



Annual Report 2019-20

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TasNetworks acknowledges the Tasmanian Aboriginal Peoples as the Traditional Owners of Tasmania, upon whose lands we live and work, and pay deep respect to Elders past, present and emerging. We acknowledge the cultural connection that the Tasmanian Aboriginal Peoples have with land, sea, sky and community.

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The cover image shows star trails over Palmerston Substation near Poatina in Tasmania. Photo powered by TasNetworks' Greg Gibson.

ABOUT US

TasNetworks owns, operates and maintains the electricity transmission and distribution network in Tasmania.

We deliver a safe, cost-effective and reliable electricity supply to more than 295,000 residential, commercial and industrial customers. We facilitate the transfer of electricity between Victoria and Tasmania via Basslink, the sub-sea electricity interconnector.

We also provide telecommunications and technology services.

We are owned by the State of Tasmania and operate as a commercial business with assets of \$3.5 billion.

Our responsibilities include:

- Keeping our people and our customers safe
- Tasmanian jurisdictional planner in the National Electricity Market
- Maintaining and replacing network infrastructure to ensure a reliable service for our customers
- Connecting new customers to the network (including small and large-scale generators)
- Investing in the network to support capacity growth
- Operating the network on a day-to-day basis, including all power outage restoration
- Maintaining the public lighting system
- Recording and providing regulated meter data to retailers
- Providing telecommunications, data centre and information technology services to customers, including those in the Tasmanian electricity supply industry.

42-24

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

Project Marinus

We delivered a positive Business Case Assessment and Regulatory Investment Test – Transmission (RIT-T) Draft Report in December 2019 demonstrating Marinus Link and supporting transmission is technically feasible and delivers benefits to customers right across the National Electricity Market (NEM).

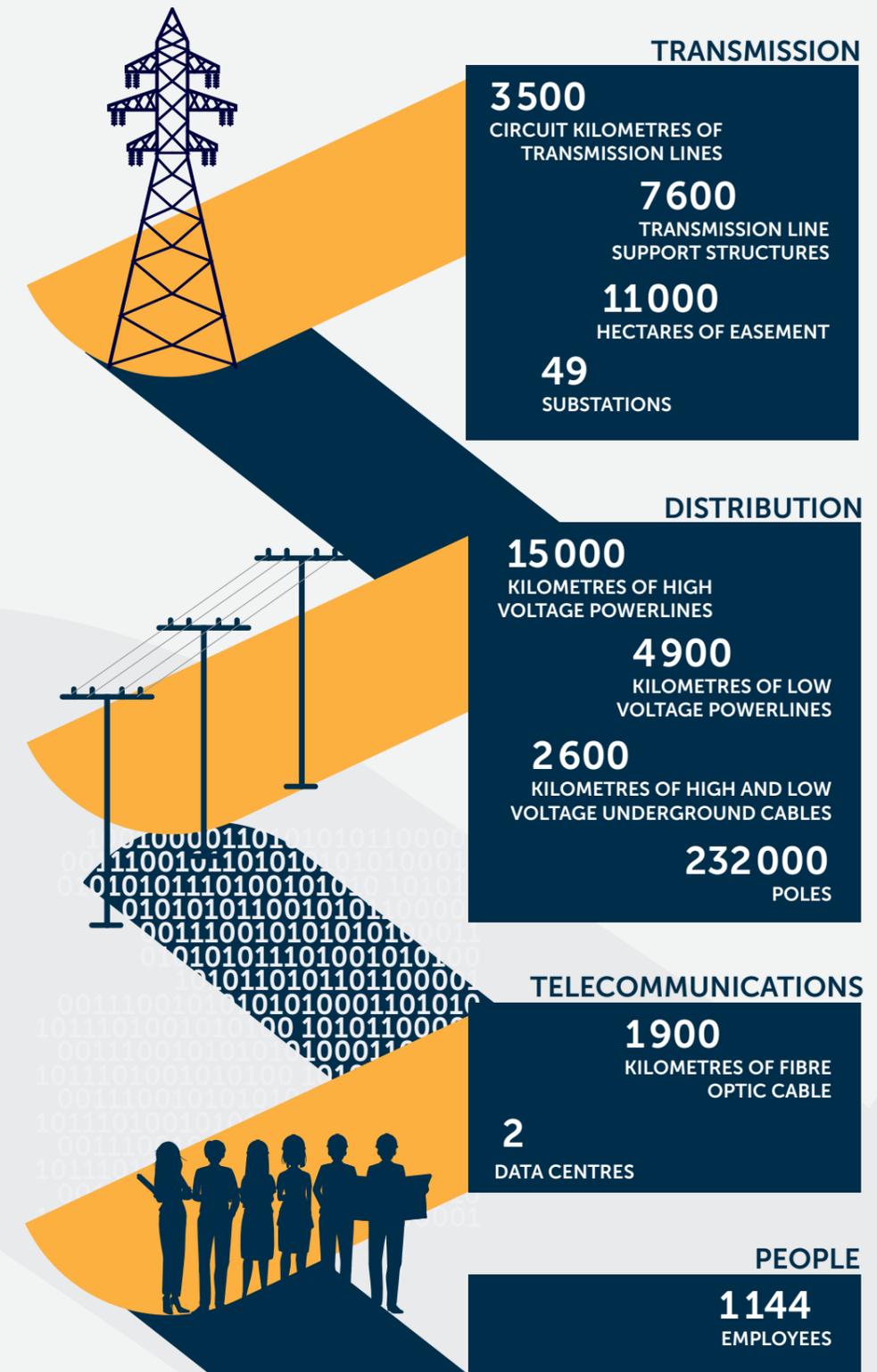
Marinus Link is a proposed 1,500 megawatt capacity undersea and underground electricity connection, together with supporting transmission developments in Tasmania, that will link Tasmania’s renewable energy generation and storage resources to Victoria and the NEM.

In June 2020 the Prime Minister included Project Marinus as one of 15 national priority infrastructure projects to support Coronavirus COVID-19 recovery. On 1 July 2020 Project Marinus moved into the Design and Approvals phase. This is a key milestone as we work toward Marinus Link and supporting transmission being ‘shovel ready’ by the mid 2020s, and in service from the late 2020s, as called for in the Australian Energy Market Operator’s 2020 Integrated System Plan (ISP).

About this report

This report reviews the operations of Tasmanian Networks Pty Ltd and its subsidiaries TasNetworks Holding Pty Ltd, Fortytwo24 Pty Ltd, Marinus Link Pty Ltd and Large Scale Renewables Pty Ltd for the 2019-20 financial year.

WHAT IT TAKES TO DELIVER YOUR POWER



FROM OUR CHAIRMAN

The modern TasNetworks is more than just poles and wires. As a business, we're right at the centre of some of Australia's biggest energy challenges and opportunities, both now and in to the future.

Almost three-quarters of our nation's power comes from coal-fired power stations, many of which are earmarked to close within the next 15 years. Transitioning through this will require new renewable energy and TasNetworks can be part of the solution by building and managing the supporting infrastructure needed.

The planned increase of renewable generation in Tasmania puts the State in a strong position, and more interconnection through Project Marinus, will ensure that TasNetworks is leading the way as we transition to a low-carbon economy. As Project Marinus progresses towards financial close, recent endorsement as an actionable project from the Australian Energy Market Operator, through its 2020 Integrated System Plan, further highlights the benefits of increased interconnection to the National Electricity Market and, ultimately, customers. In June 2020, the Prime Minister announced Project Marinus as one of 15 priority national infrastructure projects which are part of the Commonwealth's plan to drive economic recovery and stimulate jobs in the wake of COVID-19. The TasNetworks Board, leadership team and much of the business remains focused on progressing Project Marinus as a priority.

In parallel with large-scale changes to generation and transmission assets across the country, we are also seeing subtle changes in local networks in response to increased embedded generation and changing customer needs. To respond to this, our understanding and operation of the distribution network needs to change so that we can cater more effectively for household and business adopting solar, battery storage and electric vehicles. Our people are planning for these challenges, and working on efficient, cost-effective solutions.



Like any business with a customer focus, we are acutely aware of people's rising concerns in relation to personal data storage and privacy. The protection of customer information remains paramount and we have established a dedicated cyber-security group within the business to ensure that we have the systems in place to protect information and respond to cyber-threats when required. We also remain cognisant of the fact that, as an essential service, we are a target to cyber-criminals intent on disrupting energy supply and we are putting in place the necessary security arrangements for protecting our technology and your energy security.

These challenges are only made more acute by the COVID-19 pandemic still impacting our state, nation and the world. As communities and economies scramble to adapt to a new normal, both energy security and creating fresh economic opportunity will be crucial. That's why managing Tasmania's role and

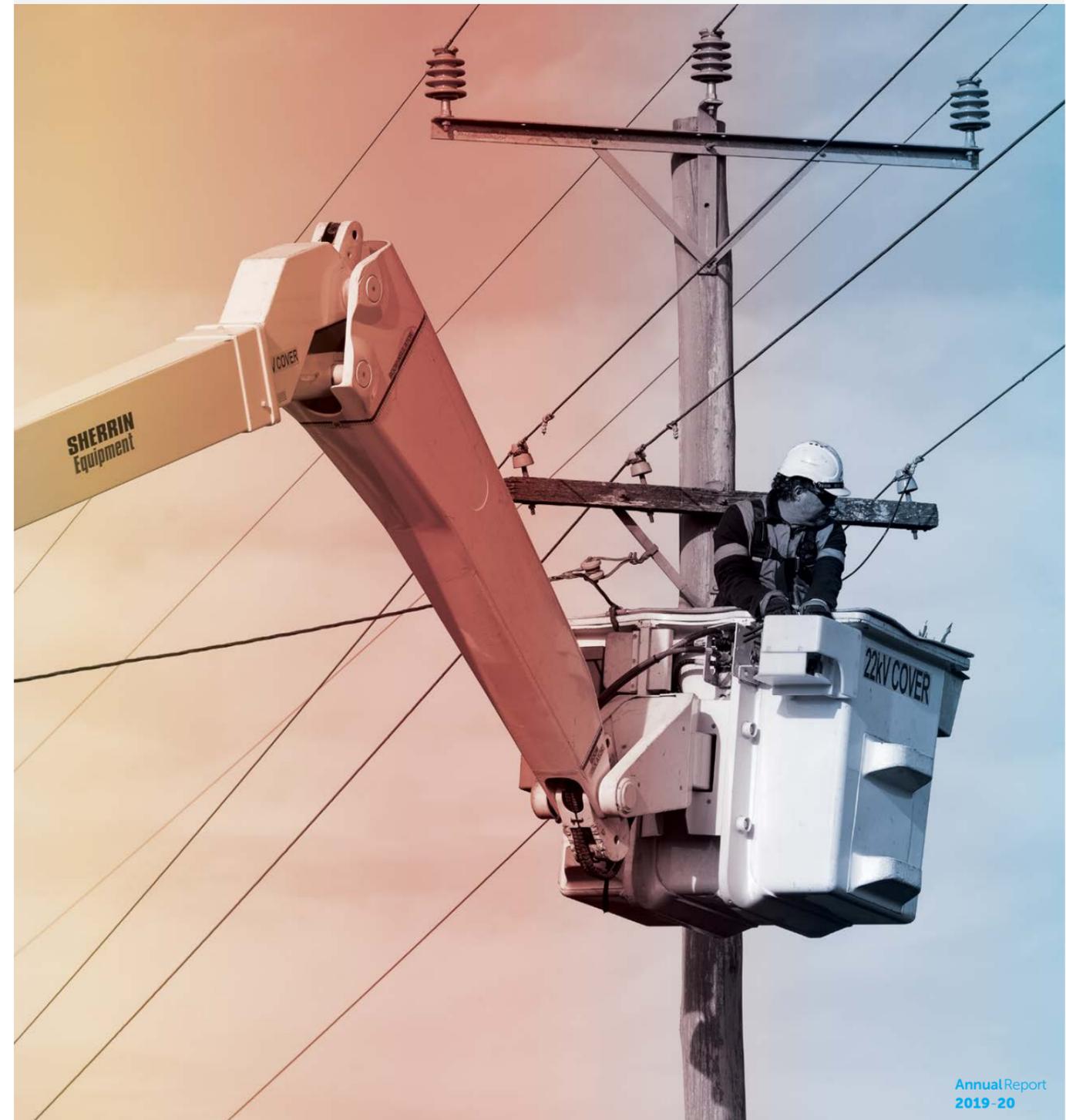
contribution to Australia's renewable transition is one of the most important responsibilities TasNetworks has. It's at the forefront of our Purpose to power a bright future.

For all that ambition, our truest heroes continue to be the team members who respond any time of the day or night, in any weather, and use their skill, courage and

commitment to keep the lights on across Tasmania.

It's that spirit of duty, dedication and service that underpins everything we do at TasNetworks to achieve, now and into the future.

Dr Dan Norton AO
Chairman



FROM THE CEO

What a year. In times of crisis, the people who provide crucial services are expected to step-up, take added responsibility and protect our communities.

For TasNetworks, during COVID-19, that's meant keeping the lights on across Tasmania while faced with the dual challenge of protecting our people and our customers from the risk and spread of the pandemic. I'm incredibly proud of the responsible, committed way our people have responded to the crisis. We adapted quickly to continue to operate a business of more than one thousand people working remotely, performed crucial front-line duties during lockdown, kept our eye on future plans and ambitions and fulfilled our responsibility to the people of Tasmania. It shows just how much we can achieve into the future with the skill, cooperation and ambition displayed over the past six months and we remain ready to provide our support to all Tasmanians as we begin the pathway to recovery.

Amid this uncertainty, the year remains characterised by strong achievements. We've met or exceeded the majority of our performance targets. We've significantly improved our safety performance, which remains an ongoing priority. Our customer service and satisfaction ratings keep improving. Our community engagement results were excellent and our new Enterprise Agreement was voted in. Our transmission and distribution pricing continue to deliver sustainable outcomes and support the Government's policy objectives. Importantly we connected two new wind farms to the network, the Cattle Hill Wind Farm and the Granville Harbour Wind Farm. Both projects were delivered safely, ahead of time and to a high quality, which augers well for the future connection of new renewable energy projects in the State.

Financially, TasNetworks made a profit of \$37 million, delivered returns to Government totalling \$65.953 million and will return a dividend of \$26.738 million from 2019-20 profits to the people of Tasmania. We have a



strong and resilient business that's well placed to keep contributing to Tasmania's economy and budget. Our strong balance sheet will enable us to keep supporting plans to double our island's clean energy production and make a far greater contribution to the rapidly changing National Energy Market.

Our Project Marinus team delivered a business case assessment showing the \$3.5 billion (\$2019) 1,500 megawatt Bass Strait interconnector and supporting on-island transmission is technically and commercially feasible, with the first 750 megawatt stage able to begin commercial operation as early as 2028. In construction, Project Marinus offers Tasmania a much-needed economic boost estimated to add \$1.4 billion value to the Tasmanian economy and create approximately 1,400 direct and indirect jobs in the region during peak construction. Importantly, the delivery of Project Marinus will enable many large-scale renewable energy projects and

make the Battery of the Nation possible. This is one of the largest economic opportunities Tasmania has had since hydro-industrialisation and TasNetworks is right at the centre of building and delivering it alongside the Tasmanian and Australian Governments. The inclusion of the project in the Australian Energy Market Operator's 2020 Integrated System Plan as an actionable project with decision rights, recognised the value of the project to enable Australia's transition to clean, reliable and affordable energy.

We also stepped-up to tackle difficult issues this year, and honour our historical responsibilities. TasNetworks is in the process of settling compensation with a small number of current and former employees in relation to historical herbicide exposure while working with the old Hydro Electric Commission in the 1970s and 80s. We ran a comprehensive search and screening process over eighteen months, supported by independent toxicology and medical advice. As a result of this investigation, it is deeply regrettable that

some of our people have one of the known cancers caused by exposure to the herbicide in question. We can't change the past; but we're determined to support our people, past and present, as much as possible.

Our results and achievements in 2019-20 are extraordinary when you consider the disruption of COVID-19, and the need to adapt our workforce to different ways of working over several months.

Like all communities, in coming months and years, Tasmania will need fresh resilience and opportunity to recover strongly from the COVID-19 crisis. The chance to double our island's clean energy is probably the most exciting and transformative opportunity we've had for several generations. A strong, creative and determined TasNetworks team stands ready to make it happen. My thanks to the entire TasNetworks team and our Board for their dedication, together, we'll power a bright future for Tasmania.

Lance Balcombe
Chief Executive Officer



RESILIENCE

Resilience of our network, our people and the community

Our world is experiencing dynamic and rapid change.

Events such as bushfires, severe flooding and the global COVID-19 pandemic can leave our economy, communities and businesses in vulnerable positions. Access to electricity is essential to a community's ability to adapt to sudden changes and recover quickly from difficult events.

Customers value the availability of electricity most in times of crises. Providing electricity to our customers is our core business, and therefore it is our ultimate responsibility to ensure both our network and our broader business is resilient, so our customers can access electricity when they need it most.

Providing electricity to our customers is our core business, and therefore it is our ultimate responsibility to ensure both our network and our broader business is resilient



Keeping the lights on

We understand that customers expect a reliable electricity network to power their home or business.

Although a significant proportion of unplanned power outages are due to problems in the grid (for example when a pole is damaged in a storm or power lines are damaged in a bushfire), TasNetworks works hard to improve reliability by strengthening our network. This is an area for continued focus in years ahead, with climate change expected to increase the number and intensity of extreme weather events.

When considering our network performance, we consider the frequency of outages and the duration of outages for both planned and unplanned events.

Distribution Network

Figure 1 describes the annual number of distribution (poles and wires) outages and the average duration of the outage for the last 5 years. The chart shows an overall improvement in our performance. With weather being a major contributor to network performance, the results are a reflection of the asset improvements we have made to stabilise the network reliability through different weather conditions.

During 2017-18, Tasmania experienced a period of poor weather (including flooding during May 2018). This is reflected in the graph above, with poorer performance.

Transmission Network

Figure 2 shows the annual number of significant Transmission (big towers) outages and the average outage duration. The transmission system has maintained steady performance during the past five years. The average outage duration has been influenced by a few major incidents in 2017 and 2019 calendar years.

Figure 1 Distribution Network Frequency and Duration of Outages for 2015/16 to 2019/20

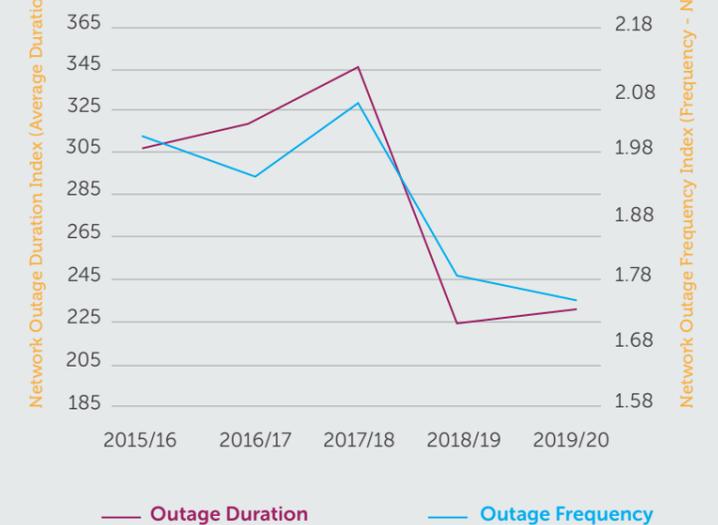
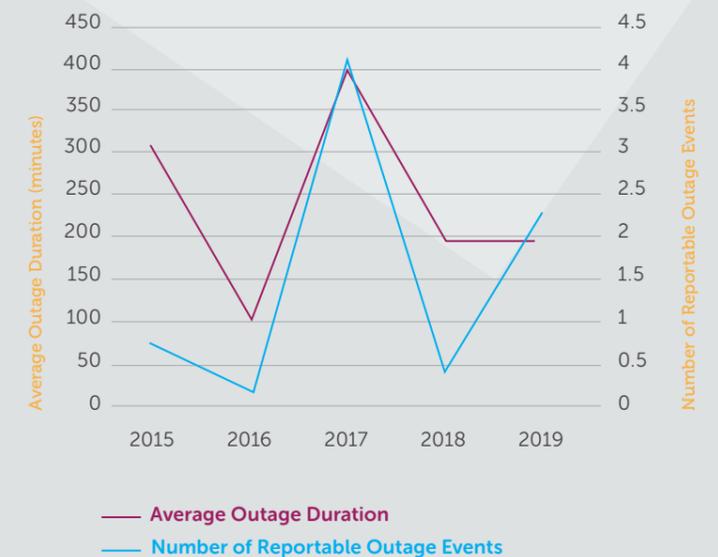


Figure 2 Transmission Outage Frequency and Duration by Calendar Year



Cyber Security

Energy utilities like TasNetworks are at high risk of cyber-attacks due to the scale of customer and business disruption that can be caused.

Building a strong cyber security function is critical to support the safe and secure operation of the business now, and into the future.

In 2019-20, we delivered a number of Cyber Security initiatives, including the identification of the organisational Cyber Security Operating Model, security improvements, new measures to address targeted cyber intrusions, and the introduction of a business wide cyber security risk management strategy.

We participated in a simulated cyber-attack exercise, which brought together industry, law enforcement, and government to test their response and recovery from a co-ordinated cyber and physical security threat. The exercise involved multiple functional areas of the business and helped us to strengthen our crisis communications and industry relationships. This is a method by which the cyber security industry can help boost Australia's collective defensive capability.

The Cyber Security Team is working with business and external stakeholders to integrate and embed the exercise learnings into existing emergency management plans and incident response procedures that will reduce the impact of cyber-attacks.



Delivering business efficiency

OMIP

In March 2019, we established the Operating Model Improvement Plan (OMIP) Project to deliver better customer value and shareholder return.

The project changed the way of working for more than three quarters of our workforce who work directly on safe and secure network operation.

The project has implemented initiatives to improve business culture, decision making and processes including:

- Better identification, prioritisation and monitoring of business improvements;
- New tools, data, and risk management for better benchmarking;
- New Fault Coordinator roles to oversee and enhance response to faults; and
- Electronic dashboards to increase work visibility and provide data for decision making.

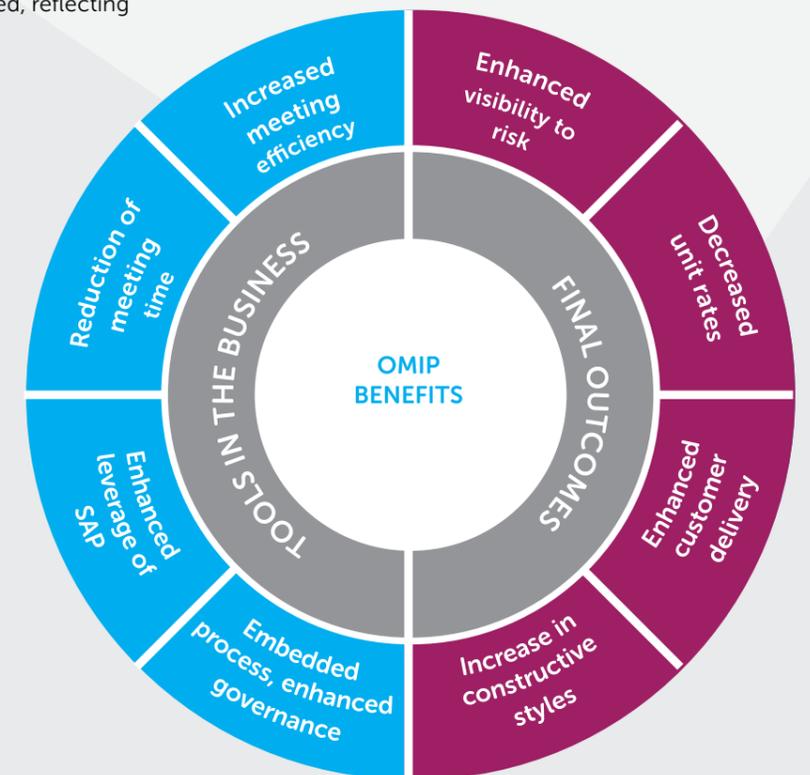
Since implementation of OMIP, the level of engagement across the enterprise asset management teams has increased, reflecting

that our people are satisfied and committed to the new ways of working. In our Operations and Customer Service Delivery team, engagement has increased by almost 20 per cent, a significant outcome as a result of the new ways of working.

Due to OMIP enhancements, the business has been better equipped to tackle adversity and respond to COVID-19. We successfully implemented measures to prevent the spread of the virus while maintaining our commitment to deliver a safe and reliable service to our customers.

Those efforts will also ensure we're well positioned for the next revenue reset, while delivering ongoing sustainable returns to our shareholders and service to our customers.

