising from workers compensation claims.

Superannuation

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

The balance of employees are provided with superannuation benefits through a defined benefit superannuation scheme administered by the Retirement Benefits Fund (RBF). The RBF scheme was closed to new members in May 1999. The RBF Scheme is a defined benefits superannuation scheme for Tasmanian Government employees. The RBF liability carried represents the present value of the defined benefit obligation adjusted for unrecognised service cost net of the fair value of the plan assets. The net assets, operating costs and investment returns of the RBF 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.

For defined benefit superannuation schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each reporting date. Actuarial gains and losses are recognised in the period in which they occur and are presented in the statement of comprehensive income.

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 assets. 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 (note 20).

Amounts disclosed for key management personnel in post-employment benefits relating to defined benefits have been allocated based upon the weighted average of annual salaries effective at reporting date.

Notes to the financial statements (continued)

For the financial year ended 30 June 2015

35. Significant accounting policies (continued)

(e) Goods and services tax

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.

(f) Income tax

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 profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted at the balance date.

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 equivalent is accounted for using the comprehensive balance sheet 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.

In principle, deferred tax equivalent liabilities are recognised for all taxable temporary differences. Deferred tax equivalent assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences and tax offsets can be utilised. However, deferred tax equivalent assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities, which affects neither taxable income nor accounting profit.

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 that would follow from the manner in which TasNetworks expects at reporting date 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.

(g) Cash and cash equivalents

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. Bank overdrafts are shown within trade and other payables in the statement of financial position.

Notes to the financial statements (continued)

For the financial year ended 30 June 2015

35. Significant accounting policies (continued)

(h) Investments

Investments in controlled entities are recorded at cost. If there is an indication of an impairment loss, the recoverable amount of the investment is estimated and the carrying value of the investment is correspondingly reduced. Any investments in associates are accounted for under the equity method (AASB 128) in the consolidated financial statements.

At 30 June 2015 TasNetworks held no investment in associates.

(i) Receivables

Trade receivables and other receivables are recorded at amounts due less any allowance for impairment. An allowance for impairment is recognised when there is objective evidence that the receivable may not be able to be collected. Financial difficulties of the debtor and default payments are considered objective evidence of impairment. An algorithm is applied to debtor balances that determines gross doubtful debts, based on the age of those debts and past collection history. This is then adjusted for proportionate recoveries. Any other known contingencies are taken into consideration. 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.

(j) Inventories

Inventories are carried at the lower of cost and net realisable value, with, if required, an allowance being maintained for loss on disposal of surplus stores (note 7). 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 resale and are used in the maintenance and construction of the distribution, transmission and telecommunication networks. Costs are assigned to inventory by 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.

(k) Leases

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the risks and rewards of ownership to TasNetworks. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and a reduction of the lease liability to achieve a constant rate of interest during the term of the lease. Finance charges are charged directly against income. Finance leased assets are amortised on a straight-line basis over the estimated useful life of the asset.

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.

Notes to the financial statements (continued)

For the financial year ended 30 June 2015

35. Significant accounting policies (continued)

(l) Property, plant and equipment

All assets acquired, including property, plant and equipment, 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.

Network assets

Network assets are categorised as Transmission assets (to transport electricity from generators to distribution networks at high voltages) and Distribution assets (to transport electricity from points along the transmission lines to customers. Electricity must be stepped down to lower voltages in a distribution network for safe use by customers). Network assets are valued in accordance with TasNetworks' asset valuation policy which is to align the asset value to equal the regulated asset base (RAB) as determined by the Australian Energy Regulator.

Network assets have been revalued at 30 June 2015 to the regulated asset base which best represents its fair value and income earning capacity.

Allowance is also made for assets completed and transferred to capital works, assets retired from use and for depreciation of the assets since the last valuation. Assets completed and transferred to completed works during the current year are valued at cost.