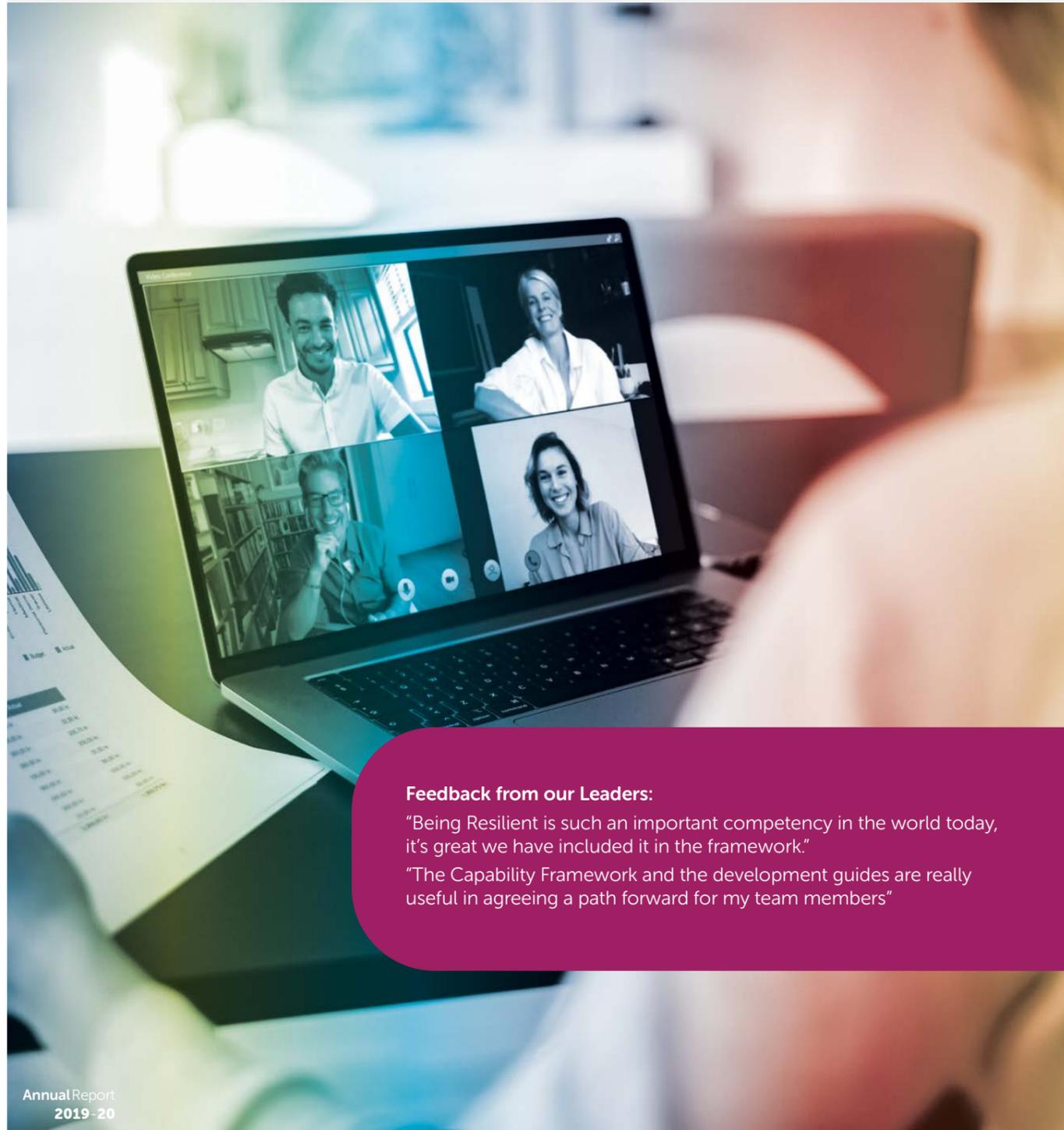
Thirteen improvement initiatives have already been identified and delivered, and more than 60 Management Operating Systems (MOS) meetings have now been designed and implemented across the business. This is reflective of the greater direction and focus our team members had on improving our management operating system and our operational management plan.



Agile ways of working

In 2019-20, we have also improved productivity by adopting Agile ways of working across the business. Teams now prioritise and define outcomes to be delivered in two week sprints. These outcomes contribute to delivering business unit goals which are defined in a 90 day cycle.

The implementation of Agile ways of working has been particularly beneficial as we adopt flexible working-from-home arrangements. Our people are clearer on what is required of them, and can work more independently, with the ability to come together when they feel it's needed. This outcome focussed approach has delivered greater accountability, improved efficiency and encouraged collaboration and innovation amongst teams.



Feedback from our Leaders:

"Being Resilient is such an important competency in the world today, it's great we have included it in the framework."
 "The Capability Framework and the development guides are really useful in agreeing a path forward for my team members"

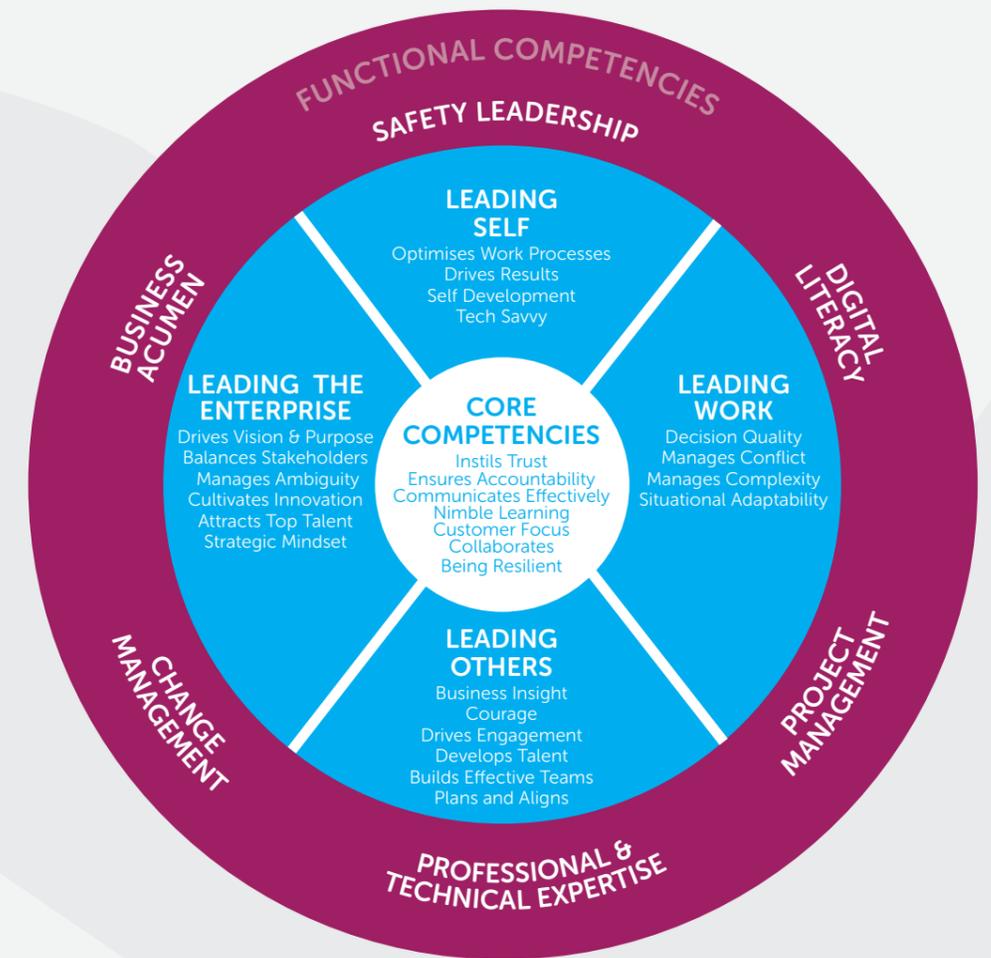
Developing our capability for a changing world

Our Capability Framework helps us to align the capability of our people and the operational practices of our business to our strategy.

It underpins the effectiveness and long term sustainability of our business.

It aims to optimise business performance to effectively lead our most important asset – our people. The competencies included in our framework focus on the skills and behaviours that matter most for our performance.

This year, COVID-19 has rapidly changed the way we operate, both as a business and a society. TasNetworks is responding to these changes by continually evaluating our plans and priorities, and identifying and developing the competencies we will need to succeed into the future. Due to this change, we've now included **Being Resilient** as a core competency. This is a key example of how our framework (below) needs to adapt to changes in our environment, industry and the evolution of our business strategy.



Our Response to COVID-19

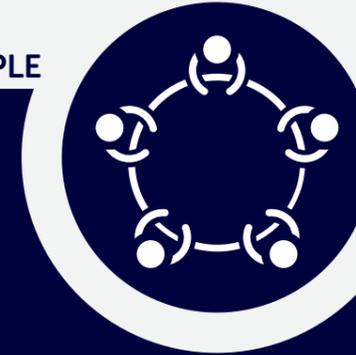
Despite major disruption from COVID-19, our focus remains on ensuring our island's energy supply remains secure and reliable.

Like the rest of the world, COVID-19 has changed the way many Tasmanians live their lives. With restrictions in place to stop the spread of the disease, we adapted our operations to ensure a safe and secure supply of electricity to our customers, while doing our part to protect our people and the community.



Safety and Wellbeing - Systems and Performance Team Leader Darryl White manages working from home and looking after his daughter during COVID-19.

OUR PEOPLE



We're committed to protecting our people and our customers by doing our part to limit the spread of COVID-19.

- We socially distanced our workforce, both in the office and in the field
- We transitioned to working remotely where practical
- Through regular communications, our team members were kept informed about COVID-19
- We used video conferencing to keep teams connected

OUR BUSINESS



As with any emergency, we have plans in place to ensure our business decisions are swift and in line with government and health authority recommendations.

- We took a phased approach to returning to the workplace
- Our new induction procedure ensured all teams were aware of new work practices
- We revised our workplace layout to allow 1.5m between team members
- We increased cleaning regimes and have made hand sanitiser available at all locations, including in vehicles
- We implemented a COVIDSAFE Visitor induction to anyone intending to visit a TasNetworks site
- We promoted the use of the COVIDSafe app to our corporate mobile devices and encouraged its use on personal devices

OUR CUSTOMERS



Through the peak of the pandemic we've continued to deliver our essential services to customers.

- To protect supply, we postponed 50 per cent of our non-essential maintenance work to keep power on while people were isolating, working and schooling at home
- Quarterly meter reading was suspended to reduce the risk of community transmission
- We listened to customer feedback and supported their needs via our customer service centre, digital media and other channels

OUR COMMUNITY



To support our community through the rapidly evolving situation we implemented a number of initiatives aimed to create a better tomorrow.

- We launched our Bright Sparks Online Program, allowing teachers and parents to carry out electrical safety lessons at home
- We launched our 'We're in this together' campaign to communicate the essential work we do in the community
- With more people spending time at home and using more electricity than normal, we developed a new partnership with the Australian Energy Foundation to help customers become more energy efficient

We're in this together

Through the peak of the pandemic, we kept doing essential works to maintain a safe and reliable electricity supply for customers.

While many people were required to stay home, the impact of planned power outages was felt more greatly, resulting in higher levels of complaints than normal.

To add to the inconvenience, with many schools and care facilities closed, there was the additional impact of trying to educate children, leading to an even greater reliance on electricity and a greater frustration when it was not available.

Because of the extra inconvenience from planned power outages, we scaled-back to only doing the most crucial work. We reduced planned outages from about 160 each week in normal times, to about 75 each week during lockdown. The consequences of not doing that crucial maintenance could've been sudden black-outs hitting thousands of homes, disrupting essential services like medical centres and care homes, and potentially putting lives at risk. We also needed to connect new homes and subdivisions, to help house Tasmanians, and support local jobs.

We also began a communications campaign called 'We're in this together', communicating with our customers. Through radio, social media and customer letters, we explained the need for these essential planned outages, even during lockdown, and why although we appreciate they are a short term inconvenience, that we are only doing what is vital to secure a safe, reliable service for our customers, including our commercial connections - therefore playing our role in supporting the Tasmanian economy.

While this campaign was formulated to fulfil a specific need during COVID, we believe it actually helped customers more fully appreciate what it takes to deliver safe, secure and reliable electricity to our customers. To further support Tasmanians during these unprecedented times, our 2020-21 regulated pricing outcomes backed measures put in place by Tasmanian Government to support Tasmanians by capping electricity prices. We also ensured that vulnerable customers were not disconnected during the crisis.

No one knows how long we will be dealing with the fullest impacts of COVID-19, and we are committed to doing what we can to assist our customers.

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Dual Trade Electrician/Lineworker Cole Triffitt featured in the campaign.



OUR PEOPLE

We keep safe, build trusting relationships, and enable our people to deliver value.

Our Purpose and DNA

In a rapidly evolving energy environment, it is increasingly important that our people have clear direction and guidance in how they work to power TasNetworks as a business and empower our Tasmanian community.

Alongside our new Purpose, we developed five DNA strands to help provide this focus internally. Our DNA is the principles which bind us together as TasNetworks, regardless of which group we work in.

- We are our customers too;
- We embrace diversity and forward thinking;
- Safety is at the heart of what we do;
- We unify and respond to challenges;
- Trusted to deliver.

In working towards our vision "To be trusted by our customers to deliver today and create a better tomorrow"; our DNA and Purpose are there to positively influence the way we all work together; to guide our people towards making the right decisions and choosing the right priorities. Being trusted is about more than just what we say or what we do, it's how we do these things, and it's here that our people truly make a difference.



Culture and Engagement

Today more than ever, we rely on the energy, commitment and engagement of our people in order to thrive.

We will continue to look at ways to improve our culture and engagement and create a more productive and constructive environment for the 1,144 people in our workforce.

Each year we measure TasNetworks' culture and engagement through our People Survey. Since we formed in 2014, we have seen strong positive change in both culture and engagement.

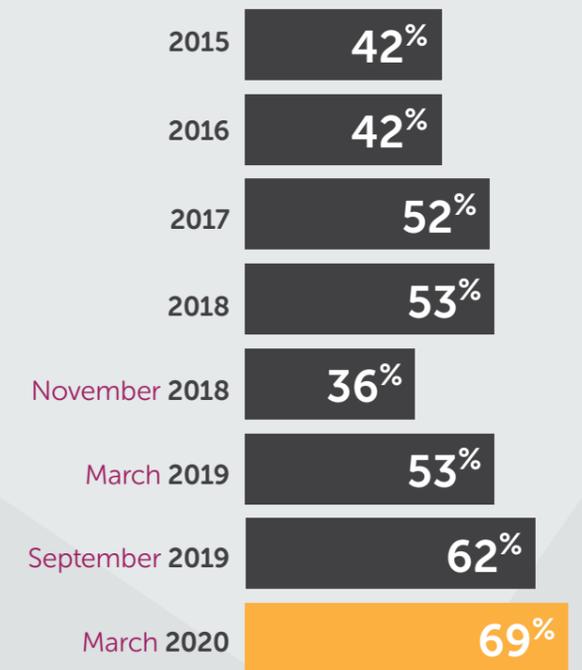
This includes a positive shift in the two constructive styles of achievement and self-actualising. This means our culture encourages discussions and exchange of ideas amongst team members.

This shift is also reflected in our engagement. Engagement has continued an upward trend with a score of 69 per cent (March 2020), up from 62 per cent (September 2019).

We acknowledge that cultural change takes time and concentrated, consistent effort. We work to improve our culture by implementing action plans based on the profiles and the dynamics of each team - and specifically target areas that need work. We support our leaders and team members to develop their understanding and appreciation of the contribution to TasNetworks' sustainable success of a high performing culture and an engaged workforce, which helps build a culture of trust and accountability.

Engagement Evolution

69% of those who participated in the survey responded favourably to the five engagement questions.



Favourable: answered 'agree' or 'strongly agree'
Neutral: answered neither 'agree' or 'disagree'
Unfavourable: answered 'disagree' or 'strongly disagree'

This year, graduates and STEAM Leads Nicola Marshall and Madeline Binet created the 'Powerful Connections Mentoring Program', with the aim of providing young female and non-binary students with a kick-start into their potential career in Science, Technology, Engineering, Arts and Maths (STEAM) disciplines.



Diversity and Inclusion

Diversity and inclusion is part of TasNetworks' DNA and is at the heart of our vision. We recognise that we succeed through shared respect, teamwork and diversity of thought.

In September 2019, TasNetworks updated its Diversity and Inclusion Policy, which recognises that TasNetworks is part of a diverse community. We value and celebrate the diversity of our team members and we acknowledge the diversity that exists in our customers and the community we support.

We're currently engaging business-wide to inform our future Diversity and Inclusion Strategy. To date, we have established a Diversity and Inclusion working group through a process of self-selection, with membership from across the business.

We are also strengthening our commitment to provide a work environment that is welcoming, safe, equitable and inclusive of our people and future team members.

We acknowledge we have more work to do to keep supporting our diverse people, customers and community and we're committed to taking meaningful action. Because of the passion and commitment of our people, we're heading in the right direction.

"It takes a myriad of people to bring power to Tasmanians and we are proud to be a diverse workforce contributing to the future of our state"

Lance Balcombe, CEO.



Attracting women to our industry

We are proud to be an Equal Opportunity Employer, and recognise the challenges that can exist in attracting women to the energy industry.

We have made significant progress towards gender balance across leadership roles since we commenced in 2014. However, we're equally focussed on the work that still needs to be done towards equal opportunity, especially in our field, engineering and technology areas.

Our merit-based employment principles and flexible working conditions help to create equal opportunity and inclusion in our workplaces. This includes removing barriers that prevent both women and men from entering the workforce, or performing particular roles.

This year, through a number of initiatives, we promoted Science, Technology, Engineering and Maths careers and opportunities to female candidates including:

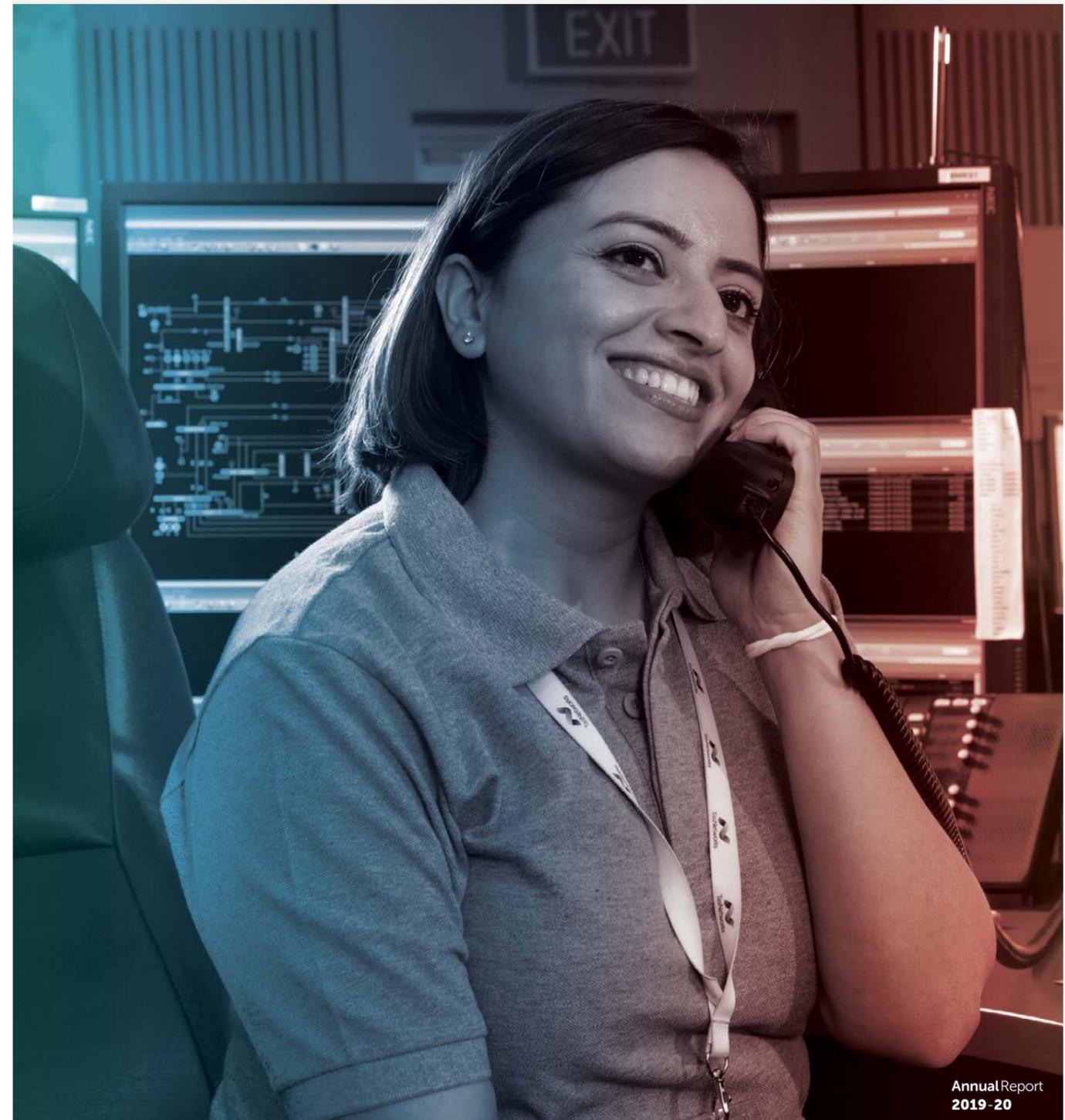
- Supporting the Women in Energy Scholarship through UTAS. This Scholarship provides valuable financial assistance and an industry work placement on our Summer Student Program for one female engineering student annually.
- Partnering with the Australian Power Institute (API) to award two bursary positions. The bursary provides two aspiring students studying Power Engineering with financial assistance and a position on our Summer Student Program.
- Launching our Apprentice Program, supported by a campaign to attract more females into the industry. We introduced the Field Coach mentoring responsibility to our experienced trades people. The Field Coach ensures our apprentices are well supported whilst on the job.



New Apprentice Electricians
Taylah and Jeremy

TasNetworks has strong advocates for women within our business; both the Women in Technology group and Women in Energy group provide great avenues for people to connect, share knowledge and discuss challenges and opportunities. These are open groups welcoming all and have become a mechanism to share a collective voice.

Test Analyst Varnika Bhasin champions diversity at TasNetworks, being a member of both the Reconciliation Action Plan Working Group and the Women in Energy Working Group.



Understanding Aboriginal history and culture. Dewayne Everettsmith takes TasNetworks Team Members on a walk on country at piyura kitina (Risdon Cove).



Taking steps to build relationships and commitments with Aboriginal people

This year, TasNetworks commenced the development of our **Reconciliation Action Plan (RAP)**.

Developing a RAP is a core part of our Diversity and Inclusion Strategy. Built around the three pillars of - trusted relationships, respect and opportunities - our RAP will be developed with our people, Tasmanian Aboriginal communities and key stakeholders.

We have established a RAP Working Group, to lead the development and implementation of the RAP and champion Aboriginal cultural awareness, respect, and engagement across the business.

We are committed to increasing workplace cultural safety. We are supporting our people to undertake cultural awareness sessions and events, which will further strengthen understanding and respect of the Tasmanian Aboriginal community.

We have established a RAP Working Group, to lead the development and implementation of the RAP and champion Aboriginal cultural awareness, respect, and engagement across the business.



Enterprise Agreement success – Interest-based bargaining approach and changes

TasNetworks' first Enterprise Agreement (EA) expired on 31 December 2019 and early work to negotiate a new EA started in September 2019.

Consistent with our cultural aim to increase our constructive behaviours, TasNetworks negotiated our second enterprise agreement from an interest based approach, as opposed to a traditional positional bargaining approach. Interest based bargaining (IBB) encourages employers and employee representatives to negotiate in good faith around broader 'interests' of the relevant parties, rather than the more 'positional' approach typically adopted.

On 30 March 2020, the decision was made to exit negotiations and put the proposed new EA out to vote. The vote opened on 9 April and concluded on 29 April, with a successful 'yes' being achieved (56 per cent).

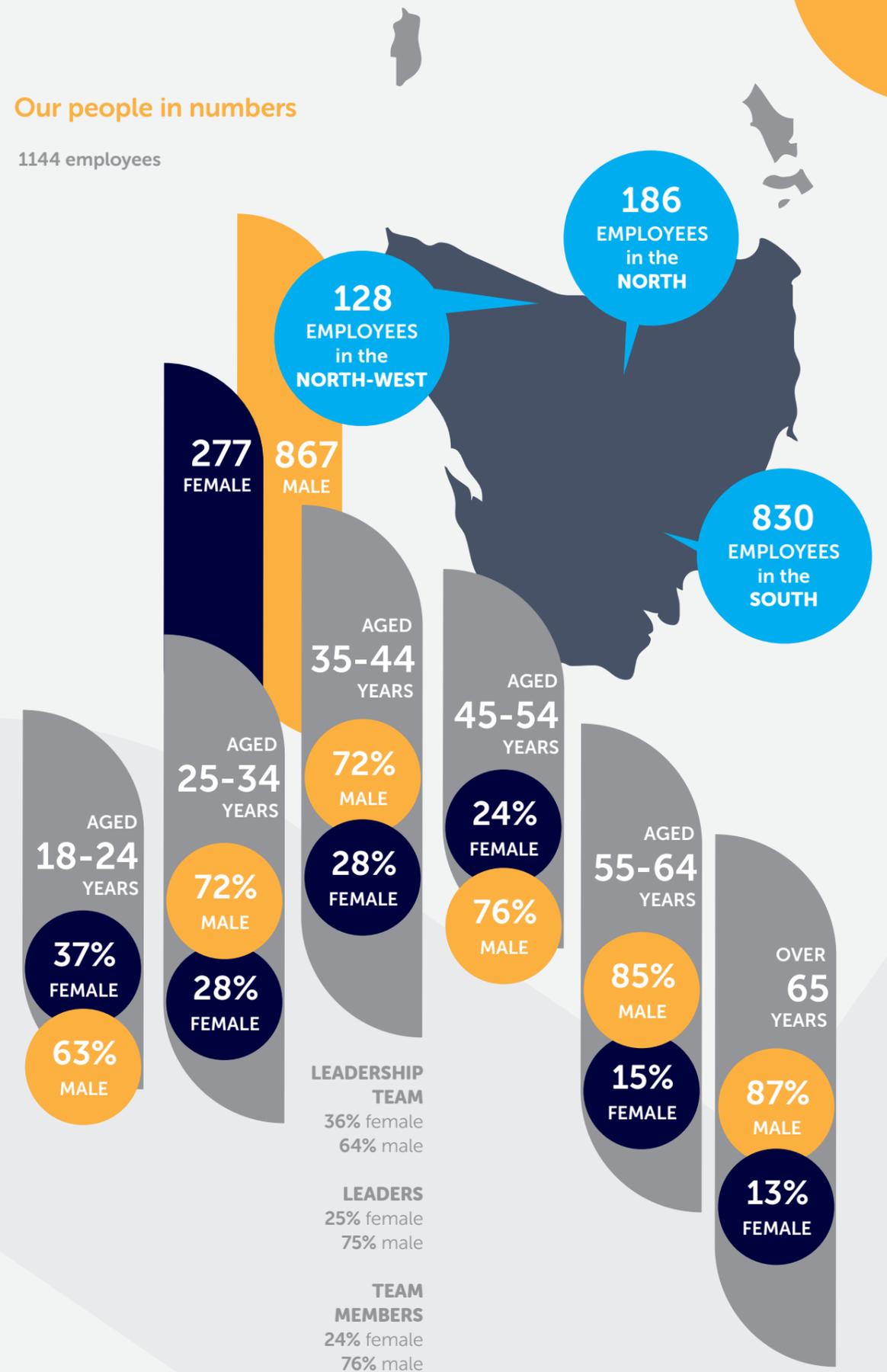
The new agreement was formally approved by the Fair Work Commission and came into effect on 18 June 2020.

The new agreement was formally approved by the Fair Work Commission and came into effect on 18 June 2020.



Our people in numbers

1144 employees



OUR CUSTOMERS AND OUR COMMUNITY

Making our customers' experience easier and caring for our community.

TasNetworks' confirms lower network charges

Since commencing operations TasNetworks has embarked on a process of developing and delivering a pricing strategy that aligns with customer preferences, views and priorities.

This process involves gradually moving towards more cost reflective pricing while continuing to deliver the lowest sustainable prices for our customers. Each year we transition the component charges for each tariff closer to meeting our strategy of cost reflectivity. Since 1 July 2019 time of use consumption network tariffs have been the default for households and small businesses that have an advanced meter installed, on an opt out basis. This change is reflected in the significant rise of residential and small business customers now on a cost reflective network tariff which has increased to over 33,000 customers at the end of 2019-20.

In May 2020, TasNetworks' 2020-21 Annual Pricing Proposal was approved by the Australian Energy Regulator. For 2020-21, distribution network charges decreased an average of 3.8 per cent for most Tasmanian households and small businesses.

Residential customers charged under the default consumption based time of use tariff (TAS93) received a decrease in their energy charge across both peak and off peak times.

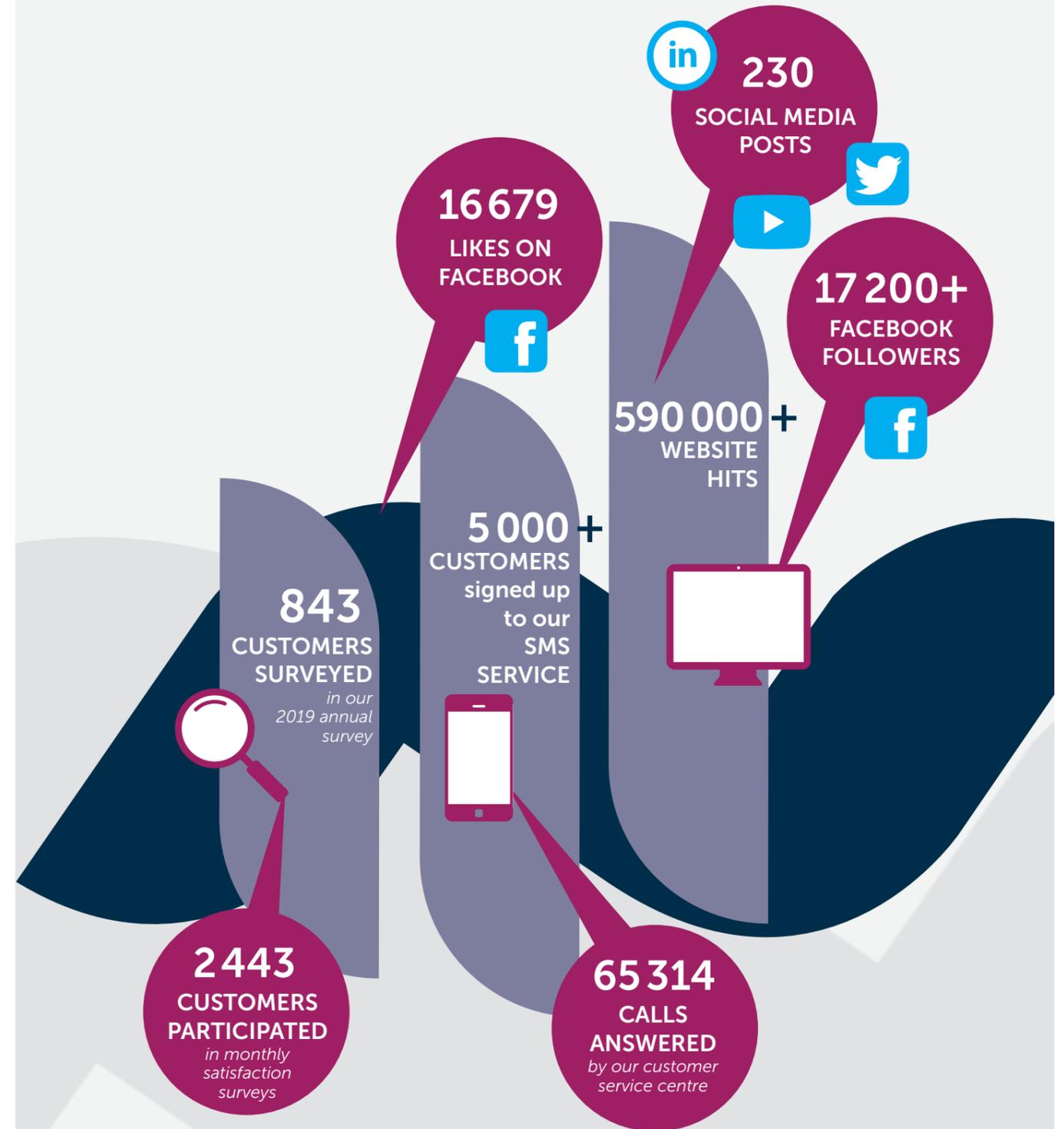
Small business customers charged under the default consumption based time of use tariff (TAS94) also received a decrease in their energy charge across the peak, shoulder and off peak times.

For a typical residential customer supplied under the combination of one network tariff for general power and light (TAS31) and another for hot water and/or home heating (TAS41), network charges lowered by around 5.2 per cent in 2020-21 than they were in 2019-20, or 6.9 per cent lower in real terms. These prices came into effect on 1 July 2020.



Visit our website to view our Annual Pricing Proposal at tasnetworks.com.au/poles-and-wires/pricing/our-prices

Customer Engagement at a glance



SMS launch a win for our people, our customers and our four-legged friends

We've launched a new SMS service where customers can register to receive updates and alerts affecting their service address direct to their mobile phone.

Team Leader of Customer Experience, Lisa Post, said customer feedback had identified an opportunity to be more proactive in the way we communicate with our customers.

"Introducing text message updates and reminders about power outages and meter reading provides customers with timely information when they need it," Lisa said.

Registration is quick and easy via the TasNetworks website. Customers just need to provide an email address, mobile number and the 10-digit National Metering Identifier (NMI) for their property which can be found on their power bill.

The meter reading reminders assist customers with dogs, locked gates and other access issues to provide access to the meters for our meter readers when they visit the property. A follow up message will advise when we have attended.

"It's a win for our people's safety, our customers and their four-legged friends of course!" Lisa added.

So far, more than 5,000 customers have signed up to the text message service.

Dogs are often the biggest barrier between our meter reader and a customer's meter. We require dogs to be visibly restrained from the meter box to ensure the safety of our meter readers.



Delivering trusted, faster and simpler customer connections

With up to 1,000 new connections a month, making sure we get Tasmanians on the grid quicker, has been a core focus for us during 2019-20, with the establishment of the Customer Connections Refresh Program (CCRP).

CCRP's core goal is to **deliver trusted, faster and simpler customer connections.**

In 2019 the CCRP reached out to our customers to talk to them about their frustrations and pain points, and help us focus our improvement efforts. We also looked at how to use technology to make faster connections and remove duplication (and waiting time) for our customers. This has reduced processing timeframes from 10 business days to five business days.

Armed with this great information, we were able to identify a set of quick wins that were delivered in May 2020. Focussed on improving our application forms and helping our customers understand the process, these relatively small changes made a big difference for our customers.

"The changes makes entering the applications much quicker and easier"

"I completed 55 applications in 24 minutes – this process normally takes around 10 hours!"
- Electrical Contractor May 2020

The CCRP will continue to deliver a program of technology, service model and process improvement during 2020-21 to ensure we continue to enhance the experience for our customers and get them connected, quicker. Our future improvements include enhancing the way our customers apply for a connection and technology improvements so our customers can track their application.

In 2019 the CCRP reached out to our customers to talk to them about their frustrations and pain points, and help us focus our improvement efforts.

What our customers told us

We don't understand the connections process and we're frustrated at how complicated it is

It is taking too long to get connected

The prices are often different for similar jobs

It is hard to find out where a job is at

EmPOWERing Farms

The emPOWERing Farms project involves working with our agricultural customers to understand the energy management challenges they face, and working with them to design solutions.

In 2019-20, we travelled around the state – from the far North-West to Tasmania’s South – interviewing farmers with land the size of towns to hobby farmers, who farm everything from crops, pigs, cattle, berries, sheep and even alpacas.

We gained a wealth of knowledge and collated our findings into five key areas of focus:

Connection process

The connection process for farmers is long, complex and difficult to navigate.

Knowledge barriers

Farmers find it difficult to make informed energy decisions due to lack of knowledge and information from sources they trust.

Communications

Communication between farmers and TasNetworks can be difficult due to mobile network limitations in rural areas. These communications issues can cause problems with appropriately managing bio security, gaining access to assets and sharing information about power outages.

Pricing

The design and structure of our network pricing for irrigation customers has impacts on farmer’s decisions, equity, safety, the environment, and the network.

New needs, new challenges

Farmers’ needs are changing now and into the future and TasNetworks needs to work with farmers to navigate and prepare for the change.

These insights form the basis for the next stage of the project which will generate solutions to these challenges. Before we began looking at solutions, we shared our learnings of the connection process focus area to the Customer Connections Refresh Program. This project was established prior to emPOWERing Farms and specifically looks at improvements to our connection process.



Partnering for a better tomorrow

Through our Community Partnerships Program, we seek to make a positive, long-term difference in the communities we live and work in every day.

Our Partnerships program is designed to create a better tomorrow in our community by delivering programs that care for the environment and advocate for a sustainable future, support customers facing vulnerable circumstances and empower communities.

In 2019, we supported 35 community organisations and invested \$250,000 to deliver initiatives aimed at creating a better tomorrow.

Putting the power back in customers’ hands

In 2020, we launched a new partnership with the Australian Energy Foundation to help our customers discover ways to save power and lower their electricity bills.

Key to the partnership is an energy advice phone service, now available to all customers.

From energy-efficient heating to suitability of embedded generation systems and more, a free call to the energy advice line can help our customers discover a range of solutions available for their needs.



Free energy advice
you can trust



A free home energy consultation can help you to discover ways to bring down your energy costs and keep your home comfortable, whatever the season.



Talk to an energy expert on **1300 236 855**
or visit www.tasnetworks.com.au

The power’s in your hands

Mental Health Game Changer

In 2019, we sponsored **The Mind Games Race for Research** which aims to raise funds for critical mental health prevention and research at The Menzies Institute of Tasmania.

Held during Mental Health Month, the action packed event brought together 250 representatives from Tasmanian organisations in a race designed to challenge the mind and encourage team work.

The first ever Hobart based event raised \$70,000 for the Menzies Institute for Medical Research.

This funding will ensure Menzies can keep performing internationally significant medical research leading to healthier, longer and better lives for Tasmanians.

Our sponsorship of The Mind Games and other wellbeing focused partnerships with organisations such as Menzies, provide us with an important platform to reinforce our commitment to maintaining a safe and healthy workplace, while furthering research to understand this important issue more broadly.

We look forward to sponsoring The Mind Games again in 2021 and supporting further research into mental health in Tasmania.

The first ever Hobart based event raised \$70,000 for the Menzies Institute for Medical Research.



TasNetworks' CEO Lance Balcombe at the Mind Games Race for Research event.

Sustainable charities

In 2020, we sponsored Sustainable Living Tasmania's Energy Audits for Charities Grant Program.

Through the program, we provided grants for energy audits to 17 Tasmanian Charitable Organisations, designed to provide them with practical methods to improve their energy efficiency and reduce costs.

With the added financial pressure on many of our community-based organisations from COVID-19, it's even more essential that operating expenses like power bills are kept as low as possible. By identifying cost-saving measures, we're helping ensure more of their funding can be directed to supporting vital work in the community.

Audits were provided to the following organisations:

Starting Point Neighbourhood House
Dorset Community House
Epilepsy Tas
Live Well Tasmania
Colony 47
The Wilderness Society
Scouts Tasmania
Railton Neighbourhood Centre
Bethlehem House
Paraquad Association of Tasmania
Cancer Council of Tasmania
Risdon Vale Community House
Mission Australia Housing
Richmond Fellowship Tasmania
Burnie Community Centre
Christian Youth Centre
Aurora Disability Services

"It has been wonderful to apply our expertise in energy efficiency and renewable energy to help other charities whose services to our community we value so highly."

Todd Houstein,
Principal Consultant,
Sustainable Living Tasmania.



Todd Houstein with Angela Abbott from Colony 47.

TasNetworks responds to the Australian bushfire crisis

2019 saw Australia in the grip of a major bushfire crisis. TasNetworks' community minded staff quickly reacted to this with their typical 'how can we help?' attitude.

The following weeks saw numerous initiatives such as raffles and barbeques being held across the state and all monies being directed to our combined bushfire appeal. TasNetworks team members raised \$3260, this amount was then dollar matched by TasNetworks and distributed across various charitable organisations chosen by staff.

Supportive and united in times of need

AusGrid approached TasNetworks to help repair infrastructure and restore power in the wake of the 'one in 30 year' storm that hit Sydney and surrounds in early February this year.

We were pleased to send fourteen people and five trucks (in combination with ETS Electrical Services) to help. The team included overhead field operations specialists and site supervisors, under the leadership of Anthony Steele and Jamie Hills.

It was a massive effort that's earned the respect, confidence and praise of our interstate counterparts. The mission has even raised the prospect of a future 'exchange program' between TasNetworks and AusGrid field operators, to share skills and experience in different settings.

The mission was a great example of support and camaraderie in the Australian electricity industry. It's great to know we can count on similar support and solidarity from interstate, if and when the need arises.

The mission was a great example of support and camaraderie in the Australian electricity industry

TasNetworks, in conjunction with ETS Electrical Services, supported AusGrid crews to restore power to customers affected by the storm that hit Sydney and surrounds in February 2020.



Image courtesy of TasNetworks' Environment and Sustainability Specialist Thomas Webster.



SAFETY AND ENVIRONMENT

Protecting our people, the community and the environment.

Making a step change in environmental performance

TasNetworks cares about the environment and advocates for a sustainable future. In line with community expectations, it is important that we manage our operations in a way that minimises our environmental impacts.

This year an independent assessment of TasNetworks' environmental maturity was undertaken, including site visits, numerous interviews and document reviews. The assessment found that TasNetworks has a positive attitude towards the environment

and appreciates the importance of managing our impact responsibly. It also identified a number of focus areas for potential development.

In response to the assessment, we have committed to an initiative to see TasNetworks make a step change in environmental performance. This initiative forms part of our Balanced Business Plan for 2020-21. The initiative focuses on driving improvements in a range of areas including; leadership and governance, assurance and reporting, risk and compliance, technology and innovation, competency and training, management systems and environmental culture. In order to effectively deliver the initiative; the capacity of TasNetworks Environment and Sustainability Team will be enhanced in 2020-21, demonstrating TasNetworks' commitment to our environment.



Creating cultural change is at the core of our environmental maturity journey. Environment and Sustainability Team Leader Ed Parker (right) discussing environmental design considerations with Asset Engineer Xiang Yung Choo (left) on Bruny Island.

Raising the bar for waste management

This year we commenced an assessment of our numerous waste streams to determine where opportunities may exist to improve our waste management, to be followed up next year with the development of a waste strategy.

The strategy will outline how we'll implement sound waste management principles and practices, such as the implementation of the waste management hierarchy, to ultimately reduce waste that ends up in landfill, but also to reduce the creation of waste in the first place.

Some types of wastes need to be carefully managed and are closely regulated because of their potential to negatively impact our customers, our people and the environment. These types of waste are referred to as controlled waste. At TasNetworks, our assets and operations can produce controlled wastes including asbestos, waste oil, arsenic ash, PCB oil and SF6 waste and hydrocarbons.

This year, we have focussed on enhancing awareness and knowledge on how to handle and dispose of these controlled wastes.

This year, we have focussed on enhancing awareness and knowledge on how to handle and dispose of these controlled wastes.

Environment and Sustainability Specialist Deb Terry said that work practices and training materials were developed in support of TasNetworks new EPA Controlled Waste Transport Certificate and depot day awareness training has been undertaken prior to COVID-19.

"It's been a fantastic collaborative effort within the organisation and training has been completed by over 300 TasNetworks team members and contractors," Deb said.

"Despite the emergence of COVID-19, we continued to deliver the training via video conferencing."

A controlled waste inspection template was also developed and is now being used successfully in the field via a phone app, to monitor compliance during transport.

In the 2021 calendar year, the Controlled Waste training will become part of relevant team member induction procedures and more auditing procedures will be put in place.

Glenn Newell and other spill crew members attend a substation oil spill clean-up at Rose Bay. Sampling of existing service trenches, or surface sampling is undertaken to help determine the lateral extent of hydrocarbon migration. This site provided hands on opportunities for new spill team members to gain practical experience in sample collection. Samples are then analysed at the local laboratory which helps determine which licensed facility the contaminated soil can be disposed of in, if excavation is necessary.



Protecting Tasmania's Iconic Birds

Unfortunately, listed threatened birds like Wedge-tailed eagles, grey goshawks and white-bellied sea eagles are impacted as a result of flying into our power lines or when they perch on power poles.

In 2019-20, TasNetworks reported 18 threatened bird incidents, compared to 24 the previous year and 33 in 2017-18. Recent data shows that our impact is declining and our awareness campaigns have encouraged greater reporting by the public, particularly in regional areas.

We continue to strengthen our response to our environmental impact through our Threatened Birds Strategy. The aim of the strategy is to layout the direction and activities which will ultimately lead to a material reduction of TasNetworks' impact on Tasmania's iconic threatened birds of prey.

Over 65km of bird mitigation was installed in 2019-20 and another 180km of high-risk lines will be mitigated over the next three years as part of a five year \$5m proactive bird mitigation program. Mitigation, such as bird diverters or 'flappers', helps to make power lines more visible, reducing the risk of collision. Areas of focus so far have been Gladstone, Epping Forrest and Oatlands-Lemont. Our planned mitigation work is primarily concentrated on TasNetworks' distribution network, as 96 per cent of all historic incidents are related to our overhead distribution infrastructure.

To help deliver on the long-term aim of the Threatened Bird Strategy, we have been working proactively with scientific experts, to develop an eagle strike-risk model (ESRM). The ESRM will better enable us to identify areas where Wedge-tailed eagles are likely to interact with our distribution network, allowing us to plan the installation of bird flappers and other mitigation more effectively.

Flying high for the Eagles

In late April and early May, we conducted eagle nest surveys as part of the environmental impact assessment on potential routes for the North West Tasmania transmission developments.

Helicopter-based surveys were used to identify and locate Wedge Tailed Eagle and White Bellied Sea Eagle nests. Findings from the eagle nest surveys will be used in route selection, design and construction planning.

Bird mitigation devices known as 'flappers' are installed to power lines to make them more visible to birds so they're more likely to avoid flying into them

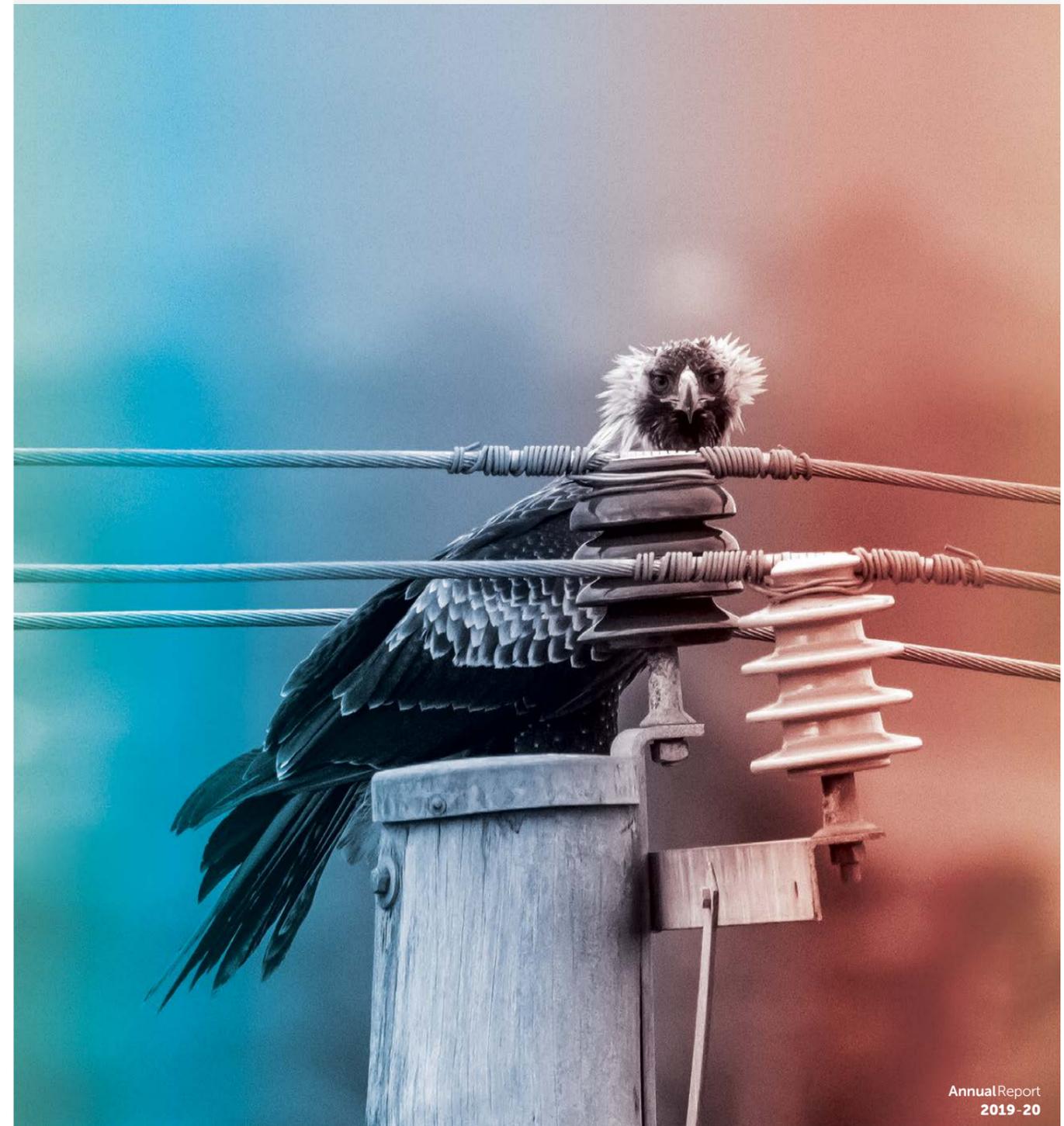
We are also focused on engaging proactively with our key external stakeholders.

TasNetworks convenes a Threatened Bird Forum to bring together the Department of Primary Industries, Parks, Water and Environment staff, independent experts, researchers and raptor rehabilitators to discuss a broad range of eagle conservation measures, including the deployment of

mitigation and how we can make our poles and wires safer for birdlife.

We also continued to promote a number of conservation and protection projects within the community including the citizen science project Where? Where? Wedgie! and providing funding for the construction of a new aviary and additional rehabilitation support at Raptor Refuge.

A Tasmanian Wedge-tailed Eagle perches on a TasNetworks pole. Image courtesy of Dean Hohn.