Communications assets

Communications assets (including bearer, multiplexers and site infrastructure assets) are measured at fair value based upon the regulated asset base methodology. The valuation is increased to 30 June 2015 values by applying escalation factors based upon the Australian Bureau of Statistics' Consumer Price Index (weighted average of eight capital cities).

Communication assets that are not included in the RAB will continue to be valued at cost less accumulated depreciation and impairment.

Easements

Easements are carried in the statement of financial position at fair value based upon replacement cost, less any subsequent accumulated depreciation and impairment losses where applicable. The valuation is increased to 30 June 2015 values by applying escalation factors based upon the Australian Bureau of Statistics' Consumer Price Index (weighted average of eight capital cities) as required by the RAB methodology.

Land and buildings

Land and buildings are carried in the statement of financial position at fair value, less any subsequent accumulated depreciation and impairment losses where applicable. Revaluations occur when it is deemed necessary by management and an indication of a value change has been identified.

Other plant and equipment

Other plant and equipment includes motor vehicles, computer equipment and non-separable software, office furniture and equipment. These assets are stated at cost less accumulated depreciation and impairment.

Capital works in progress

Capital works in progress are recognised at cost.

Notes to the financial statements (continued)

For the financial year ended 30 June 2015

35. Significant accounting policies (continued)

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 net profit in the year of disposal. Any revaluation surplus remaining in the revaluation reserve is transferred directly to retained earnings.

Revaluations of non-current assets

Any revaluation of property, plant and equipment is credited to the asset revaluation reserve, 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 is provided on property, plant and equipment other than land and is based on the straight-line method so that assets are written off over their useful lives (note 10). 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. Depreciation on revalued network assets is charged to profit or loss.

The useful lives assigned to TasNetworks' assets are listed below:

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	35 yrs
Underground cables	60 yrs
Distribution substations	40 yrs
Zone substations	40 yrs
Meters	30 yrs
Service connections	35 yrs

Communications Assets:

Communications	10-40 yrs
Optical fibre	20 yrs

Other Assets:

Buildings	40 yrs
Other plant and equipment	3-15 yrs

Notes to the financial statements (continued)

For the financial year ended 30 June 2015

35. Significant accounting policies (continued)

(m) Intangible assets

Computer software, identified as intangible assets, is recorded at cost less accumulated amortisation and impairment (note 9). 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.

(o) Impairment of assets

At each reporting date, TasNetworks reviews the carrying amounts of its tangible and intangible assets that are carried at fair value to determine whether there is any indication that those assets 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.

For the calculation of recoverable amount, if required, 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.

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the statement of profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(p) Payables

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 (note 11). Due to their short-term nature they are not discounted.

(q) Borrowings

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 comprehensive income over the period of the borrowings on an effective interest basis.

Current borrowings are those borrowings that mature within one year of the reporting date. All borrowings that are not current borrowings are non-current borrowings.

Notes to the financial statements (continued)

For the financial year ended 30 June 2015

35. Significant accounting policies (continued)

(r) Financial instruments

Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

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 Policies, 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 recognised in profit or loss on the statement of comprehensive income immediately 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.

Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at fair value and subsequently at the higher of the amount recognised as a provision and the amount initially recognised less cumulative amortisation in accordance with TasNetworks' revenue recognition policy (note 35(c)).

(s) Hedging

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 on the statement of comprehensive income. Amounts deferred in equity are recycled in profit or loss on the statement of comprehensive income in the periods when the hedged item is recognised in profit or loss on the statement of comprehensive income. 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 on the statement of comprehensive income. 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 on the statement of comprehensive income.

Notes to the financial statements (continued)

For the financial year ended 30 June 2015

35. Significant accounting policies (continued)

(t) 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 1 million.

(u) Provisions

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.

Directors' declaration for the year ended 30 June 2015

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 note 1;
- (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.
- (d) the directors have been provided with the declarations as set out in section 295A of the *Corporations Act 2001* from the Chief Executive Officer and the General Manager 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 2015



Mr Peter Lowe
Director
Hobart

12 August 2015



TasNetworks
Delivering your power

Tasmanian Networks Pty Ltd
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