Safety incidents trending downwards

2019-20 was a pleasing year for Safety & Wellbeing performance, with a positive downward trend in metrics across the performance indicators.

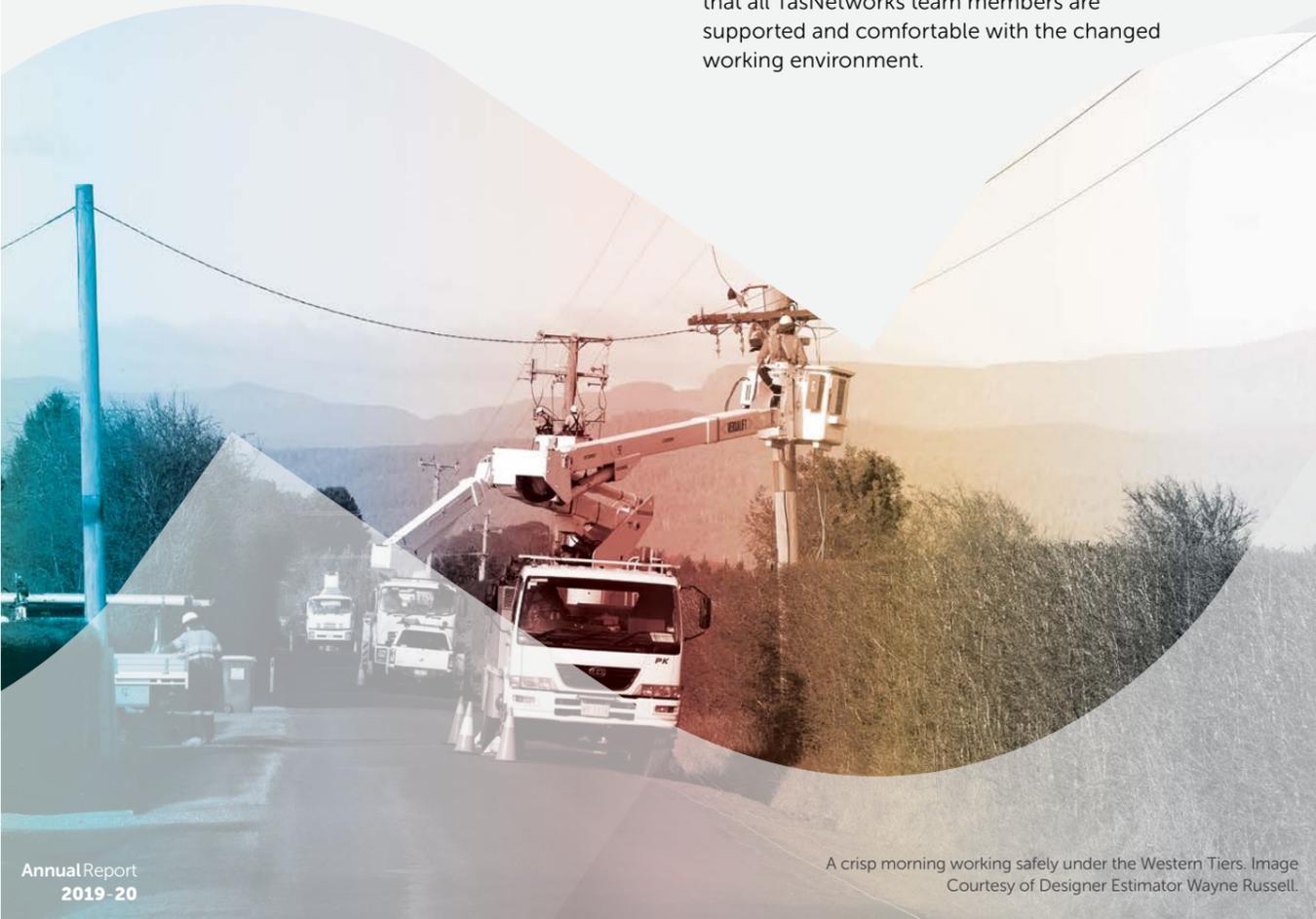
During this year the Safety & Wellbeing team began implementing initiatives and safety system improvements identified in an independently commissioned report in 2018. These initiatives were aimed at step changing the safety and wellbeing performance across the business by addressing opportunities for improvement and updating safety systems within a continuous improvement model.

Over this year the Total Recordable Injury Frequency Rate (TRIFR) reduced from a rate of 11.4 injuries per 1 million hours worked to a TRIFR rate of 6.6. This was significantly below the target of <9.

Likewise, the number of Significant Incidents reduced from a total of 14 for year 2018-19 to a total of 6 for the year 2019-20. These included one injury to employee, one near miss vehicle related incident,

one uncontrolled pole failure and regrettably three wrongful disconnections of registered life support customers during planned outages. These disconnections have resulted in the creation of the Customer Outage Review project team charged with reviewing the customer outage processes end to end to identify points of failure and to develop and implement actions to stop the reoccurrence of such incidents. This project is expected to continue into the year of 2020-21.

As COVID-19 changed how we worked this year, the physical and mental wellbeing of our people was of particular focus. For some the pandemic contributed to feelings of fear, anxiety, social isolation and loneliness. Throughout the crisis, we provided team members with updated facts, resources and solutions to support our people to remain calm, educated, healthy and engaged. We strengthened our sense of community by supporting each other via virtual catch ups, employee wellbeing checks and the implementation of daily online mindfulness sessions. Further work is underway to ensure that all TasNetworks team members are supported and comfortable with the changed working environment.



Safety in the community

In 2019, we sought to encourage greater awareness of electrical safety in the community by developing a number of new community safety campaigns, which send an important safety message, **don't switch off around electricity**.

Focused on preventable electrical safety incidents, the advertisements are designed to capture viewers' attention and influence their decisions through a number of communication channels including television, radio, digital and social media.

Look Up Look Out

Featuring a DIY home renovator working dangerously close to powerlines, our new look up look out campaign reminds customers that just getting too close to powerlines can have serious consequences.

Safe Growing

Safe growing encourages customers to be proactive when planting new trees by making sure they won't grow within 3 metres of powerlines.

Home Health

Home health reminds customers that issues like tingly taps and flickering lights could be a sign of danger and should never be ignored.

CablePI

We're reminding customers of the importance of keeping their CablePI device plugged in and switched on at all times.

The new advertisements complement our Fallen Powerlines and Preparing for Power outages campaigns.



Safety in Schools

Our Bright Sparks Program aims to reduce the risk of electrical incidents and prevent tragic accidents by educating primary school children across Tasmania about electrical dangers and encouraging safe and responsible practices outside of school.

In 2019, we expanded the program to align with the education curriculum and provided additional resources to teachers and educators, continuing the learning once we leave the classroom.

The trial of the new resources and curriculum aligned workbooks across 15 classes at Taroona Primary school generated positive feedback from teachers and students.

What teachers are saying

- So far, our teachers are very satisfied that the new resources meet the curriculum, and the teaching and learning sequences are easy to understand.
- The presentation is a great springboard into the lessons and students feel successful as they approach the lessons with some background information if they didn't already have some.
- The children return from Bright Sparks very enthused.

The trial of the new resources and curriculum aligned workbooks across 15 classes at Taroona Primary school generated positive feedback from teachers and students.

COVID-19 Impact

With many Tasmanian students transitioning to schooling at home and restrictions impacting our ability to physically deliver the program in schools, our online Bright Sparks Program consisted of new curriculum aligned workbooks, educational resources for teachers and parents and fun activities for use in both the classroom and at home.

The newly-developed online program was launched in April 2020 and promoted to 350 schools.

Harper (left) and Molly (right) from Lenah Valley Day Care Centre, learning how to be safe around electricity as part of our Bright Sparks Program.



Helping to prevent bushfires

Our annual bushfire cut program helps to reduce the threat of bushfire by trimming vegetation growing close to powerlines.

In 2019, we joined the Tasmania Fire Service (TFS) at their Bushfire Preparedness Information Sessions to engage with customers about the program and to encourage greater awareness of the steps customers can take to ensure their safety before, during and after a bushfire when it comes to electricity.

We look forward to teaming up with TFS for the Bushfire Preparedness Sessions again in 2021.

Our Safe Growing campaign helps to prevent bushfires by reminding customers not to plant trees that will grow within three metres of powerlines.



RENEWABLE ENERGY AND GROWTH

Connecting new customers, progressing Marinus Link and supporting renewable energy projects.

New large connections support the renewable energy transition

During 2019-20 we completed the connection of two new wind farms to the Tasmanian power system: Granville Harbour Wind Farm and Cattle Hill Wind Farm.

Once they have reached full generation, the combined output of these two new renewable generators will be 255.6 megawatts (MW). TasNetworks successfully delivered the transmission lines and other assets required to connect these projects, overcoming obstacles including bushfires and snow falls affecting worksites to complete the work earlier than our targeted completion dates for both projects.

We've continued to see an increase in large (transmission) connection enquiries and expressions of interest compared to previous years. We continue to work with customers to progress their projects, and expect a number will progress to formal applications within the coming year. These enquiries comprise approximately 900 MW of renewable generation (including proposed wind farms and solar farms) and 300 MW of new load. We've also seen increased interest in hydrogen production facilities, a trend that is likely to continue following the release of the Tasmanian Renewable Hydrogen Action Plan in March 2020.

The increasing level of activity in new large connections is reflective of the ongoing transition to renewable energy across the National Energy Market, a strengthened case for Marinus Link, as well as continued recognition of the world class renewable resources we have here in Tasmania.



A challenging construction site: a helicopter stringing conductor onto a TasNetworks transmission tower at the edge of Hydro Tasmania's Reece Dam, forming part of the transmission line built to connect the Granville Harbour Wind Farm.



Preparing for EVs to charge

Tasmania's transport sector has the highest emissions out of all the sectors of the State's economy. Electric vehicles, powered by Tasmania's renewable energy, could reduce emissions, reduce transport costs and help to improve the State's energy security.

To harness this opportunity, we have been updating our Electric Vehicle (EV) Strategy to cater for changing needs of our customers. Electric vehicle ownership in Tasmania remains low, yet is increasing as lower cost models become available in Australia. To prepare for the changes ahead, we are working with Tasmanian Climate Change Office to plan Tasmania's response to the uptake of EVs, and support the State's transition to a low carbon economy.

With EV numbers set to rise, our grid will need to accommodate EV charging. In 2018, we established the Fast Charger Support Scheme which has supported the installation of fast chargers in Launceston, Burnie, Hobart Kempton and Campbell Town.

As well as being new load on our network, EVs are a form of energy storage and pose both challenges and opportunities for TasNetworks. Uncontrolled charging could exacerbate network demand issues, while if appropriately managed, EV charging could improve utilisation of existing network assets. We are working with other distribution network businesses, industry bodies and universities to better understand the future network challenges, new products and services that market will offer, and what network and non-network solutions we can offer.



A Tesla Model 3 powers up at the Evie Networks charging station in Campbell Town. The installation of the two ultra-rapid (350 kW) charging units was supported by TasNetworks' Fast Charger Support Scheme.

42-24

Overview

Since formation on 1 July 2018, 42-24 has continued to develop and grow its service offering in the telecommunications, data centre and IT services market. With a focus on growth and diversification, 42-24's strategy has been targeted at four key pillars:

- Develop brand identity
- Setup for success
- Build profitable lines of business
- Explore growth opportunities (including energy services)

These four pillars provide 42-24 with the key areas of focus to ensure our business is built on a solid foundation that will enable future growth and success.

Innovation

We strongly believe in innovation at 42-24. This is essential in order for us to continue to deliver quality solutions into the future. We are working towards extending our service offerings by pairing with other like-minded businesses and exploring new markets such as energy services. We look forward to the value and diversity of opportunity that this will create for our customers and shareholders. 42-24 has shown its commitment to innovation through support of the UHack event run by the University of Tasmania during September 2019. 42-24 will also commence construction of an Internet of Things telecommunications networks during quarter three of 2020, to capture new opportunities in this expanding market segment.

The project is a great example of 42-24 working positively with its primary delivery partner in TasNetworks telco to deliver a complex high value service supporting its customers and Tasmanian communities.

Enabling Telecommunications Services for Tasmania

During 2019, 42-24 and TasNetworks provided access to national tier 1 carriers to support the delivery of services to communities on the West Coast of Tasmania. This service utilised the new fibre optic extension between TasNetworks' Rosebery substation to the TasNetworks microwave radio site on Mount Read constructed in 2018, a path length of 11kms. West Coast communities have historically been serviced by high capacity microwave radio backhaul services from Mount Read due to a lack of optic fibre infrastructure in this location. While microwave radio is a very reliable backhaul solution it does have limited capacity and does not support modern applications such as video streaming on mass.

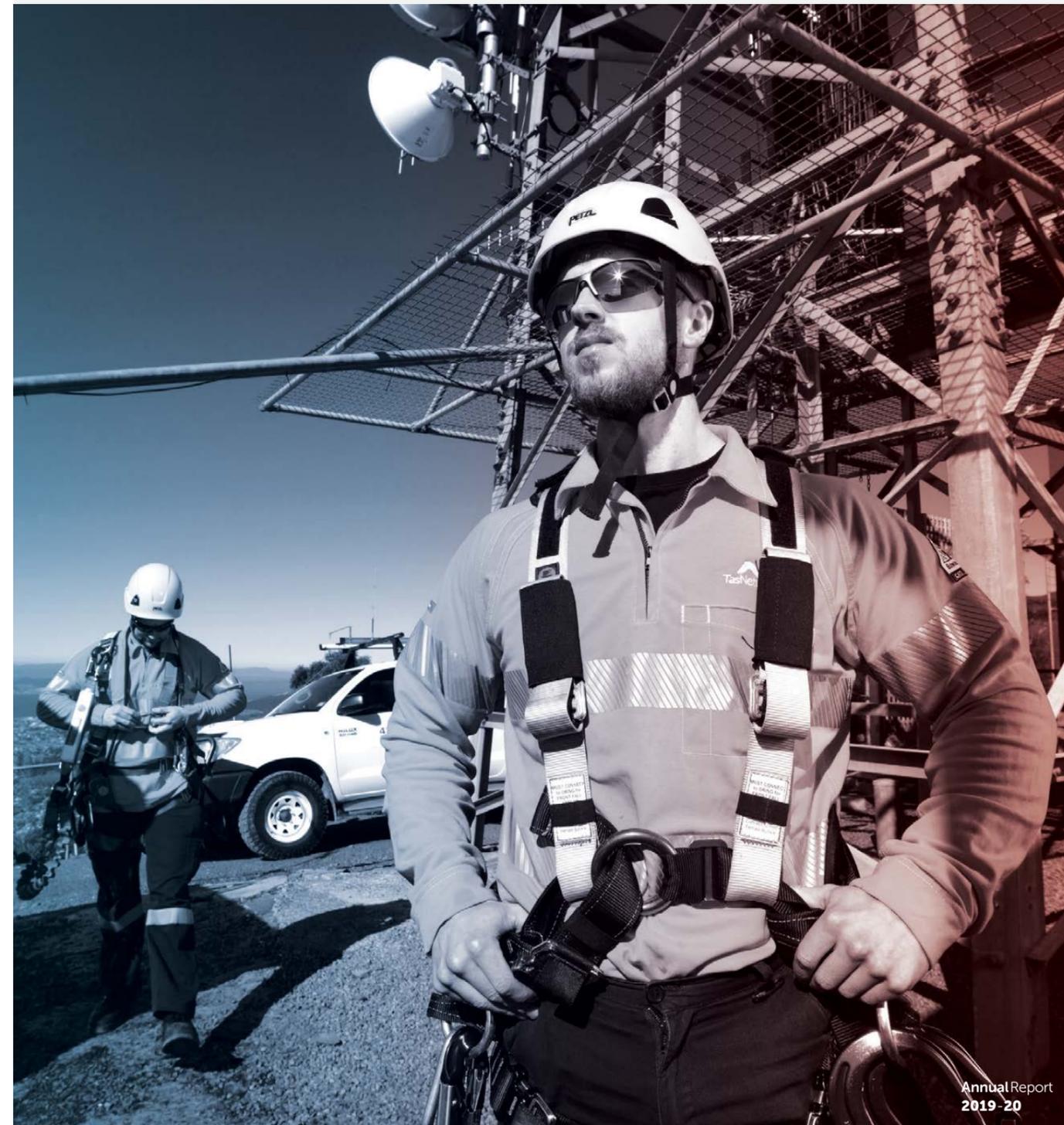
Since completion of the new optic fibre path, 42-24 sales staff have been offering new and existing customers access to high capacity optic fibre based services as a replacement to existing microwave radio services. This strategy has been very successful with a number of new and existing customers.

The project is a great example of 42-24 working positively with its primary delivery partner in TasNetworks telco to deliver a complex high value service supporting its customers and Tasmanian communities.

Progressing commercial opportunities in 2020

In order to pursue new commercial opportunities and progress our growth strategy, by December 2020 42-24 needs to 'functionally separate' by moving to its own offices, removing any TasNetworks branding, and limiting business-to-business information sharing.

TasNetworks will still be able to work with 42-24 on existing telco, IT and data centre business, but under new 'controls'. It'll be largely 'business as usual' for 42-24's customers.



PROJECT MARINUS

PROJECT MARINUS UPDATE

A POSITIVE BUSINESS CASE

The Business Case Assessment Report for Marinus Link and the supporting North West Transmission Developments was released in December 2019. It showed that a 1500 megawatt (MW) Marinus Link and the supporting transmission developments in North West Tasmania will deliver low-cost, reliable and clean energy for Tasmania, Victoria and the broader National Electricity Market.

The report also showed that Marinus Link and the proposed transmission developments will unlock significant jobs and training opportunities as well as economic investment, particularly in regional Tasmania and Victoria. The project will unlock Hydro Tasmania's Battery of the Nation initiative and other renewable projects, such as wind and solar farms, and support achievement of Tasmania's renewable energy target of 200 per cent renewable energy by 2040.

PROGRESSING THE REGULATORY INVESTMENT TEST FOR TRANSMISSION (RIT-T)

In December 2019 TasNetworks also released the Project Draft Assessment Report (PADR) to progress the RIT-T assessment process for Marinus Link and the proposed North West Transmission Developments. The RIT-T will determine if Marinus Link and the proposed supporting transmission provide greater benefits than costs to the energy market. The final RIT-T stage – the Project Assessment Conclusions Report – is expected to be released in 2021. The current cost recovery framework is under review, with this work being led by the Council of Australian Governments (COAG). An appropriate customer pricing outcome is required for the project to proceed. We continue to support our Shareholding Ministers in working through pricing considerations to achieve a fair outcome for customers.

DESIGN AND APPROVALS PHASE PREPARATION

Over the first half of 2020, the Project team undertook necessary preparation activities for the Design and Approvals phase of the project. This work included supporting our Shareholding Ministers in working through funding and governance arrangements, recognising that the Australian Government provided \$56 million to the State to prepare for and commence some Design and Approvals critical early works.

Activities in Victoria, Bass Strait, and the Tasmanian supporting transmission network continued, including marine surveys, eagle nest surveys, economic modelling, early design, and some community and landowner engagement in Tasmania. The project team has continued to refine a transmission route between Staverton and Hampshire Hills, a key part of the proposed North West Transmission Developments. Planning is underway to prepare for engagement on the balance of the proposed route. The COVID-19 pandemic has affected the timing of some project activities, as the project team adapt to new requirements and ways of working.

STRONG SUPPORT FOR PROJECT MARINUS

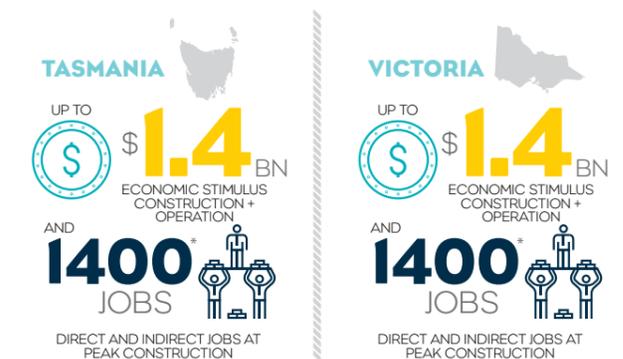
The work to progress Marinus Link and the North West Transmission Developments will provide clean, reliable and affordable energy to customers across the National Electricity Market, and drive important economic stimulus in Tasmania and Victoria as Australia recovers from the impact of COVID-19. Support for Marinus Link and the supporting North West Transmission Developments continues to grow.

The project:

- ◇ Is a cornerstone of the Tasmanian Government's policy announcement of 200 per cent renewables by 2040.
- ◇ Is classed as an actionable project with decision rules in the Australian Energy Market Operator's (AEMO's) 2020 Integrated System Plan and needs to be 'shovel ready' from 2023-24 and able to be in service from 2028.
- ◇ Has 'high priority' status in Infrastructure Australia's 2020 listing of nationally significant initiatives.
- ◇ Was named by the Australian Government as one of 15 priority infrastructure projects that will bring benefits to the Nation in the wake of COVID-19.
- ◇ Is named a Project of Regional Significance as part of the Cradle Coast Authority's Regional Futures Plan.

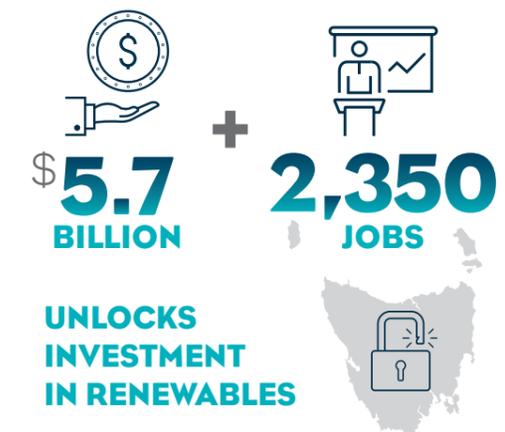
JOBS AND ECONOMIC CONTRIBUTION

Economic analysis undertaken by Ernst & Young shows that Marinus Link and the proposed North West Transmission Developments will create an estimated 1,400 jobs in Tasmania and 1,400 jobs in Victoria during peak construction. It will contribute \$1.4 billion dollars to the Tasmanian economy and \$1.4 billion dollars to the Victorian economy during construction.



* JOBS FIGURES ARE ESTIMATED FOR THE PERIOD SPANNING 2025-27 ALL FIGURES ARE ESTIMATES BASED ON ERNST & YOUNG MODELLING NOVEMBER 2019.

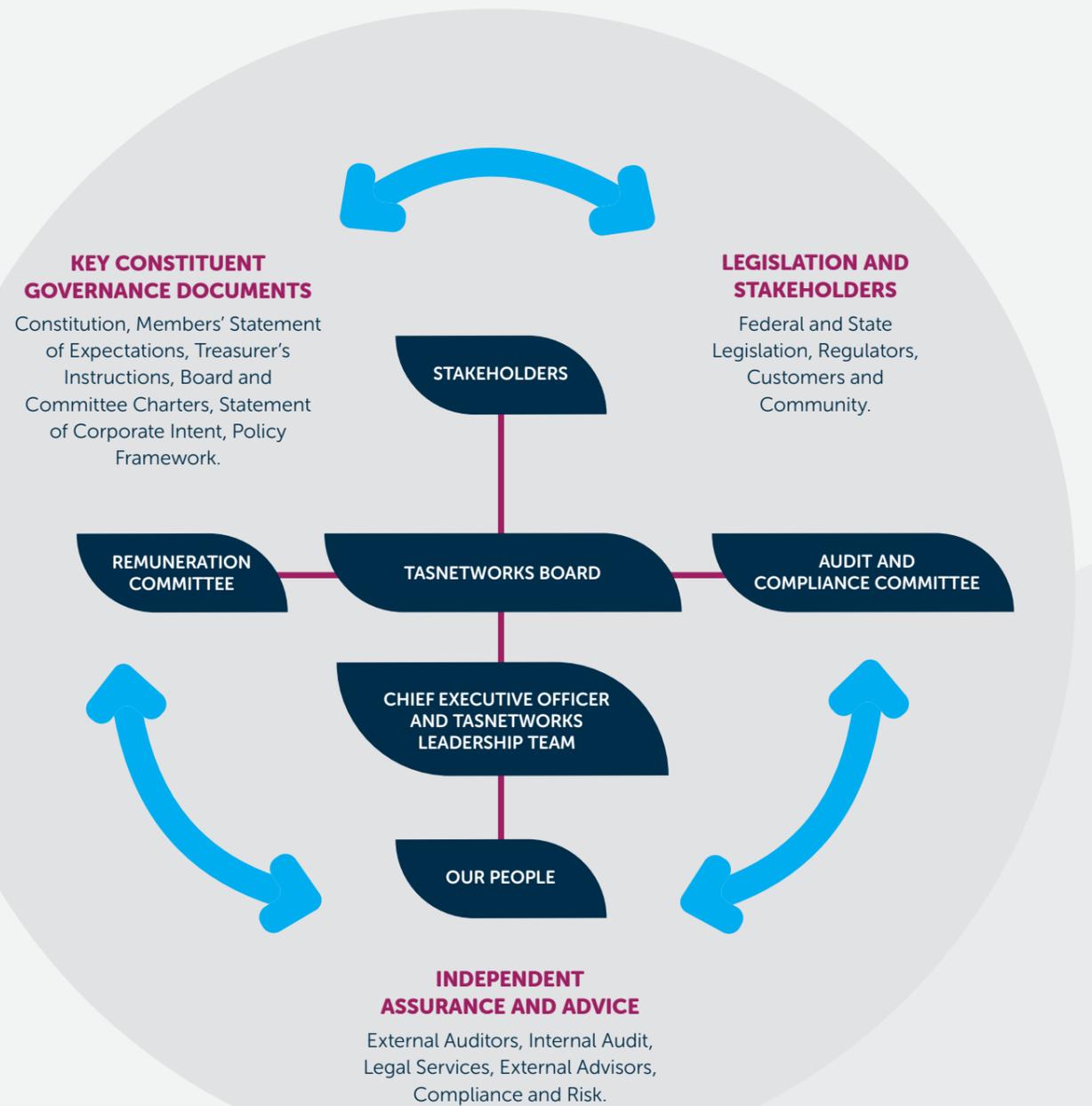
These developments will also create the opportunity to further develop Tasmania's renewable energy resources, unlock approximately 2,350 jobs, and add a further estimated value of \$5.7 billion to the Tasmanian economy.



TasNetworks is working with local organisations to create training and job opportunities for regional communities in Tasmania and Victoria. This has included establishing the Future Energy Hub partnership with the Cradle Coast Authority to raise awareness about renewable energy sector jobs and training opportunities in North West Tasmania.

CORPORATE GOVERNANCE

Our governance structure



TasNetworks Board Members.



Board of Directors

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:

- Leadership to and oversight of TasNetworks, including its risk management control and accountability systems;
- appointing and removing the CEO and Company Secretary;
- setting strategic direction by 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;
- setting the risk appetite for TasNetworks and key policy documents such as the code of conduct;
- monitoring organisational culture;
- reviewing, ratifying and monitoring systems of risk management and internal compliance and control;
- monitoring management's performance and implementation of strategy, and ensuring that appropriate resources are available;
- monitoring the performance of the CEO and management;
- setting remuneration for the CEO and TasNetworks Leadership Team in accordance with TasNetworks' Purpose, risk appetite, strategic objectives and Tasmanian Government Guidelines;
- ensuring succession planning for the Board Chair, CEO and TasNetworks Leadership Team;
- 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; and
- communication with Members about matters that may affect TasNetworks' ability to achieve its objectives or financial targets.

Board composition

The TasNetworks Board comprises six non-executive directors.

At the Annual General Meeting on 26 November 2019, Peter McIntyre was re-appointed to the Board as a Non-Executive Director, for a further three years.

Dr Daniel Norton AO (Chairman)

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

Dan is also recent Chairman of WINconnect (until 31 March 2020), a Senior Advisor at Dandolopartners International and a Director of his consulting company Trinitas Pty Ltd. Dan is also the Chairman of TasNetworks Holding Pty Ltd.

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

Joanne Doyle

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

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

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

Peter McIntyre

BSc, BE (Hons.), MBA, FIEAust, CPEng, EngExec, NER, FAIE, FAICD
Appointed 1 November 2016
Re-appointed 26 November 2019
Current term expires November 2022

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

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

Roger Gill

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

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

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

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

Dr Julie Beeby

BSc (Hons 1), PhD, MBA, FAICD, FTSE
Appointed 20 November 2018
Current term expires November 2020

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

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

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

Sarah Merridew

BEd, FCA, FAICD
Appointed 20 February 2019
Current term expires November 2021

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

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

TasNetworks' statement of compliance with the Guidelines for Tasmanian Government Businesses – Director and Executive Remuneration, along with remuneration details for the Board and Senior Executive, can be found on pages 129 to 132.

Board committees

During 2019-20, the Board had two standing committees:

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

Other committees are established by the Board as and when required. TasNetworks has recently established a Project Marinus Board Committee.

Remuneration Committee	Audit and Compliance Committee
Dr Julie Beeby (Chair)	Joanne Doyle (Chair)
Dr Dan Norton AO	Peter McIntyre
Roger Gill	Sarah Merridew

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 seven times during the 2019-20 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 for the Chief Executive Officer and employees.

The Remuneration Committee met four times during the 2019-20 financial year and provided the Board with minutes from each meeting.

Subsidiary companies

TasNetworks has four wholly-owned subsidiary companies:

TasNetworks Holdings Pty Ltd, which is a non-trading subsidiary created to hold all shares in and oversee the subsidiary companies of TasNetworks.

The directors of TasNetworks Holdings Pty Ltd are Dr Dan Norton AO (Chairman and TasNetworks' Chairman) and Lance Balcombe (TasNetworks' CEO), and the Company Secretaries are Phillippa Bartlett (TasNetworks' Company Secretary and General Counsel) and Michael Chan (TasNetworks' Corporate Counsel).

Fortytwo24 Pty Ltd, which provides telecommunications, information technology and data centre services to customers. It holds a telecommunications carrier licence and has in place a Nominated Carrier Declaration with TasNetworks.

The directors of Fortytwo24 Pty Ltd are Lance Balcombe (Chairman and TasNetworks' CEO), Wayne Tucker (TasNetworks' General Manager Regulation, Policy and Strategic Asset Management) and the Company Secretaries are Phillippa Bartlett (TasNetworks' Company Secretary and General Counsel) and Michael Chan (TasNetworks' Corporate Counsel).

Marinus Link Pty Ltd, which holds assets generated or acquired as a part of Project Marinus (the feasibility and business case assessment for a second interconnector between Tasmania and Victoria).

The directors of Marinus Link Pty Ltd are Lance Balcombe (Chairman and TasNetworks' CEO), Ross Burridge (TasNetworks' General Manager Strategy, Finance and Business Services) and the Company Secretaries are Phillippa Bartlett (TasNetworks' Company Secretary and General Counsel) and Michael Chan (TasNetworks' Corporate Counsel).

Large Scale Renewables Pty Ltd, which was incorporated to hold unregulated transmission connection assets.

The directors of Large Scale Renewables Pty Ltd are Lance Balcombe (TasNetworks' CEO), Ross Burridge (TasNetworks' General Manager Strategy, Finance and Business Services) and the Company Secretaries are Phillippa Bartlett (TasNetworks' Company

Secretary and General Counsel) and Michael Chan (TasNetworks' Corporate 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 a formal diversity and inclusion policy, which was launched to all TasNetworks Team Members in September 2019. The policy details TasNetworks' commitment to diversity and promotes diversity in every part of TasNetworks' business in conjunction with:

- our Code of Conduct;
 - our Workplace Behaviour Policy (covering workplace harassment, discrimination, bullying, equity and equal opportunity);
 - our Zero Harm Policy;
 - grievance resolution procedures;
 - the Employee Assistance Program;
 - formal inductions;
 - flexible work arrangements; and
 - email and internet usage policies.
- Under this policy, the TasNetworks Board and Leadership Team are responsible for:
- endorsing and approving the policy;
 - supporting the development of strategies and initiatives that support the policy;
 - leading and championing the implementation of the policy and related initiatives; and
 - modelling behaviours that promote inclusivity and diversity.

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 the TasNetworks Leadership Team;
- the alignment of compliance policy and business strategy; and
- appropriate compliance resourcing.

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

Right to information

TasNetworks is subject to the *Right to Information Act 2009* (Tas) (**RTI Act**). TasNetworks' Right to Information Policy was first approved by the Chief Executive Officer in June 2014, and has been reviewed this financial year.

During the 2019-20 financial year, three formal applications for Assessed Disclosure were received. In two out of the three formal applications received, all information sought was provided to the applicant. In the third application, commercial in confidence information of both TasNetworks and a third party was redacted from the records provided to the applicant. 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

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

TasNetworks' Public Interest Disclosure Policy was updated and approved by the Board in November 2019 to incorporate new requirements regarding whistleblowing under the *Corporations Act 2001* (Cth). It was renamed the Whistleblower Policy. One protected disclosure was received during this financial year, which was still under investigation as at 30 June 2020.

Personal information protection

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 originally approved by the CEO in June 2014 and last updated in May 2018, sets out how it collects, uses, discloses and otherwise manages personal information it holds.

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

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 Businesses Corporate Governance Principles.

The company's corporate governance practices relating to each of these principles are summarised in the following pages.

PRINCIPLE 1 Lay solid foundations for management and oversight

During the 2019-20 Financial Year, the TasNetworks Board was made up of six independent, non-executive directors.

The Board's responsibilities are summarised at page 57 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 below in Principle 2: Structure the Board to be effective and add value.

The executive performance evaluation process is detailed at page 132 of this report.

PRINCIPLE 2 Structure the Board to be effective and 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 page 75 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, which is managed in accordance with a Conflict of Interest Protocol. 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.

The Remuneration Committee advises and assists the Board with reviewing the performance of the CEO and setting key performance indicators for the CEO.

TasNetworks has a process for annually evaluating the performance of the Board, its committees and individual directors. Evaluations have been conducted for the 2019-20 financial year externally, with the Board undertaking questionnaires, interviews and a workshop facilitated by a specialist external consultant to assess and provide feedback on the performance of individual directors, Committees and the Board. Identified opportunities for development from the process are implemented with oversight by the Remuneration Committee.

An internal review was also commenced for assessing the performance of the subsidiary Boards.

PRINCIPLE 3 Instil a culture of acting lawfully, 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; and
- 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, Directors' Conflict of Interest Protocol, Compliance Policy, Fraud and Corruption Policy, Whistleblower Policy, Workplace Behaviour Policy, Gifts and Benefits Policy and Zero Harm Policy.

A director who has a material personal interest in a matter relating to the affairs of 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, this is managed appropriately in accordance with the Director's Conflict of Interest Protocol.

PRINCIPLE 4 Safeguard the integrity in corporate reporting

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

- external audit;
- internal audit; and
- 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 60 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 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 Act 2009* (Tas) are set out at page 61 of this report.

PRINCIPLE 6 Respect the rights of shareholders

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. This includes review of material incidents and oversight of TasNetworks' insurance program.

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 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; and
- 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 for travel and other expenses properly incurred by them, in accordance with TasNetworks' Directors Travel and Expense Policy.

Information in relation to the indemnity arrangements provided by TasNetworks to Board members can be found on page 77 of this annual report.

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 and Enterprise Agreement employees. During 2019-20 the Remuneration Committee considered the performance and remuneration reviews of the TasNetworks Leadership Team undertaken by the CEO and referenced against the Mercer Tasmanian General Market, for subsequent Board approval.

TasNetworks Leadership Team



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

Lance Balcombe
BCom, FCA, MAICD
Chief Executive Officer

Phillippa Bartlett
BA, LLB, MAICD
Company Secretary and General Counsel

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

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

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

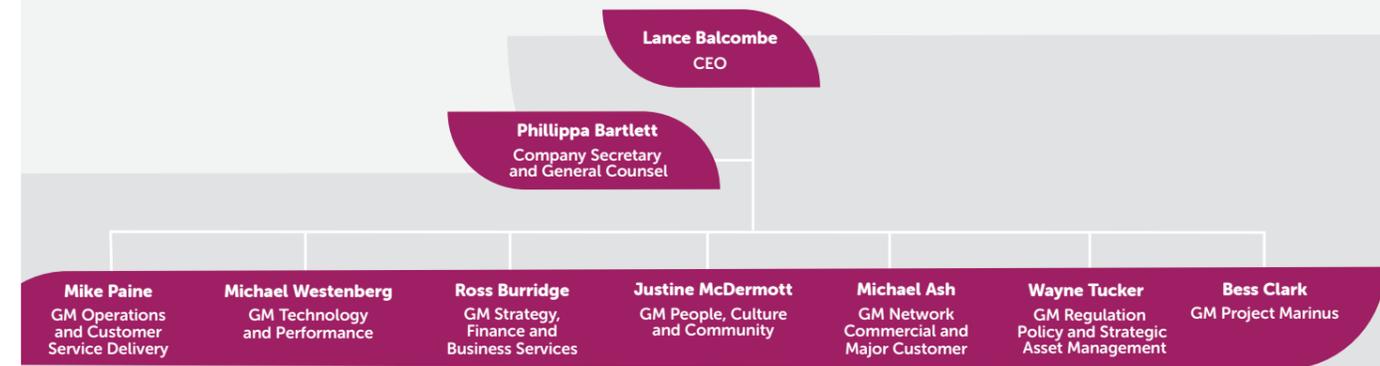
Ross Burridge
BCom, FCPA, FAICD, FFTP
General Manager Strategy, Finance and Business Services

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

Michael Ash
General Manager Network, Commercial and Major Customer

Michael Westenberg
General Manager Technology and Performance

Organisational structure



Company Secretary and General Counsel

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

Regulation, Policy and Strategic Asset Management

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

Network Commercial and Major Customer

Network Commercial and Major Customer (NCMC) group creates value for our customers, community and owners by building expert commercial strategies and marketing capabilities that create unprecedented opportunities. The team translates longer term strategies into an effective rolling Program of Work (POW) - optimised for safe and efficient delivery.

NCMC is made up of three teams: Enterprise Asset Management, Engineering and Network Business Development (NBD) with a focus on optimisation of the POW from a long-term and short-term perspective and the management and delivery of major customer connection work.

Operations and Customer Service Delivery

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

Strategy, Finance and Business Services

Strategy, Finance and Business Service's role is to build TasNetworks' financial strength by delivering sound, independent advice and analysis and by directing financial strategies, capital structure development, debt portfolio and business risk management.

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

People, Culture and Community

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

Technology and Performance

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

Project Marinus

The Project Marinus group is investigating the benefits and costs for building a second Bass Strait interconnector between Tasmania and Victoria.

PERFORMANCE AGAINST OUR STATEMENT OF CORPORATE INTENT

Our Statement of Corporate Intent is our annual performance agreement with our Shareholders. Our performance measures and productivity targets for 2019-20 were set with a focus on improvement – except for network reliability where we aim to maintain current overall network service performance whilst bringing poorly performing communities up to regulated performance standards. We recognise that it may not always be appropriate to improve performance above

target if there is not sufficient benefit to our customers.

Our business has experienced disruptions due to COVID-19 and has affected productivity. Even so, TasNetworks has delivered safe and reliable services to our customers through our electricity infrastructure and our customer service centre as reflected in the results achieved for customer service and networks service incentive bonus.

	Performance measure	2019-20 target	2019-20 result	
Safety and Wellbeing	Safety and Wellbeing (S&W) Plan	Implement S&W plan	S&W Plan implemented	✓
	Total recordable injury frequency rate	< 9	6.6	✓
	Significant incidents ¹	< 15	6	✓
	Reportable incidents ²	< 50	44	✓
Our Customers	Customer net promoter Score	> +4	+ 5.5	✓
	Customer complaints volume	< 2 300	1 687	✓
Our People	Employee engagement	> 53%	69%	✓
Our Business	Network service			
	Service incentive bonuses earned (Transmission & Distribution) ³	> \$3.35 million	~\$6.18 million for Distribution. Transmission bonus on track ~\$1.6 million	✓
	Sustained cost management			
	Operating expenditure (\$m) ⁴	156.2	160.2	✗
	Capital expenditure (\$m)	239.1	220.7	✓

¹ Significant incidents are incidents with an actual or credible potential for major or severe health, safety, or environment consequences as defined by TasNetworks' risk matrix

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

³ Targets set by the Australian Energy Regulator. Service target Incentive scheme for transmission bonus is on a calendar year basis; distribution bonus is on a financial year basis.

⁴ Excludes operating costs associated with Project Marinus

Our Owners

TasNetworks consolidated performance			
Earnings before Interest, Tax and Depreciation (EBITDA) (\$m)	≥ 303.4	310.6	✓
Profit after tax (\$m)	≥ 24.4	37.0	✓
Return on assets (%)	≥ 3.4	3.9	✓
Return on equity (%)	≥ 2.3	3.7	✓
Regulated services return consistent with AER decision)	Achieved	Achieved	✓
Dividends (\$m)	≥ 28.9	28.9	✓
Gearing ratio (%) – debt to total assets	66.2	66.1	✓
Large unregulated network services			
Revenue (\$m)	≥ 7.9	6.8	✗
EBITDA (\$m)	≥ 6.2	4.8	✗
Project Marinus ⁵ - business case assessment/design and approvals phases			
Project milestones	Business case assessment by 31 Dec 2019	Achieved	✓
Fortytwo24 Pty Ltd ⁶ (includes unregulated telecommunications, data centre and IT services)			
Revenue (\$m)	≥ 17.8	18.8	✓
EBITDA (\$m)	≥ 10.4	10.4	✓

⁵ Project Marinus is the feasibility and business case assessment for a second electricity link between Tasmania and Victoria co-funded by TasNetworks and ARENA. Project Marinus will commence the Design and Approvals phase on 1 July 2020 with funding from the Commonwealth Government and Tasmanian Government.

⁶ Fortytwo24 Pty Ltd is a ring-fenced subsidiary of TasNetworks that provides unregulated, non-electricity services and complies with Australian Energy Regulator ring-fencing obligations.

Performance commentary

Zero Harm

- The initiatives implemented in the Safety and Wellbeing Plan resulted in positive changes in safety behaviours and actions with outcomes reflected in the Total Recordable Injury Frequency Rate, Significant incidents and Reportable safety incidents, all achieving targets.
 - The Significant incidents included one employee medical treatment injury, one employee lost time injury, a safety incident caused by an asset failure incident and three failures to notify life-support customers of planned outages. TasNetworks has undertaken a Customer Outage Review Initiative to effect step change improvements to reduce the likelihood of further notification failures to life support customers.
 - The 44 Reportable incidents related to 40 Reportable environmental incidents and to four Reportable safety incidents. The safety incidents included an asset failure incident and three occasions when life-support customers were not notified of planned outages. The 40 Reportable environmental incidents included 19 impacts to listed threatened fauna species (comprising 13 Wedge-tailed Eagles, three White Bellied Sea Eagles, two Grey Goshawks, one Eastern Quoll); 19 oil spills reportable to the Environmental Protection Authority (EPA); a material release of SF6 (sulphur hexafluoride); and the disturbance of a listed threatened flora species without a permit. TasNetworks' Threatened Bird Strategy seeks to materially reduce our impact on Tasmania's Iconic birds, primarily through the installation of bird mitigation devices in high-risk locations as part of our five year proactive mitigation program. All reportable oil spills were cleaned-up to the required standard. We have also recruited and trained regional oil spill response teams.
- We achieved a significant reduction in customer complaints; 1687 for the year which was 613 less than the 2300 target for 2019-20. In comparison, 2730 customer complaints were registered in 2018-19. The downward trend has been due to the consolidation and implementation of new systems and improved processes including the Customer Experience Program delivering new communication channels to our customers.
 - Our 12-month rolling average net promoter score (NPS) at the end of June 2020 was above target at +5.5 for phone service and +23.8 for online service. For the month June 2020, the NPS was +14.1 for phone service and +31.7 for online service.
 - We have significantly outperformed our service centre call answering target by leveraging our relatively new customer service platform – The Podium – to efficiently handle all customer enquiries and manage resolution timeframes. Online engagement has increased with the introduction of new online services, supporting the achievement of call answering targets.
 - We also handled an increase of sixteen per cent of distribution connection applications.

Our People

- We achieved an engagement score of 69 per cent from the People Survey conducted in March 2020 compared to 62 per cent in September 2019. Both scores exceeded the 2019-20 target of greater than 53 per cent and the overall score of 53 per cent achieved in 2018-19.

Our Business

- The Service incentive bonuses will be exceeded by about \$4.43 million above target. We expect about \$6.18 million for distribution incentive bonus and on track for about \$1.6 million for transmission bonus.
- Operating expenditure was above our target for the year mainly due to accounting provisions for estimated liability payments as a result of legal claims which were not identified at the time of the budget.

Our Customers

- We ensured that electricity supply was delivered reliably and safely to our customers and will be in line to earn service incentive bonuses for transmission, distribution and fault centre call- answering.

- Capital expenditure was \$18.4 million below target for the year mainly due to delayed timing in the program delivery that was further exacerbated by COVID-19 restrictions. This work is forecast to be delivered in 2020-21.

Our Owners

- TasNetworks generated sound financial returns for our owners, meeting or exceeding all of our financial targets for 2019-20 for regulated network services. Our financial leverage or gearing ratio met the requirements to not exceed 67 per cent target under the TASCORP Master Loan Facility Covenant.
- We have reported an Operating Profit after tax of \$37 million, which was \$12.6 million favourable to budget.
- TasNetworks consolidated earnings before interest, tax, depreciation and amortisation result was \$310.6 million.
- The below target result for large unregulated connections is a result of the regulatory classification of income between unregulated and regulated (negotiated) revenue for these projects, rather than reflecting overall project performance or returns. These large connection projects involve both regulated and non-regulated service components, and income received is allocated between these service classifications in accordance with the National Electricity Rules. Overall, consolidated revenue streams for unregulated and negotiated connection services performed well, exceeding combined project targets for revenue and EBITDA.
- Project Marinus continues to move forward into the Design and Approvals stage after achieving the target of releasing the Business Case Assessment and Project Assessment Draft Report in December 2019.
- Fortytwo24 met its revenue and EBITDA targets.

TASMANIAN GOVERNMENT REPORTING REQUIREMENTS

Purchases from Tasmanian Businesses during 2019-20

% of Tasmanian purchases	69.7%
Value of Tasmanian purchases	\$198,526,480

Accounts due or paid during 2019-20

Creditor days (average days)	27.9
Number of accounts due for payment	32,769
Number of accounts paid on time	29,082
Amount due for payment	\$290,431,750
Amount paid on time	\$236,147,026
Number of payments for interest on overdue accounts	-
Interest payable on overdue accounts	-

Consultancies valued at more than \$50,000 (ex GST) during 2019-20

Name of Consultant	Location	Description	Period of Engagement	Amount (\$)
Engaged by TasNetworks for Project Marinus				
The Boston Consulting Group Pty Ltd	Sydney, NSW	Provision of strategic advice for Project Marinus	July 2019 - June 2020	2,238,000
Coffey Services Australia Pty Ltd	Chatswood, VIC	Provision of environment, land use planning and heritage advisory services	July 2019 - June 2020	1,599,974
Herbert Smith Freehills	Melbourne, VIC	Provision of external legal advisory services - miscellaneous	July 2019 - June 2020	739,113
Capire	Carlton, VIC	Provision of stakeholder and community engagement services	July 2019 - June 2020	207,933
Offshore Power Group	Norway	Provision of high voltage direct current cable advice	July 2019 - June 2020	206,024
Direct Current Consultancy	Hobart, TAS	Provision of converter specification advice	July 2019 - June 2020	142,247
London Economics LLC	USA	Provision of inter-regional transmission pricing methodologies advice	March 2020 - June 2020	110,459
Istana Park Pty Ltd	Koolewong, NSW	Provision of high voltage direct current submarine and land cable routes & installation methodology advice	July 2019 - June 2020	67,202
DNV GL Australia Pty Ltd	Sydney, NSW	Provision of independent technical review of the conceptual design	July 2019 - June 2020	53,999
Total engaged by Project Marinus				5,364,951

TASMANIAN GOVERNMENT REPORTING REQUIREMENTS continued

Name of consultant	Location	Description	Period of engagement	Amount (\$)
Engaged by TasNetworks for business as usual operations				
Partners in Performance International Pty Ltd	Australia Square, NSW	Provide expert advice on the Operating Model Improvement Plan to support the efficient works delivery	July 2019 - August 2019*	1,060,000
HWL Ebsworth	Hobart, TAS	External legal advisory services - litigation	July 2019 - June 2020	213,438
HWL Ebsworth	Hobart, TAS	External legal advisory services - miscellaneous	July 2019 - June 2020	184,639
Clayton UTZ Lawyers	Melbourne, Vic	External legal advisory services - miscellaneous	July 2019 - June 2020	108,815
ERNST & YOUNG	Melbourne, Vic	Provided advice and recommendations to support our step change in environmental and sustainability maturity	July 2019 - October 2019	92,041
Cortexia	Coorparoo, QLD	Provide advice and recommendations to improve switching process	July 2019 - October 2019	65,906
New Energy Ventures Holdings	Glenorchy, TAS	Provide review of market opportunities for Fortytwo24	September 2019 - June 2020	57,718
Edge Legal Holdings Pty Ltd	Hobart, TAS	External legal advisory services - miscellaneous	July 2019 - June 2020	55,143
Gilbert and Tobin	Barangaroo, NSW	External legal advisory services - miscellaneous	July 2019 - June 2020	54,371
		Total engaged by TasNetworks for business as usual operations		1,892,071
		TOTAL		7,257,022
		There were 24 Consultants engaged for \$50,000 or less totalling		547,733
TOTAL PAYMENTS TO CONSULTANTS				7,804,755

*Payments made in the 2019-20 financial year reflect work performed over the full period of engagement April 2019-August 2019.

2019-20 Returns to Government:

Dividend Paid	28,907,000
Government Guarantee Fee	7,274,902
Income Tax Equivalents	29,771,303
TOTAL RETURNS TO GOVERNMENT	65,953,205

DIRECTORS' REPORT

Directors' Report

The directors present their report together with the financial report of Tasmanian Networks Pty Ltd (**TasNetworks**) and its subsidiaries for the financial year ended 30 June 20.

The directors of TasNetworks during the financial year 2019-20, and details of their tenures, are listed below:

Director	Appointment	Re-appointment	Term Expiration	Length of Service
Dr Daniel Norton AO (Chairman and Director)	4 February 2014	20 November 2018	November 2021	6 years and 5 months
Joanne Doyle	1 July 2016	20 November 2018	November 2021	4 years
Peter McIntyre	1 November 2016	26 November 2019	November 2022	3 years and 8 months
Roger Gill	27 November 2017		November 2020	2 year and 7 months
Dr Julie Beeby	20 November 2018		November 2020	1 year and 7 months
Sarah Merridew	20 February 2019		November 2021	1 year and 4 months

Consolidation

During financial year 2019-20, TasNetworks had four subsidiaries within its corporate group:

- TasNetworks Holdings Pty Ltd;
- Fortytwo24 Pty Ltd;
- Marinus Link Pty Ltd; and
- Large Scale Renewables Pty Ltd (together, the **TasNetworks Group**).

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

Principal activities

The principal activities of the TasNetworks Group are to:

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

Review of operations

The TasNetworks Group recorded an after-tax profit of \$37.01 million for the year ended 30 June 2020 and the company invested \$220.76 million across many capital projects.

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

Changes in state of affairs

There have been no significant changes in the TasNetworks Group's state of affairs during the financial year 2019-20. The situation with the COVID-19 pandemic is continuing to evolve and the full impact is yet to be realised. In considering the financial statements, reasonable assessments and judgements have been made based on available data and current assumptions. The situation and impacts on the TasNetworks Group will continue to be monitored.

Environmental regulation

The TasNetworks Group's operations are subject to many environmental regulatory requirements including the *Environmental Management and Pollution Control Act 1994* and the *Threatened Species Protection Act 1995*. There were 40 reportable environmental incidents during the financial year. 19 were reportable oil spills, 19 were incidents involving a listed threatened fauna species (13 Wedge-Tailed Eagles, three White Bellied Sea Eagles, two Grey Goshawks and one Eastern Quoll), one was the unauthorised disturbance of a listed threatened flora species (*eucalyptus risdonii*), and one was a material release of SF6 (sulphur hexafluoride).

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

Matters arising since end of financial year

On 30 July 2020, the Australian Energy Market Operator (AEMO) released its 2020 Integrated System Plan (ISP) for the National Electricity Market which included Marinus Link as an actionable ISP project with decision rules. There have been no other matters or circumstances arising since 30 June 2020 that have significantly affected, or may significantly affect, the TasNetworks Group's future operations.

Likely developments and future results

TasNetworks does not foresee any material changes or likely developments in its operations.

Dividends

TasNetworks paid to its shareholders a dividend of \$28.907 million on 31 December 2019 from after-tax profits during the financial year 2019-20.

In respect of the financial year ended 30 June 2020 TasNetworks' intention is to pay a dividend based upon 90 per cent of Net Profit after Tax adjusted for distribution customer contributions.

Indemnities and insurance

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

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

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

Proceedings on behalf of the company

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

Rounding of amounts

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

Auditor's independence declaration

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

Directors' meetings

The following table sets out the number of TasNetworks directors' meetings (including committee meetings) held during the financial year and the number of meetings attended by each TasNetworks director who held office during the financial year ended 30 June 2020. Director and Company Secretary qualifications are set out in the Corporate Governance section of the Annual Report.

Director	Board of Directors		Audit and Compliance Committee		Remuneration Committee	
	Eligible to Attend as a Member	Attended	Eligible to Attend as a Member	Attended	Eligible to Attend as a Member	Attended
Dr Daniel Norton AO	14	14		3*	4	4
Joanne Doyle	14	14	7	7		
Peter McIntyre	14	14	7	7		
Roger Gill	14	14		1	4	4
Dr Julie Beeby	14	14		2	4	4
Sarah Merridew	14	13	7	7		

*Partial attendance at one meeting.

Signed in accordance with a resolution of the TasNetworks directors.



Dr D T Norton AO
Chairman

Date: 12 August 2020

AUDITOR'S INDEPENDENCE DECLARATION



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

7 August 2020

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

Dear Board Members

Auditor's Independence Declaration

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

As the auditor of the financial report of Tasmanian Networks Pty Ltd for the financial year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours sincerely



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

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AUDITOR'S INDEPENDENCE REPORT



Independent Auditor's Report

To the Members of Tasmanian Networks Pty Ltd

Report on the Audit of the Consolidated Financial Report

Opinion

I have audited the financial report of the Tasmanian Networks Pty Ltd (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies and the directors' declaration.

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

- (a) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

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

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

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

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

Key Audit Matters

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

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

Network Assets

Refer to notes A2(b) and B2

At 30 June 2020, the Group's network assets, which comprised transmission assets valued at \$1.31bn and distribution assets valued at \$1.68bn, were valued in accordance with the Australian Energy Regulator Regulated Asset Base methodology.

The Group had a substantial capital expenditure programme in the 2019-20 year (payments for property plant and equipment amounted to \$202.56m) and incurred significant expenditure in relation to the development and maintenance of both infrastructure and non-infrastructure assets.

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

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

- Assessing the Group's capitalisation policy to determine compliance with relevant accounting standards.
- Testing, on a sample basis, the allocation of costs between capital and operating expenditure based on the Group's capitalisation policy.
- Assessing, for a selection of capital projects, the application of the capitalisation policy to the costs incurred by agreement to third party documentation.
- Obtaining explanations and further support for any significant changes in capital expenditure from budget.
- Testing a selection of additions throughout the year.
- Evaluating management's assessment of useful lives of network assets.
- Assessing depreciation expenses for each class of asset.
- Evaluating inputs used in the Australian Energy Regulator Regulated Asset Base valuation methodology.

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of the depreciation method and estimation of the useful lives of assets.

- Assessing the adequacy of relevant disclosures in the financial report.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Company's Directors' Report for the year ended 30 June 2020, but does not include the financial report and my auditor's report thereon.

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

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

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

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain

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audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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

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

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

Tasmanian Audit Office

24 August 2020
Hobart

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CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Profit or Loss For the financial year ended 30 June 2020

	Note	2020 \$'000	2019 \$'000
Revenue	A1	492,105	478,837
Total revenue		492,105	478,837
Operating expenses			
Employee benefit expenses		(120,917)	(103,760)
Employee benefit expenses - Project Marinus		(5,420)	(3,399)
Other operating expenses		(38,566)	(53,651)
Other operating expenses - Project Marinus		(16,589)	(8,142)
Total operating expenses	A2(a)	(181,492)	(168,952)
Depreciation and amortisation expenses	A2(b)	(174,496)	(164,066)
Finance costs	A3	(84,000)	(87,270)
Total expenses		(439,988)	(420,288)
Profit before income tax equivalent		52,117	58,549
Income tax equivalent expense on profit	A4(a)	(15,105)	(17,765)
Net profit for the year		37,012	40,784

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

Consolidated Statement of Comprehensive Income
For the financial year ended 30 June 2020

	Note	2020 \$'000	2019 \$'000
Net profit for the year		37,012	40,784
Items that will not be reclassified subsequently through profit or loss:			
Net fair value movements on property, plant and equipment	D3	67,808	37,850
Superannuation actuarial gains/(losses)	F2	(1,212)	(23,408)
Income tax equivalent expense on items that will not be reclassified subsequently through profit or loss	A4(b)	(19,979)	(4,333)
		46,617	10,109
Items that have or may be reclassified subsequently through profit or loss:			
Hedge reserve			
- Gain/(loss) recognised in equity	D3	157	(745)
- Reversal of prior year losses	D3	371	2,611
Income tax equivalent expense on items that have or may be reclassified subsequently through profit or loss	D3, A4(b)	(158)	(560)
		370	1,306
Total comprehensive income for the year		83,999	52,199

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

Consolidated Statement of Financial Position
As at 30 June 2020

	Note	2020 \$'000	2019 \$'000
Current assets			
Cash and cash equivalents	C5(a)	7,451	3,552
Trade and other receivables	E1	73,094	86,988
Inventories	E2	27,890	20,811
Tax asset	A4(c)	-	5,990
Other assets	E3	3,619	4,380
Total current assets		112,054	121,721
Non-current assets			
Intangible assets	B1	100,216	104,128
Property, plant and equipment	B2	3,344,754	3,226,979
Right-of-use assets	B3	2,320	2,108
Other assets	E3	561	546
Total non-current assets		3,447,851	3,333,761
Total assets		3,559,905	3,455,482
Current liabilities			
Trade and other payables	E5	66,513	81,073
Borrowings	C1	175,300	232,870
Lease liabilities	C2	379	80
Employee benefits	F1	34,719	31,597
Provisions	E4	-	1,088
Tax liabilities	A4(c)	3,035	-
Other liabilities	E6	28,874	23,001
Total current liabilities		308,820	369,709
Non-current liabilities			
Borrowings	C1	1,802,300	1,703,300
Lease liabilities	C2	2,506	2,376
Net deferred tax equivalent liabilities	A4(d)	206,872	210,491
Employee benefits	F1	191,158	185,520
Provisions	E4	184	63
Other liabilities	E6	35,450	26,359
Total non-current liabilities		2,238,470	2,128,109
Total liabilities		2,547,290	2,497,818
Net assets		1,012,615	957,664
Equity			
Retained earnings	D1	143,889	136,774
Contributed equity	D2	62,724	62,724
Reserves	D3	806,002	758,166
Total equity		1,012,615	957,664

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

Consolidated Statement of Changes in Equity
For the financial year ended 30 June 2020

	Note	Contributed Equity \$'000	Asset Revaluation Reserve \$'000	Hedge Reserve \$'000	Retained Earnings \$'000	Total \$'000
As at 1 July 2019		62,724	758,815	(649)	136,774	957,664
Effect of AASB 16 on adoption	D1	-	-	-	(201)	(201)
Tax effect of AASB 16 adoption	D1	-	-	-	60	60
Opening balance at 1 July 2019		62,724	758,815	(649)	136,633	957,523
Profit for the year		-	-	-	37,012	37,012
Other comprehensive income:						
Net fair value movements on property, plant and equipment	D3	-	67,808	-	-	67,808
Superannuation actuarial gains/(losses)	F2	-	-	-	(1,212)	(1,212)
Hedge reserve	D3	-	-	528	-	528
Income tax relating to components of other comprehensive income	A4(b)	-	(20,342)	(158)	363	(20,137)
Total comprehensive income for the year		-	47,466	370	36,163	83,999
Transactions with owners in their capacity as owners:						
Dividends paid	D1	-	-	-	(28,907)	(28,907)
As at 30 June 2020		62,724	806,281	(279)	143,889	1,012,615

	Contributed Equity \$'000	Asset Revaluation Reserve \$'000	Hedge Reserve \$'000	Retained Earnings \$'000	Total \$'000
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As at 1 July 2018		62,724	732,320	(1,955)	160,312	953,401
Effect of AASB 15 on adoption	D1	-	-	-	(6,903)	(6,903)
Tax effect of AASB 15 adoption	D1	-	-	-	2,071	2,071
Opening balance as at 1 July 2018		62,724	732,320	(1,955)	155,480	948,569
Profit for the year		-	-	-	40,784	40,784
Other comprehensive income:						
Net fair value movements on property, plant and equipment	D3	-	37,850	-	-	37,850
Superannuation actuarial gains/(losses)	F2	-	-	-	(23,408)	(23,408)
Hedge reserve	D3	-	-	1,866	-	1,866
Income tax relating to components of other comprehensive income	A4(b)	-	(11,355)	(560)	7,022	(4,893)
Total comprehensive income for the year		-	26,495	1,306	24,398	52,199
Transactions with owners in their capacity as owners:						
Dividends paid	D1	-	-	-	(43,104)	(43,104)
As at 30 June 2019		62,724	758,815	(649)	136,774	957,664

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

Consolidated Statement of Cash Flows
For the financial year ended 30 June 2020

	Note	2020 \$'000	2019 \$'000
Cash flows from operating activities:			
Receipts from customers		568,431	533,951
Interest received		92	78
Payment to suppliers and employees		(250,930)	(217,277)
Interest paid		(69,606)	(71,715)
Guarantee fee paid		(7,275)	(7,504)
Income tax equivalents paid		(29,771)	(35,624)
Net cash provided by operating activities	C5(b)	210,941	201,909
Cash flows from investing activities:			
Proceeds from sale of property, plant and equipment		1,641	1,318
Payment for property, plant and equipment		(202,516)	(195,245)
Payment for intangible assets		(18,201)	(14,488)
Net cash used in investing activities		(219,076)	(208,415)
Cash flows from financing activities:			
Proceeds from borrowings		798,281	534,184
Repayment of borrowings		(756,851)	(483,614)
Payment of finance leases		(489)	(140)
Dividends paid	D1	(28,907)	(43,104)
Net cash provided by financing activities	C3	12,034	7,326
Net increase/(decrease) in cash and cash equivalents		3,899	820
Cash and cash equivalents at the beginning of the financial year		3,552	2,732
Cash and cash equivalents at the end of the financial year	C5(a)	7,451	3,552

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

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

1. Statement of compliance and basis of preparation

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

TasNetworks' working capital other than short term debt maturities is \$21.466million (m) deficit (2019: \$15.118m deficit). Short term debt maturities of \$175.300m (2019: \$232.870m) will be refinanced in line with TasNetworks' Treasury Risk Management Policy and within the TASCORP Master Loan Facility Agreement limits and covenants. TasNetworks held \$172.400m of undrawn borrowing capacity at 30 June 2020 (2019: \$63.830m) (note C1).

The financial statements were authorised for issue by the directors on 12 August 2020.

(a) Basis of preparation

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

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

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

(b) Goods and services tax (GST)

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

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

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

(c) Judgements, estimates and assumptions

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

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

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

Note	Assumption and estimates		
A1	Unbilled use of system	B4	Impairment testing results
A4	Recovery of deferred tax assets	C2	Lease liability
B2	Asset useful lives	E4	Workers compensation provision
B3	Right-of-use assets	F1	Long service leave
		F2	Defined benefit superannuation plan

1. Statement of compliance and basis of preparation continued

(d) Notes to the financial statements

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

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

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

These sections comprise:

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

The accounting policies as set out in these notes, have been applied in preparing the financial statements for the financial year ended 30 June 2020 and the comparative information presented in these financial statements for the period ended 30 June 2019. The policies have been consistently applied by each entity in the consolidated group. Any changes made to these accounting policies for the financial year ended 30 June 2020 are detailed in note H5.

COVID-19 Impact

On 31 January 2020 the World Health Organisation (WHO) declared COVID-19 a global pandemic. The effects of the coronavirus are widespread and relate to entities in every sector. TasNetworks has undertaken a review of its assumptions and estimates when preparing these financial statements to ensure the effect of the coronavirus has been taken into consideration and any impact has been declared at the appropriate note in these financial statements.

TasNetworks' performance

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

A1. Revenue

	2020 \$'000	2019 \$'000
(a) Revenue from contracts with customers		
Provision of regulated distribution services	269,516	257,238
Provision of regulated transmission services	160,089	169,683
Provision of other non-regulated services	21,826	20,994
Customer contributions	12,819	19,384
(b) Other revenue		
Rent and lease income	1,128	1,108
Interest received	91	79
Grants received	A1 18,715	6,500
Gain on disposal of property, plant and equipment	1,091	870
Other revenue	6,830	2,981
	492,105	478,837

A1. Revenue continued

Recognition and measurement

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

Provision of regulated services

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

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

Key Estimate

Unbilled Use of System

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

Provision of non-regulated services

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

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

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

Customer contributions

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

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

Rent and lease income

Applicable prior to 1 July 2019 (under AASB 117)

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

Applicable post to 1 July 2019 (under AASB 16)

TasNetworks enters into lease arrangements as a lessor with respect to some of its properties.

Leases for which TasNetworks is a lessor can be classified as finance or operating leases. Whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

TasNetworks does not have any leases as a lessor which are classified as financing leases.

Interest

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

A1. Revenue continued

Grants received - Project Marinus

ARENA Funding - Feasibility study and business case assessment

TasNetworks has invested \$20.934m to support the Project Marinus feasibility study and business case assessment of a second interconnector across Bass Strait. ARENA funded \$10m, equating to 50% of the \$20m investment. During the year ended 30 June 2020 ARENA paid the final \$3.5m (2019: \$6.5m) of funding towards the project upon achievement of agreed milestones. The feasibility study and business case assessment phase of the project was completed at 31 December 2019. The grant has been recognised as revenue in line with the achievement of qualifying conditions (see note G3).

Commonwealth Government Funding - Design and approvals phase

In 2020 the Commonwealth Government committed \$56m to the State of Tasmania to fund activities for the Design and Approvals phase of Project Marinus. The State has indicated that \$50m of these funds will be provided to TasNetworks. During the 2019-20 financial year TasNetworks undertook preparation activities for the Design and Approvals phase and \$15m of funding was received from the State, in line with the achievement of qualifying conditions. As at 30 June 2020 \$15m has been recognised as revenue in line with expenditure incurred. TasNetworks commenced the Project Marinus Design and approvals phase on 1 July 2020. The State and Commonwealth Governments are working together to finalise the balance of the funding to complete the Design and Approvals Phase.

Other revenue

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

Notes to the consolidated financial statements continued
For the financial year ended 30 June 2020

A2. Expenses	Note	2020 \$'000	2019 \$'000
(a) Operating Expenses			
Employee benefits	A2(c)	120,917	103,760
Services ¹		48,408	53,565
Information technology and communications		13,079	13,411
Feed-in-tariff ²		1,387	6,796
Property costs		5,824	6,004
Materials		4,538	3,962
Licence fees		7,315	6,549
Insurance		2,937	2,644
Claims and payments		3,565	2,122
Other		12,468	12,624
Capitalised indirect costs ³		(60,955)	(54,026)
		159,483	157,411
Operating expenses - Project Marinus⁴			
Employee benefits	A2(c)	5,420	3,399
Services ¹		14,365	6,903
Other		2,224	1,239
		22,009	11,541
Total operating expenses		181,492	168,952

1. Services expenditure comprises the provision of both the cost of professional services and services incurred in maintaining TasNetworks' assets.
2. 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. The feed-in-tariff ceased on 31 December 2019.
3. Capitalised indirect costs includes the portion of overheads and indirect costs that have been capitalised to the statement of financial position in accordance with TasNetworks' Australian Energy Regulator (AER) approved cost allocation methodology.
4. All costs relating to Project Marinus have been expensed with the exception of land and building assets. Costs associated with design and approvals phase preparation during 2019-20 of \$15.000m (2019: Nil), costs associated with the feasibility and business case assessment during 2019-20 of \$7.009m (2019: \$11.541m and 2018: \$2.383m).

(b) Depreciation and amortisation expenses	Note	2020 \$'000	2019 \$'000
Depreciation of property, plant and equipment	B2	151,998	144,669
Amortisation of intangible assets	B1	22,113	19,257
Amortisation of right-of-use assets	B3	385	140
		174,496	164,066
(c) Employee benefits expenses*			
Post employment benefits:			
Defined benefit plan	F2	8,602	9,257
Superannuation Guarantee Contributions		11,660	9,894
		20,262	19,151
Termination benefits		981	559
Other employee benefits (salary and wages)		111,074	94,258
Total employee benefit expenses		132,317	113,968
Net interest cost on defined benefit plan	F2	(5,980)	(6,809)
Employee benefits expenses in profit or loss	A2(a)	126,337	107,159

* includes Project Marinus employee expenses of \$5.420m (2019: \$3.399m).

Notes to the consolidated financial statements continued
For the financial year ended 30 June 2020

A3. Finance costs	Note	2020 \$'000	2019 \$'000
Finance costs incurred during the financial year		69,587	72,158
Government guarantee fee		7,201	7,423
Net interest costs on defined benefit plan	F2	5,980	6,809
Interest on finance leases and long term revenue contracts		1,232	880
Total finance costs		84,000	87,270

A4. Income tax equivalents

(a) Recognised in profit or loss

Income tax equivalent (expense)/income comprises:

Current income tax expense	(38,801)	(34,471)
Net increase/(decrease) in deferred tax equivalent liability	23,696	16,706
Total income tax equivalent (expense)/income	(15,105)	(17,765)

Numerical reconciliation between income tax equivalent expense and pre-tax net profit

Profit before income tax equivalent	52,117	58,549
Income tax equivalent calculated at 30%	(15,635)	(17,565)
Increase in income tax equivalent expense due to:		
Non-deductible expenses	(67)	(257)
Prior year under/over provision	164	57
Other changes	433	-
Total income tax equivalent (expense)/income	(15,105)	(17,765)

(b) Recognised in other comprehensive income

Items that will not be reclassified subsequently through profit or loss:

Income tax equivalent on fair value movements	D3	(20,342)	(11,355)
Income tax equivalent on superannuation actuarial (gains)/losses	D1	363	7,022
Total recognised in other comprehensive income		(19,979)	(4,333)

Items that have or may be reclassified subsequently through profit or loss:

Opening balance adjustments:

Income tax equivalent on AASB 15 on adoption	D1	-	2,071
Income tax equivalent on AASB 16 on adoption	D1	60	-

Other items:

Income tax equivalent on hedge reserve	D3	(158)	(560)
Total recognised in other comprehensive income		(98)	1,511
Total income tax equivalent recognised in other comprehensive income		(20,077)	(2,822)

(c) Current tax equivalent assets and liabilities

Current tax equivalent payable/(receivable)		3,035	(5,990)
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A4. Income tax equivalents continued

(d) Deferred tax equivalent balances	2020 \$'000	2019 \$'000
Deferred tax equivalent liabilities comprise:		
Temporary differences	(293,451)	(290,047)
Deferred tax equivalent assets comprise:		
Temporary differences	86,579	79,556
Net deferred tax equivalent liabilities	(206,872)	(210,491)

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

	Balance 1-Jul-19 \$'000	Recognised in income \$'000	Recognised in equity \$'000	Prior year unders/overs \$'000	Balance 30-Jun-20 \$'000
Deferred tax equivalent liabilities:					
Property, plant and equipment	(290,047)	16,938	(20,342)	-	(293,451)
	(290,047)	16,938	(20,342)	-	(293,451)
Deferred tax equivalent assets:					
Employee benefits	71,904	2,301	363	-	74,568
Provisions	848	422	-	-	1,270
Derivatives	278	1	(158)	-	121
Inventory	-	402	-	-	402
Other items	6,526	3,632	60	-	10,218
	79,556	6,758	265	-	86,579
Net deferred tax equivalent liabilities	(210,491)	23,696	(20,077)	-	(206,872)

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

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

A4. Income tax equivalents continued

Tax consolidation

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

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

Recognition and measurement

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

Current income tax

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

Deferred tax liabilities and assets

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

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

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

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

Key Assumption**Recovery of deferred tax assets**

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

TasNetworks' assets

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

B1. Intangible assets

	Note	2020 \$'000	2019 \$'000
Intangible assets - at cost			
Gross carrying value			
Opening balance		178,120	270,436
Derecognised		-	(109,126)
Transferred from work in progress		14,387	16,810
Closing balance		192,507	178,120
Accumulated amortisation			
Opening balance		(74,307)	(164,176)
Derecognised		-	109,126
Amortisation expense	A2(b)	(22,113)	(19,257)
Closing balance		(96,420)	(74,307)
Capital works in progress - at cost			
Opening balance		315	2,637
Additions for the year		18,201	14,488
Transferred to assets		(14,387)	(16,810)
Closing balance		4,129	315
Carrying amount - at cost		100,216	104,128

Recognition and measurement

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

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

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

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

B2. Property, plant and equipment

	2020 \$'000	2019 \$'000
Network assets - Transmission		
Network assets – at fair value	2,252,981	2,110,377
Accumulated depreciation	(943,786)	(863,255)
Carrying amount	1,309,195	1,247,122
Network assets - Distribution		
Network assets – at fair value	3,752,799	3,575,294
Accumulated depreciation	(2,072,167)	(1,963,174)
Carrying amount	1,680,632	1,612,120
Communication assets		
Communication assets – at fair value	72,355	67,344
Accumulated depreciation	(42,180)	(36,936)
Carrying amount	30,175	30,408
Easements		
Easements – at fair value	81,597	80,154
Accumulated impairment	(48)	(48)
Carrying amount	81,549	80,106
Land		
Land – at fair value	39,578	37,443
Buildings		
Buildings – at fair value	105,456	103,833
Accumulated depreciation	(36,823)	(33,592)
Carrying amount	68,633	70,241
Other plant and equipment		
Other plant and equipment – at cost	183,228	173,552
Accumulated depreciation	(129,558)	(123,547)
Carrying amount	53,670	50,005
Capital works in progress – at cost	81,322	99,534
Total property, plant and equipment	3,344,754	3,226,979

B2. Property, plant and equipment continued**Recognition and measurement**

All assets acquired are initially recorded at their cost 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 and Distribution assets. Transmission assets are used to transport electricity from generators to distribution networks and directly connected transmission customers at high voltages. Distribution assets are used to transform the power from transmission high voltage and further stepping the power down via distribution transformers for supplying low voltage consumers.

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

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

The AER makes an annual determination of applicable weighted average cost of capital (WACC) applied to asset values. As at balance date this was 5.55% for transmission and 5.28% for distribution post tax nominal (2019: 6.18% transmission and 5.99% distribution).

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

Communication assets

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

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

Easements

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

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

Land

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

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

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

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

Buildings

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

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

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

B2. Property, plant and equipment continued**Other plant and equipment**

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

Capital works in progress

Capital works in progress are recognised at cost.

Capital works in progress at 30 June 2019 included \$29.700m associated with the development of transmission assets required to support large-scale renewable energy projects. These projects were capitalised during the 2019-20 financial year and are included as additions to transmission network assets.

Disposal of assets

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

Revaluations of non-current assets

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

Useful lives and depreciation

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

Key Estimates**Asset useful lives**

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

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

Transmission Network assets:

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

Distribution Network assets:

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

Communication assets:

Communication equipment	10-40 yrs
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Buildings:

Buildings	40 yrs
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Other plant and equipment:

Optic fibre	20 yrs
Minor assets including intangible assets	3-15 yrs

Notes to the consolidated financial statements continued
For the financial year ended 30 June 2020

B2. Property, plant and equipment continued

	2020								Total \$'000
	Transmission network at fair value \$'000	Distribution network at fair value \$'000	Communication assets at fair value \$'000	Easements at fair value \$'000	Land at fair value \$'000	Buildings at fair value \$'000	Other plant & equipment at cost \$'000	Capital works in progress at cost \$'000	
Gross value									
At beginning of financial year	2,110,377	3,575,294	67,344	80,154	37,443	103,833	173,552	99,534	6,247,531
Additions during the year	-	-	-	-	-	-	-	202,516	202,516
Disposals	-	-	-	-	(175)	(15)	(3,452)	-	(3,642)
Transfers of WIP to non-current assets	98,682	101,172	3,798	-	2,310	1,638	13,128	(220,728)	-
Net revaluation increments/(decrements)	43,922	76,333	1,213	1,443	-	-	-	-	122,911
Balance at end of financial year	2,252,981	3,752,799	72,355	81,597	39,578	105,456	183,228	81,322	6,569,316
Accumulated depreciation and impairment losses									
At beginning of financial year	(863,255)	(1,963,174)	(36,936)	(48)	-	(33,592)	(123,547)	-	(3,020,552)
Disposals	-	-	-	-	-	1	3,090	-	3,091
Net revaluation increments/(decrements)	(16,591)	(37,773)	(739)	-	-	-	-	-	(55,103)
Depreciation charge for the year	(63,940)	(71,220)	(4,505)	-	-	(3,232)	(9,101)	-	(151,998)
Balance at end of financial year	(943,786)	(2,072,167)	(42,180)	(48)	-	(36,823)	(129,558)	-	(3,224,562)
Carrying amount at 30 June 2020	1,309,195	1,680,632	30,175	81,549	39,578	68,633	53,670	81,322	3,344,754
Carrying amount of assets had they been recognised at cost									
Balance at 30 June 2020	1,207,358	1,583,318	28,953	73,690	37,054	63,290	53,670	81,322	3,128,655

Notes to the consolidated financial statements continued
For the financial year ended 30 June 2020

B2. Property, plant and equipment continued

	2019								Total \$'000
	Transmission network at fair value \$'000	Distribution network at fair value \$'000	Communication assets at fair value \$'000	Easements at fair value \$'000	Land at fair value \$'000	Buildings at fair value \$'000	Other plant & equipment at cost \$'000	Capital works in progress at cost \$'000	
Gross value									
At beginning of financial year	2,021,652	3,427,316	62,521	78,737	37,443	98,926	166,599	75,912	5,969,106
Additions during the year	-	-	-	-	-	-	-	195,245	195,245
Disposals	-	-	-	-	-	-	(5,132)	-	(5,132)
Transfers of WIP to non-current assets	52,324	98,634	3,673	-	-	4,907	12,085	(171,623)	-
Net revaluation increments/(decrements)	36,401	49,344	1,150	1,417	-	-	-	-	88,312
Balance at end of financial year	2,110,377	3,575,294	67,344	80,154	37,443	103,833	173,552	99,534	6,247,531
Accumulated depreciation and impairment losses									
At beginning of financial year	(786,236)	(1,861,735)	(32,084)	(47)	-	(30,463)	(119,541)	-	(2,830,106)
Disposals	-	-	-	-	-	-	4,685	-	4,685
Net revaluation increments/(decrements)	(15,170)	(34,645)	(646)	(1)	-	-	-	-	(50,462)
Depreciation charge for the year	(61,849)	(66,794)	(4,206)	-	-	(3,129)	(8,691)	-	(144,669)
Balance at end of financial year	(863,255)	(1,963,174)	(36,936)	(48)	-	(33,592)	(123,547)	-	(3,020,552)
Carrying amount at 30 June 2019	1,247,122	1,612,120	30,408	80,106	37,443	70,241	50,005	99,534	3,226,979
Carrying amount of assets had they been recognised at cost									
Balance at 30 June 2019	1,163,206	1,543,878	28,974	73,690	34,919	64,316	50,005	99,534	3,058,522

B2. Property, plant and equipment continued**Assets measured at fair value**

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

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

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

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

Level 3 significant valuation inputs and relationship to fair value

Asset	Fair Value as at 30 June 2020 \$'000	Fair Value as at 30 June 2019 \$'000	Significant inputs	Range of inputs	Relationship of inputs to fair value
RAB assets (including Network assets, Communication assets and Easements)	3,101,551	2,969,756	CPI	+/- 1%	A 1% increase in CPI increases the fair value of assets by \$31m
			AER Determination	N/A	AER determination of the asset values via regulatory revenue reset process
Buildings - Office buildings	68,633	70,241	Notional lease for 10 years at a current market rent	+/- expected rental growth and occupancy rates	The higher the expected rental growth and occupancy rates the greater the fair value
Buildings - Other			Notional lease for 5 years at a current market rent	+/- expected rental growth and occupancy rates	The higher the expected rental growth and occupancy rates the greater the fair value

B3. Right-of-use assets

TasNetworks leases communication sites, land and some office space and equipment under various leases that were previously classified as operating leases under AASB 117.

The communication land sites are long term leases that typically run for a period of 10 years with options to renew the lease for further terms. Lease payments are renegotiated every 3-5 years to reflect changes in the value of land (with the value determined by the Valuer-General).

TasNetworks leases a number of land sites on which substation infrastructure has been constructed. These leases were entered many years ago and are leases of 50-100 years. Lease payments are renegotiated every 3-5 years to reflect changes in value of the site.

The depot sites are leases that run for a period of 3-5 years with options to renew the lease for further terms. Lease payments are increased annually to reflect changes in CPI.

TasNetworks also leases IT equipment for contract terms of 3 years, as well as fibre optic equipment for a contract term of 25 years.

	Telecommunication sites \$'000	Substation sites \$'000	Depots \$'000	Equipment \$'000	Total \$'000
2020					
Opening balance at 1 July 2019	-	-	-	2,108	2,108
Adoption of AASB 16	186	245	233	557	1,221
Balance at 1 July 2019	186	245	233	2,665	3,329
Revaluation of lease	-	-	-	(665)	(665)
Depreciation charge for the year	(15)	(8)	(47)	(315)	(385)
Additions to right-of-use assets	41	-	-	-	41
Balance at 30 June 2020	212	237	186	1,685	2,320

	Telecommunication sites \$'000	Substation sites \$'000	Depots \$'000	Equipment \$'000	Total \$'000
2019					
Balance at 1 July 2018	-	-	-	2,248	2,248
Depreciation charge for the year	-	-	-	(140)	(140)
Additions to right-of-use assets	-	-	-	-	-
Balance at 30 June 2019	-	-	-	2,108	2,108

Recognition and measurement**Leased assets - Prior to 1 July 2019 (under AASB 117)**

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

Right-of-use assets - Post 1 July 2019 (under AASB 16)

Right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

B4. Impairment of assets**Recognition and measurement**

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

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

Key Estimates and Assumptions**Impairment testing results**

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

Impairment testing amid COVID-19

TasNetworks has considered the impact of COVID-19 on its business operations as part of undertaking the annual impairment assessment. TasNetworks' modelling under current assumptions indicate minimal impact to revenue, expenses and cash flows. The projections indicate TasNetworks will recover its full regulated revenue entitlement (distribution and transmission) across the current regulatory period to 2024, with minor overall negative impact to date on electricity consumption and demand. TasNetworks has relative certainty in our future regulated revenue streams until 2024, however they remain subject to change in economic conditions impacting the interest rate environment and our cost of capital.

The impairment factors due to COVID-19 considered for property, plant and equipment include:

- Material reduction in future cash flows that would lead to an impairment of network assets;
- Review of intangible and assets under construction; and
- Material changes in the value of land and buildings.

Significant events

During the year there were no significant asset impairment events.

Financing TasNetworks' business

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

C1. Borrowings

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

	2020 \$'000	2019 \$'000
Current:		
Overnight borrowings	4,300	17,870
Borrowings	171,000	215,000
	175,300	232,870
Non-current:		
Borrowings	1,802,300	1,703,300
	1,802,300	1,703,300
Total Borrowings	1,977,600	1,936,170

TasNetworks' Treasury Risk Management Policy is to benchmark the debt portfolio to the Australian Energy Regulator's benchmark used in determining the revenue allowance, which is to have 1/10th of the portfolio repricing each year from year 1 to 10. The current borrowings of \$171m (2019: \$215m) that are classified as current will be refinanced in line with this policy. See below for details of the borrowing facilities. In 2015-16, in recognition of the low interest rate environment, the Board resolved to exclude the \$100m of 30 year long term debt to 2046 from the benchmark debt portfolio.

As part of the Tasmanian Government's response to the COVID-19 pandemic, the Treasurer has ensured that all Tasmanian Government businesses have access to sufficient funds. On 15 June 2020 the Treasurer provided explicit support to the Tasmanian Public Finance Corporation for TasNetworks' borrowing limit of \$2,150m.

Unused borrowing facilities at balance date

	Limit 2020 \$'000	Drawn 2020 \$'000	Undrawn 2020 \$'000	Limit 2019 \$'000	Drawn 2019 \$'000	Undrawn 2019 \$'000
Unsecured bank overdraft facility	1,005	-	1,005	1,005	-	1,005
Corporate MasterCard	1,500	205	1,295	3,500	298	3,202
Guarantee facility	1,000	-	1,000	10,000	-	10,000
TASCORP Master Loan Facility	2,150,000	1,977,600	172,400	2,000,000	1,936,170	63,830

During 2019-20 TasNetworks undertook a review of its banking facility limits which resulted in the reduction of limits for facilities in line with operational requirements.

Recognition and measurement

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

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

C2. Lease liability

TasNetworks has applied AASB 16 using the cumulative catch-up approach (note H5) therefore comparative information has not been restated. The details of accounting policies under both AASB 117 (old standard) and AASB 16 (new standard) are detailed below.

TasNetworks assesses whether a contract is or contains a lease, at inception of the contract. TasNetworks recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with terms of less than 12 months) and leases of low value assets. For these leases TasNetworks recognises the lease payments as an operating expense on a straight-line basis over the term or the lease.

TasNetworks has leases of property for depots, infrastructure sites and for office equipment.

Lease of equipment not in the legal form of a lease

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

TasNetworks pays a fixed annual fee over the term of the arrangement plus a variable charge based on revenue generated by the asset outside of Tasmania. The imputed interest rate for the lease was determined based on TasNetworks' incremental borrowing rate of 3.68%.

Finance lease liabilities

The maturity analysis of lease liabilities is as follows:

Applicable post 1 July 2019 (under AASB 16)

	Present value of future minimum lease payments	
	2020	\$'000
Year 1	379	
Year 2	168	
Year 3	106	
Year 4	107	
Year 5	111	
Ongoing	2,014	
		2,885
Analysed as:		
Current lease liability	379	
Non-current lease liability	2,506	
		2,885

Applicable prior to 1 July 2019 (under AASB 117)

	Future minimum lease payments		Interest		Present value of future minimum lease payments	
	2020	2019	2020	2019	2020	2019
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Less than one year	n/a	80	n/a	97	n/a	79
Between one and five years	n/a	260	n/a	271	n/a	315
More than five years	n/a	2,116	n/a	770	n/a	1,212
	-	2,456	-	1,138	-	1,606
Included in the consolidated financial statements as:						
Current lease liability	379	80				
Non-current lease liability	2,506	2,376				
	2,885	2,456				

C2. Lease liability continued**Recognition and measurement****Applicable prior to 1 July 2019**

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

Applicable post 1 July 2019

The lease liability is initially measured at the present value of future lease payments, discounted using the rate implicit in the lease. If this rate cannot be readily determined, TasNetworks uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments, less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if there is reasonable certainty that the option will be exercised; and
- Payment of penalties for terminating the lease, if the lease term reflects the exercise of the option to terminate the lease.

The lease liability is presented as a separate line item in the consolidated statement of financial position.

The lease liability is subsequently remeasured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

TasNetworks remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment or exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- The lease payments change due to changes in an index or rate, a change in expected payment under a guaranteed residual value, in which case the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate; and
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

TasNetworks did not make any such adjustments during the periods presented.

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

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

	Borrowings \$'000	Finance Leases \$'000	Retained Earnings \$'000	Total \$'000
Opening balance at 1 July 2019	1,936,170	2,456	136,774	1,898,071
Changes from financing cash flows:				
Proceeds from borrowings	798,281	-	-	798,281
Repayment of borrowings	(756,851)	-	-	(756,851)
Payment of leases	-	(489)	-	(489)
Payment of dividend	-	-	(28,907)	(28,907)
Total changes from financing cash flows:	41,430	(489)	(28,907)	12,034
Non-cash changes				
Liability changes:				
Lease liability	-	918	(141)	777
Total liability changes	-	918	(141)	777
Equity related changes:				
Net actuarial gain/(loss)	-	-	(849)	(849)
Profit for year	-	-	37,012	37,012
Total equity related changes:	-	-	36,163	36,163
Closing balance at 30 June 2020	1,977,600	2,885	143,889	1,947,045

	Borrowings \$'000	Finance Leases \$'000	Retained Earnings \$'000	Total \$'000
Opening balance at 1 July 2018	1,885,600	2,533	160,312	1,871,116
Changes from financing cash flows:				
Proceeds from borrowings	534,184	-	-	534,184
Repayment of borrowings	(483,614)	-	-	(483,614)
Payment of leases	-	(140)	-	(140)
Payment of dividend	-	-	(43,104)	(43,104)
Total changes from financing cash flows:	50,570	(140)	(43,104)	7,326
Non-cash changes				
Liability changes:				
Lease liability	-	63	-	63
Total liability changes	-	63	-	63
Equity related changes:				
Net actuarial gain/(loss)	-	-	(16,386)	(16,386)
AASB 15 Impact	-	-	(4,832)	(4,832)
Profit for year	-	-	40,784	40,784
Total equity related changes:	-	-	19,566	19,566
Closing balance at 30 June 2019	1,936,170	2,456	136,774	1,898,071

(a) Non-cash financing activities

There have been no non-cash financing activities in either 2019 or 2020.

C4. Financial instruments**(a) Classification and fair value measurement of financial instruments**

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

Note	2020					
	Carrying Amount			Fair Value		
	Hedging Instrument \$'000	Financial Assets at amortised cost \$'000	Other Liabilities \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
Financial assets not measured at fair value:						
Cash and cash equivalents	C5(a)	-	7,451	-	n/a	n/a
Trade and other receivables	E1	-	73,094	-	n/a	n/a
Financial assets measured at fair value:						
FX forward agreements	E3	3	-	-	3	-
Total financial assets		3	80,545	-	3	-
Financial liabilities measured at fair value:						
Interest rate swaps	E6	402	-	-	402	-
Lease liabilities	C2	-	-	2,885	2,885	-
Financial liabilities not measured at fair value:						
Trade and other payables	E5	-	-	66,513	n/a	n/a
Borrowings - fixed rate		-	1,948,300	-	2,031,544	132,438
Borrowings - floating rate		-	29,300	-	29,485	-
Total financial liabilities		402	1,977,600	69,398	2,064,316	132,438

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

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

C4. Financial instruments continued

Fair values of financial instruments

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

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

Derivative transactions are for the purpose of managing financial exposures that arise from underlying business positions. Therefore fair values should not be assessed in isolation. The overall impact should take into account the underlying exposures being held.

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

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

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

Recognition and measurement

Under AASB 9 cash and cash equivalents and trade and other receivables are classified as financial assets at amortised cost.

Impairment of financial assets

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

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

Impact of COVID-19

TasNetworks has undertaken detailed analysis on the impact of COVID-19 on its expected credit losses model and the expected credit loss rate in the table below reflect any changes identified.

For the current financial year	Trade receivables days past due					
	Current	Less than 30 days	More than 30 days	More than 60 days	More than 90 days	Total
Expected credit loss rate	0.28%	1.19%	7.05%	12.76%	12.04%	
Gross carrying amount \$'000	6,500	239	56	435	987	8,217
Lifetime expected credit loss \$'000	18	3	4	55	119	199

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

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

C4. Financial instruments continued

Derivative financial instruments

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

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

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

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

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

Foreign currency transactions

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

(b) Financial risk management objectives

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

Capital management

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

	Note	2020 \$'000	2019 \$'000
Debt to total capital ratio			
Debt (borrowings)	C1	1,977,600	1,936,170
Cash and cash equivalents	C5(a)	7,451	3,552
Net debt		1,970,149	1,932,618
Total capital (net debt + total equity)		2,982,764	2,890,282
Debt to total capital ratio		66.1%	66.9%

Risk management

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

Credit risk

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

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

C4. Financial instruments continued**Risk management continued**

Where collateral (e.g. cash deposit) is held by TasNetworks on behalf of counterparties, a corresponding liability is recognised.

The majority of TasNetworks' credit risk is to Australian based banks, financial institutions, electricity generators, electricity retailers and customers.

Liquidity risk

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

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

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

Market risk**Foreign exchange risk**

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

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

TasNetworks entered into two forward foreign exchange contracts during the year ended 30 June 2020 (three in 2019, valued at \$0.005m). Two forward foreign exchange contract remained at 30 June 2020 with a fair value of \$0.255m.

Interest rate risk

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

Master loan facility agreement

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

All MLFA covenants are closely monitored with all requirements met for the 2019-20 year.

C4. Financial instruments continued**Interest rate exposures and liquidity for the current financial year**

TasNetworks' exposure to interest rate risk on financial instruments and contractual maturity of financial liabilities and expected maturity for financial assets as at 30 June 2020:

		2020						
	Note	Weighted average effective interest rate	0 to 1 year \$'000	1 to 2 years \$'000	2 to 5 years \$'000	5+ years \$'000	Non-interest bearing \$'000	Total \$'000
Financial assets:								
Cash and cash equivalents	C5(a)	0.25%	7,451	-	-	-	-	7,451
Trade and other receivables	E1	n/a	-	-	-	-	73,094	73,094
Total financial assets			7,451	-	-	-	73,094	80,545
Financial liabilities:								
Trade and other payables	E5	n/a	-	-	-	-	66,513	66,513
Borrowings - fixed rate		3.01%	213,335	226,883	740,974	1,214,635	-	2,395,827
Borrowings - floating rate		0.92%	29,799	29,799	29,799	29,799	-	119,196
Interest rate swaps		2.92%	363	363	363	363	-	1,452
Finance leases		3.98%	379	168	106	2,232	-	2,885
Total financial liabilities			243,876	257,213	771,242	1,247,029	66,513	2,585,873
Net financial assets/(liabilities)			(236,425)	(257,213)	(771,242)	(1,247,029)	6,581	(2,505,328)

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

Interest rate exposures and liquidity for the previous financial year

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

		2019						
	Note	Weighted average effective interest rate	0 to 1 year \$'000	1 to 2 years \$'000	2 to 5 years \$'000	5+ years \$'000	Non-interest bearing \$'000	Total \$'000
Financial assets:								
Cash and cash equivalents	C5(a)	1.25%	3,552	-	-	-	-	3,552
Trade and other receivables	E1	n/a	-	-	-	-	86,988	86,988
Total financial assets			3,552	-	-	-	86,988	90,540
Financial liabilities:								
Trade and other payables	E5	n/a	-	-	-	-	81,073	81,073
Borrowings - fixed rate		3.68%	217,341	209,237	743,629	1,204,964	-	2,375,171
Borrowings - floating rate		1.71%	84,073	25,623	-	-	-	109,696
Interest rate swaps		2.85%	376	239	-	-	-	615
Finance leases		4.01%	177	177	354	2,886	-	3,594
Total financial liabilities			301,967	235,276	743,983	1,207,850	81,073	2,570,149
Net financial assets/(liabilities)			(298,415)	(235,276)	(743,983)	(1,207,850)	5,915	(2,479,609)

C4. Financial instruments continued

Interest rate sensitivity analysis

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

	Profit before tax		Equity after tax	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
1.0% increase in interest rates	43	89	88	168
0.25% decrease in interest rates	(11)	(22)	(17)	(42)

(c) Hedging

Interest rate swaps

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

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

Outstanding floating for fixed contracts	Average contracted fixed interest rate	Average contracted fixed interest rate	Notional principal amount	Notional principal amount	Fair value	Fair value
	2020	2019	2020	2019	2020	2019
	%	%	\$'000	\$'000	\$'000	\$'000
Less than one year	2.92	2.77	25,000	20,000	(402)	(174)
One to two years	-	2.92	-	25,000	-	(753)
			25,000	45,000	(402)	(927)

Recognition and measurement

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

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

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

C5. Notes to the consolidated statement of cash flows

(a) Reconciliation of cash and cash equivalents

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

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

	Note	2020 \$'000	2019 \$'000
Cash at bank		7,425	3,526
Cash investment		26	26
		7,451	3,552

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

Net profit for the year		37,012	40,784
Depreciation and amortisation of non-current assets	A2(b)	174,496	164,066
(Gain)/loss on sale of property, plant and equipment	A1(b)	(1,091)	(870)
Increase/(decrease) in tax equivalent liabilities		(14,573)	(17,849)
(Increase)/decrease in trade and other receivables		13,894	(7,487)
(Increase)/decrease in inventories		(7,079)	1,229
(Increase)/decrease in other assets		746	969
Increase/(decrease) in trade and other payables		(14,560)	2,914
Increase/(decrease) in provisions		(967)	(2)
Increase/(decrease) in employee benefits		7,548	1,705
Increase/(decrease) in other liabilities		15,515	16,450
Net cash provided by operating activities		210,941	201,909

Recognition and measurement

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

TasNetworks' equity

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

D1. Retained earnings

	Note	2020 \$'000	2019 \$'000
Balance at beginning of financial year		136,774	160,312
Opening balance adjustments			
Effect of AASB 15 on adoption		-	(6,903)
Deferred tax effect on AASB 15	A4(b)	-	2,071
Effect of AASB 16 on adoption	H5	(201)	-
Deferred tax effect on AASB 16	A4(b)	60	-
Opening balance at 1 July		136,633	155,480
Net profit for the year		37,012	40,784
Superannuation actuarial gains/(losses)	F2	(1,212)	(23,408)
Deferred tax effect on actuarial movement	A4(b)	363	7,022
Dividends paid during the year		(28,907)	(43,104)
Balance at end of financial year		143,889	136,774

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

D2. Contributed equity

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

D3. Reserves

Reserves comprise:			
Asset revaluation reserve		806,281	758,815
Hedge reserve		(279)	(649)
		806,002	758,166
Asset revaluation reserve			
Balance at beginning of financial year		758,815	732,320
Revaluation of assets during the year		67,808	37,850
Deferred tax liability arising on revaluation	A4(b)	(20,342)	(11,355)
Balance at end of financial year		806,281	758,815
Revaluation of assets during the year			
Revaluation of gross carrying value	B2	122,911	88,312
Revaluation of gross accumulated depreciation	B2	(55,103)	(50,462)
Net fair value movements on property, plant and equipment		67,808	37,850

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

D3. Reserves continued

	Note	2020 \$'000	2019 \$'000
Hedge reserve			
Balance at beginning of financial year		(649)	(1,955)
- Gain/(loss) recognised in equity		157	(745)
- Reversal of prior year losses		371	2,611
Deferred tax asset arising on hedges	A4(b)	(158)	(560)
Balance at end of financial year		(279)	(649)

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

D4. Issued capital

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

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

Other assets and liabilities

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

E1. Trade and other receivables

	2020 \$'000	2019 \$'000
Current:		
Trade receivables	8,217	19,005
Accrued income	36,495	37,029
Unbilled use of system (UoS)	28,581	31,283
Allowance for impairment	(199)	(329)
	73,094	86,988
Movement in the allowance for impairment of debts		
Balance at beginning of financial year	(329)	(383)
Impairment gain/(loss) recognised on receivables	(29)	(183)
Amounts written off as uncollectable during the year	162	245
Previously written off amounts recovered	(3)	(8)
Balance at end of financial year	(199)	(329)
Ageing of trade receivables that were past due but not impaired		
Less than 30 days overdue	239	507
Between 31 and 60 days overdue	56	472
Between 61 and 90 days overdue	436	20
Greater than 90 days overdue	987	1,621
	1,718	2,620

Recognition and measurement

Trade receivables and other receivables pertain to goods and services sold as part of operating activities and are initially recorded at fair value and thereafter amortised cost. An allowance for impairment is recognised annually utilising the Expected Credit Loss model (see note C4). TasNetworks applies a simplified approach in calculating expected credit losses, and therefore as a result does not specifically track changes in credit risk, but instead recognise a loss allowance based on lifetime expected credit losses at each reporting date. TasNetworks has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors groupings and the economic environment. Bad debts are written off in the year in which they are identified. Unbilled use of system is the accrual for the revenue TasNetworks expects to receive from retailers (note A1 - Key Estimate).

E1. Trade and other receivables continued**Analysis of aging and collectability**

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

Information on TasNetworks' exposure to credit and market risks for trade and other receivables and the impact of COVID-19 is included in note C4.

E2. Inventories

Note	2020 \$'000	2019 \$'000
Inventory	29,229	21,124
Allowance for impairment on inventory	(1,339)	(313)
	27,890	20,811

During the financial year ended 30 June 2020 \$2.069m (2019: \$1.960m) of inventory was expensed in the statement of profit or loss including inventory issued to non-regulated services.

Impact of COVID-19

In order to reduce supply risk due to COVID-19 additional inventory was purchased in the later half of the 2019-20 financial year.

Movement in the allowance for impairment of inventory

Balance at beginning of financial year	(313)	(255)
Impairment gain/(loss) provided for	(1,165)	(283)
Inventory written off during the year	139	225
Balance at end of financial year	(1,339)	(313)

During the 2019-20 year some obsolete items were identified for disposal increasing the impairment provision for the year.

Recognition and measurement

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

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

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

E3. Other assets**Current:**

Prepayments		3,562	4,313
FX forward agreements	C4	3	6
Other		54	61
		3,619	4,380

Non-Current:

Prepayments		561	546
		561	546
Total:		4,180	4,926

E4. Provisions**Provisions for the current financial year**

	2020		
	Workers Compensation \$'000	Onerous Contracts \$'000	Total \$'000
Balance at beginning of financial year	882	269	1,151
Provision increase/(decrease) during the year	558	(26)	532
Provision used during the year	(1,256)	(243)	(1,499)
Balance at end of financial year	184	-	184
Non-current provisions	184	-	184
	184	-	184

Provisions for the previous financial year

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

Recognition and measurement

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

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

Workers compensation

TasNetworks workers compensation is insured by an external insurance provider. The policy provides for a minimum premium (fixed component paid in the insured year) and a variable component up to an agreed maximum premium. The variable component of the premium is paid in arrears and will vary depending upon TasNetworks' workers compensation performance. TasNetworks is provided an estimate of the outstanding premium at 30 June each year based upon latest available information. This estimate forms the basis of the workers compensation provision that is required at 30 June 2020.

Key Estimates**Workers compensation provision**

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

Onerous contracts

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

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

E5. Trade and other payables

	Note	2020 \$'000	2019 \$'000
Current:			
Trade payables		13,633	21,803
Accrued payables		16,063	22,872
Accrued expenses		7,408	7,277
GST payable		1,976	1,596
Accrued interest		27,433	27,525
		66,513	81,073

Recognition and measurement

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

E6. Other liabilities

	Note	2020 \$'000	2019 \$'000
Current:			
Revenue received in advance		28,472	22,585
Derivative contracts		402	416
		28,874	23,001
Non-current:			
Revenue received in advance		35,450	25,848
Derivative contracts		-	511
		35,450	26,359
Total:			
Revenue received in advance		63,922	48,433
Derivative contracts	C4(a)	402	927
		64,324	49,360

Recognition and measurement**Income received in advance**

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

The balance of revenue received in advance is from construction projects currently being undertaken. This income is recognised as revenue when the work has been completed.

The increase in revenue received in advance is predominately due to the connection of two large wind farms during the 2019-20 financial year with long term connections to the transmission system.

Derivative contracts

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

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

TasNetworks' people

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

F1. Employee benefits

	Note	2020 \$'000	2019 \$'000
Current:			
Annual leave		11,880	11,738
Long service leave		12,776	12,550
Defined benefits superannuation	F2	5,775	4,979
Other employee benefits		4,288	2,330
		34,719	31,597
Non-current:			
Long service leave		4,382	3,792
Defined benefits superannuation	F2	186,093	181,137
Other employee benefits		683	591
		191,158	185,520
		225,877	217,117

Impact of COVID-19

The number of hours of leave taken during the 2019-20 financial year was less than previous years predominately due to COVID-19 and subsequent travel restrictions. This has resulted in an increase to leave liability balances at 30 June 2020. These leave balances are being actively managed by TasNetworks.

Recognition and measurement

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

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

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

Salaries, annual and long service leave

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

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

Key Estimates**Workers compensation provision**

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

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

F1. Employee benefits continued

Termination payments

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

Sick leave

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

Accumulated superannuation plans

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

Defined benefit superannuation plans

The balance of employees are provided with superannuation benefits through a defined benefit superannuation scheme.

Past service cost is recognised immediately to the extent that the benefits are already vested and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

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

F2. Defined benefit superannuation plan

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

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

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

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

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

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

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

Defined benefit superannuation risks

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

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

Significant events

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

F2. Defined benefit superannuation plan continued

Key Assumptions

Defined benefit superannuation plan

The actuarial assessment and key assumptions that have been used in determining this are as per the State Actuary's (Mercer) report, dated 14 July 2020 and are set out below:

Assumptions to determine defined benefit cost and start of year defined benefit obligation	2020	2019
	%	%
Discount rate (active members)	3.25	4.30
Discount rate (pensioners)	3.25	4.30
Expected salary increase rate	3.00	3.00
Expected rate of increase of compulsory preserved amounts	3.00	3.00
Expected pension increase rate	2.50	2.50

Assumptions to determine end of year defined benefit obligation	2020	2019
	%	%
Discount rate (active members)	3.15	3.25
Discount rate (pensioners)	3.15	3.25
Expected salary increase rate	3.00	3.00
Expected rate of increase of compulsory preserved amounts	3.00	3.00
Expected pension increase rate	2.25	2.50

Fair value of Scheme assets

	30 June 2020*			
	Total \$'000	Quoted prices in active markets for identical assets - Level 1 \$'000	Significant observable inputs - Level 2 \$'000	Unobservable inputs - Level 3 \$'000
Cash deposits	-	-	-	-
Australian equities	6,284	-	6,284	-
International equities	8,012	-	8,012	-
Infrastructure	5,067	1,375	-	3,692
Diversified fixed interest	9,896	-	9,896	-
Property	7,069	-	7,069	-
Alternative investments	2,946	-	2,946	-
TOTAL	39,274	1,375	34,207	3,692

*Estimated based on assets allocated to TasNetworks as at 30 June 2020 and asset allocation of the RBF Scheme as at 30 June 2019.

Fair value of own financial instruments

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

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

Assets are not held separately for each reporting entity but are held for the Fund as a whole. The fair value of Scheme assets for each reporting entity was estimated by allocating the total Fund assets in proportion to the value of each reporting entity's funded liabilities, calculated using the assumptions outlined in this report, with the exception of the discount rate. For the purposes of allocating assets to each reporting entity, we have used the Government Bond yield of 1.60%, in order to be consistent with the allocation of assets reported to the Department of Treasury and Finance.

F2. Defined benefit superannuation plan continued

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

	Note	2020 \$'000	2019 \$'000
Present value of defined benefit obligations at beginning of financial year		231,142	227,636
Total defined benefit obligation		231,142	227,636
RBF contributory scheme assets		39,274	41,520
Net liability at end of financial year		191,868	186,116
Movements in net liabilities			
Net liability at beginning of financial year		186,116	161,788
Expense recognised in profit or loss	A2(c)	8,602	9,257
Other comprehensive income recognised		1,212	23,408
Employer contributions paid by TasNetworks		(4,062)	(8,337)
Net liability at end of financial year		191,868	186,116
Current net liability	F1	5,775	4,979
Non-current net liability	F1	186,093	181,137
		191,868	186,116
Expense recognised in profit or loss			
Employer service cost		2,622	2,448
Net interest cost	A2(c), A3	5,980	6,809
Expense recognised in profit or loss		8,602	9,257
Other comprehensive income recognised			
Superannuation actuarial (gains)/losses	D1	1,212	23,408
Other comprehensive income recognised		1,212	23,408

Employee benefits expense is included in the operating expenses line item of the statement of profit or loss and the superannuation actuarial gains/(losses) line item in the statement of comprehensive income. Interest costs are included within finance costs. Employer contributions of \$4.062m (2019: \$8.337m) reflects the amount paid by TasNetworks.

Fair value of plan assets

RBF contributory scheme assets at beginning of financial year	41,520	44,181
Interest Income	1,326	1,873
Actual return / (diminution) on plan assets less interest income	(2,469)	(2,923)
Employer contributions received	5,574	6,825
Contributions by plan participants	807	971
Benefits paid	(7,479)	(9,402)
Taxes, premiums and expenses paid	(5)	(5)
RBF contributory scheme assets at end of financial year	39,274	41,520

F2. Defined benefit superannuation plan continued

	2020 \$'000	2019 \$'000
Defined benefit obligations inclusive of contributions tax for disclosure purposes		
Present value of defined benefit obligation at beginning of financial year	227,636	205,969
Employer service costs	2,622	2,448
Interest costs	7,306	8,682
Contributions by plan participants	807	971
Benefits paid	(5,967)	(10,914)
Taxes, premiums and expenses paid	(5)	(5)
Expected defined benefit obligation at year end	232,399	207,151
Actuarial (gain)/loss arising from changes in demographic assumptions	(1,777)	-
Actuarial (gain)/loss arising from changes in financial assumptions	(3,141)	30,664
Actuarial (gain)/loss arising from liability experience	3,661	(10,179)
Present value of defined benefit obligation at end of financial year	231,142	227,636

Effect of the asset ceiling

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

Sensitivity Analysis

The defined benefit obligation as at 30 June 2020 under several scenarios is presented below. Scenarios A and B relate to discount rate sensitivity. Scenarios C and D relate to expected pension increase rate sensitivity.

Scenario A: 1% pa lower discount rate assumption

Scenario B: 1% pa higher discount rate assumption

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

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

	Base Case	Scenario A -1% pa discount rate	Scenario B +1% pa discount rate	Scenario C -1% pa pension rate	Scenario D +1% pa pension rate
Discount rate	3.25% pa	2.25% pa	4.25% pa	3.25% pa	3.25% pa
Pension increase rate	2.50% pa	2.50% pa	2.50% pa	1.50% pa	3.50% pa
Defined benefit obligation (\$'000)	231,142	248,350	215,728	219,036	244,473

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

Asset-Liability matching strategies

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

Funding arrangements

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

Expected contributions

TasNetworks expects to pay employer contributions for the year ended 30 June 2021 of \$5.775m (2020: \$4.062m).

Maturity profile of defined benefit obligation

The weighted average duration of the defined benefit obligation for TasNetworks is 14.5 years.

F3. Key Management Personnel compensation

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

	Director Remuneration		Executive Remuneration		Consolidated	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Short-term employee benefits	391	353	2,755	2,686	3,146	3,039
Post-employment benefits	31	28	243	239	274	267
Other long-term employment benefits	-	-	(24)	15	(24)	15
Termination Benefits	-	-	-	-	-	-
	422	381	2,974	2,940	3,396	3,321

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

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

Remuneration for the Board of Directors

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

2020 Director Remuneration¹

Name	Position	Period	Director Fees \$'000	Committee Fees \$'000	Superannuation ² \$'000	Total \$'000
Non-Executive Directors						
Dr D Norton AO	Chairperson	Full term	116	-	11	127
Mrs J Doyle ³	Director	Full term	59	-	-	59
Mr P McIntyre	Director	Full term	54	-	5	59
Mr R Gill	Director	Full term	54	-	5	59
Dr J Beeby	Director	Full term	54	-	5	59
Mrs S Merridew	Director	Full term	54	-	5	59
Total			391	-	31	422

2019 Director Remuneration¹

Name	Position	Period	Director Fees \$'000	Committee Fees \$'000	Superannuation ² \$'000	Total \$'000
Non-Executive Directors						
Dr D Norton AO	Chairperson	Full term	117	-	11	128
Dr J Sargison	Director	to 1/11/2018	21	-	2	23
Mrs J Doyle ³	Director	Full term	59	-	-	59
Mr P McIntyre	Director	Full term	54	-	5	59
Mr R Gill	Director	Full term	54	-	5	59
Dr J Beeby	Director	from 20/11/2018	31	-	3	34
Mrs S Merridew	Director	from 20/02/2019	17	-	2	19
Total			353	-	28	381

Board remuneration notes and statements

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

F3. Key Management Personnel compensation continued

Non-Executive Directors

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

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

Executive Remuneration

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

2020 Executive Remuneration

Name	Position	Period	Base Salary ¹ \$'000	Super-annuation ² \$'000	Vehicles ³ \$'000	Total Remuneration Package \$'000	Termination Benefits ⁴ \$'000	Other Long-term Benefits ⁵ \$'000	Total ⁶ \$'000
Mr L Balcombe	Chief Executive Officer	Full year	488	21	-	509	-	(32)	477
Ms B Clark	General Manager Project Marinus	Full year	282	27	-	309	-	7	316
Mr W Tucker	General Manager Regulation, Policy and Strategic Asset Management	Full year	276	35	-	311	-	(1)	310
Mr M Paine	General Manager Operations and Customer Service Delivery	Full year	295	28	-	323	-	7	330
Mr R Burridge	General Manager Strategy, Finance and Business Services	Full year	298	38	-	336	-	(12)	324
Ms J McDermott	General Manager People, Culture and Community	Full year	293	28	-	321	-	(6)	315
Mrs P Bartlett	Company Secretary and General Counsel	Full year	254	24	-	278	-	2	280
Mr M Westenberg	General Manager Technology and Performance	Full year	275	21	-	296	-	8	304
Mr M Ash	General Manager Network, Commercial and Major Customer	Full year	294	21	-	315	-	3	318
Total			2,755	243	-	2,998	-	(24)	2,974

F3. Key Management Personnel compensation continued

2019 Executive Remuneration

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

Executive remuneration notes and statements

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

1. Base salary includes all forms of consideration paid and payable for services rendered, compensated absences during the period and salary sacrifice amounts.
2. Superannuation means the contribution to the superannuation fund of the individual. Superannuation benefits for members of a defined benefit scheme were calculated using a notional cost based on 12.95% (2018: 12.8%).
3. Includes total cost of providing and maintaining vehicles provided for private use, including registration, insurance, fuel and other consumables, maintenance cost and parking (including notional value of parking provided at premises that are owned or leased and fringe benefits tax).
4. Termination benefits include all forms of benefits paid or accrued as a consequence of termination.
5. Other long-term benefits consists of annual and long service leave movements.
6. Executive remuneration may vary year to year due to the timing of refunds or reimbursements on expired novated vehicle lease contracts.

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

F3. Key Management Personnel compensation continued

Executive Remuneration

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

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

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

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

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

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

Termination benefits

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

Acting arrangements

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

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

During the current financial year there were no acting arrangements in place.

Statement of compliance

TasNetworks has complied with the Government's Director and Executive Remuneration Guideline for the year ended 30 June 2020 with the exception of three variations. These are the confidentiality and termination provisions contained in executive contracts and the setting of initial remuneration of the TasNetworks current CEO which pre-date the June 2014 Shareholders Direction to comply with the Guidelines.

F4. Related party disclosures

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

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

Equity interest in related parties

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

Key management personnel compensation

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

Transactions with key management personnel and related parties

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

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

Balances and transactions between TasNetworks and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

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

Controlling entity

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

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

Commitments

This section contains information about the commitments TasNetworks has made.

G1. Leases**Leases as lessee**

Applicable post 1 July 2019 (under AASB 16)

TasNetworks leases communication sites, land and some office space and equipment under various leases that were previously classified as operating leases under AASB 117 (note B3).

(a) Amounts recognised in the profit or loss

	2020 \$'000	2019 \$'000
2020 - Leases under AASB 16		
Interest on lease liability	(121)	n/a
Amortisation of lease assets	(385)	n/a
Expenses relating to short-term leases	(43)	n/a
Expenses relating to low value assets	(4)	n/a
	(553)	-
2019 - Leases under AASB 117		
Lease expense	n/a	(368)
	-	(368)
(b) Amounts recognised in the statement of cash flows		
Total cash outflow for leases	(489)	(368)

(c) Extension options

Some leases contain extension options exercisable by TasNetworks up to one year before the end of the initial period. Where practicable, TasNetworks assesses at lease commencement whether it is reasonably certain to exercise the options. TasNetworks reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes.

Leases as lessee

Applicable prior to 1 July 2019 (under AASB 117)

Operating leases as lessee

Non-cancellable operating lease rentals are payable as follows:

Within one year	n/a	1,428
One year or no later than five years	n/a	487
Greater than five years	n/a	982
	-	2,897

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

With the introduction of AASB 16 TasNetworks leases have been reclassified as finance leases, see note H5 for the conversion to finance leases and note C2 for the lease liabilities.

Sublease

The future minimum sublease payments expected to be received is \$nil (2019: \$0.786m) as the lease expired in March 2020.

G1. Leases continued**Operating leases as lessor**

TasNetworks leases out part of its business premises, transmission system assets and distribution power poles under operating leases.

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date.

	2020 \$'000	2019 \$'000
2020 - Leases under AASB 16		
Less than 1 year	2,604	n/a
1 to 2 years	2,617	n/a
2 to 3 years	2,416	n/a
3 to 4 years	2,333	n/a
4 to 5 years	2,229	n/a
More than five years	26,491	n/a
	38,690	-
2019 - Leases under AASB 117		
Within one year	n/a	2,891
One year or no later than five years	n/a	8,118
Greater than five years	n/a	18,289
	-	29,298

Recognition and measurement

Applicable prior to 1 July 2019 (under AASB 117)

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

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

G2. Commitments for expenditure**Capital expenditure commitments[†]:****Property, plant and equipment**

Within one year	88,939	100,331
One year or later and no later than five years	37,164	39,979
Greater than five years	48	355
	126,151	140,665

Operating expenditure commitments*:**Other expenses (excluding leases disclosed in note G1)**

Within one year	43,931	53,592
One year or later and no later than five years	13,552	21,106
Greater than five years	13	41
	57,496	74,739

*Operating expenditure commitments relate predominately to asset maintenance services.

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

G3. Contingent liabilities and contingent assets

At the time of publication of these accounts there were no contingent claims related to property loss, where TasNetworks is the defendant, personal injury (with the exception of claims by employees for personal injuries related to legacy herbicide exposure as mentioned below), contractual and other matters with TasNetworks (2019: nil). The directors are of the opinion, based on legal advice, that no provision for a liability is required.

The ARENA grant funding agreement contains certain repayment conditions where the grant revenue of \$10.0m (note A1) received to support the Project Marinus second interconnector feasibility study and business case would be required to be repaid to ARENA.

TasNetworks has completed its investigation of a legacy herbicide exposure attributable to former Hydro Electric Commission (Hydro) employees spraying vegetation dating back to the 1960-70's. The possible exposure passes to TasNetworks under the respective transfer notices for business restructuring in 1998 (from Hydro to Transend Networks Pty Ltd) and 2014 (from Transend Networks Pty Ltd) respectively. An Action group was established together with a Claims Settlement Protocol and a Quantum Framework. TasNetworks currently has received two claims for compensation which have been accrued as expenses in the 2019-20 financial year. Future claims are anticipated, however the number or quantum cannot currently be quantified so no provision for liability is required.

Other information

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

H1. Auditor's remuneration

	2020 \$	2019 \$
Amounts received, or due and receivable:		
Audit of financial statements for the group	241,940	231,240
Audit of regulatory financial statements	10,200	8,665
Audit of Regulatory Information Notice*	242,000	235,535
	494,140	475,440

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

H2. Overseas travel

	2020 No. of trips	2019 No. of trips	2020 \$	2019 \$
Travel undertaken	3	14	51,615	115,087
Travel by CEO	1	0	10,997	-
Travel by Board	0	0	-	-
			62,612	115,087

All overseas trips in the 2019-20 financial year related to the Marinus Project, other planned trips were either cancelled or deferred as a result of COVID-19 travel restrictions.

H3. Consolidated entity

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

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

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

H3. Consolidated entity continued

Name of entity	Footnotes	Country of incorporation	Ownership interest	
			2020 %	2019 %
Parent entity				
Tasmanian Networks Pty Ltd		Australia		
Subsidiaries				
TasNetworks Holdings Pty Ltd	1	Australia	100	100
Fortytwo24 Pty Ltd*	2	Australia	100	100
Marinus Link Pty Ltd*	3	Australia	100	100
Large Scale Renewables Pty Ltd*	4	Australia	100	100

* Fortytwo24 Pty Ltd, Marinus Link Pty Ltd and Large Scale Renewables Pty Ltd are 100% owned subsidiaries of TasNetworks Holdings Pty Ltd.

Footnote

1. TasNetworks Holdings Pty Ltd was incorporated on 24 May 2018.
2. Fortytwo24 Pty Ltd was incorporated on 14 February 2006.
3. Marinus Link Pty Ltd was incorporated on 23 November 2018 and was not operational during the 2018-19 financial year.
4. Large Scale Renewables Pty Ltd was incorporated on 20 May 2019 and was not operational during the 2018-19 or 2019-20 financial years.

H4. Parent entity disclosures

As at, and throughout the financial year ended 30 June 2020, the parent entity of the Group was Tasmanian Networks Pty Ltd.

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

	Parent	
	2020 \$'000	2019 \$'000
Result of parent entity		
Profit for the year	33,547	36,677
Other comprehensive income for the period	46,987	11,415
Total comprehensive income for the period	80,534	48,092
Financial position of parent entity at year end		
Current assets	104,124	113,821
Loan to subsidiary	3,003	-
Non current assets	3,444,880	3,333,760
Total assets	3,552,007	3,447,581
Current liabilities	306,952	368,737
Non current liabilities	2,235,905	2,125,285
Total liabilities	2,542,857	2,494,022
Net assets	1,009,150	953,559
Total equity of the parent entity comprising of:		
Contributed equity	62,724	62,724
Reserves	806,002	758,188
Retained earnings	140,424	132,647
Total equity	1,009,150	953,559

H3. Parent entity disclosures continued**Parent entity notes**

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

Capital commitments for the acquisition of property plant and equipment for the parent are as below:

	Parent	
	2020 \$'000	2019 \$'000
Capital expenditure commitments[†]:		
Property, plant and equipment		
Within one year	88,926	100,331
One year or later and no later than five years	37,164	39,979
Greater than five years	48	355
	126,138	140,665

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

H5. Changes in accounting policies**Accounting standards adopted**

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

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

AASB amendment	Affected standard	Nature of change to accounting policy
AASB 16	Leases	AASB 16 replaces AASB 117 <i>Leases</i> , Interpretation 4 <i>Determining whether an Arrangement contains a Lease</i> , Interpretation 115 <i>Operating Leases - incentives</i> and Interpretation 127 <i>Evaluating the Substance of Transactions involving the Legal Form of a Lease</i> . The standard provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. The new Standard introduces three main changes: <ul style="list-style-type: none"> Enhanced guidance on identifying whether a contract contains a lease A new leases accounting model for lessees that requires all leases to be recognised on the balance sheet, except for short term leases and leases of low value assets Enhanced disclosures. Lessor accounting will not change significantly. See below for more information on the impact of this standard on TasNetworks' financial statements.
AASB 2018-2	AASB 119 Employee Benefits	Changes the requirement to remeasure assumptions should a plan amendment, curtailment or settlement occur. This change does not have a material impact on TasNetworks' Financial Statements.

Impact of initial application of AASB 16 Leases

TasNetworks has applied the cumulative catch-up approach for the implementation of AASB 16 *Leases* which:

- Requires TasNetworks to recognise the cumulative effect of initially applying AASB 16 as an adjustment to the opening balance of retained earnings at the date of initial application, which is 1 July 2019.
- Does not permit the restatement of comparatives, which continue to be presented under AASB 117.

(a) Impact of the new definition of a lease

TasNetworks has made use of the practical expedient available on transition to AASB 16 not to reassess whether a contract is or contains a lease. Accordingly the definition of a lease in accordance with AASB 117 will continue to be applied to those leases entered into or changed before 1 July 2019.

H5. Changes in accounting policies continued

The change in definition of a lease mainly relates to the concept of control. AASB 16 determines whether a contract contains a lease on the basis of whether the lessee has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in AASB 117.

TasNetworks applies the definition of a lease and related guidance set out in AASB 16 to all lease contracts entered into or changed after 1 July 2019. Implementation work undertaken by TasNetworks has shown that the new definition will not significantly change the scope of contracts that meet the definition of a lease.

(b) Impact on lessee accounting**Former Operating Leases:**

Applying AASB 16 for leases (except as noted below), TasNetworks:

- Recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;
- Recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss; and
- Separates the total amount of cash paid into a principal portion and interest in the consolidated statement of cash flows.

TasNetworks used the following practical expedients when applying the cumulative catch up approach to leases previously classified as operating leases when applying AASB 117.

- TasNetworks has applied a single discount rate (TasNetworks' incremental borrowing rate) to a portfolio of leases with reasonably similar characteristics;
- TasNetworks has elected not to recognise right-of-use assets and lease liabilities for which the lease term ends within 12 months of the date of initial application; and
- TasNetworks has used hindsight when determining the lease term when the contract contains options to extend or terminate the lease.

Former Finance Leases:

For leases that were classified as finance leases under AASB 117, the carrying amount of leased assets and obligations under finance leases measured applying AASB 117 immediately before the date of initial application is reclassified to right-of-use asset and lease liabilities respectively without any adjustments.

The right-of-use asset and lease liability are accounted for applying AASB 16 from 1 July 2019.

(c) Impact on lessor accounting

AASB 16 does not change substantially how a lessor accounts for leases. Under AASB 16 a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently.

AASB 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

(d) Financial impact of initial application of AASB 16

The weighted average incremental borrowing rate applied to lease liabilities recognised in the statement of financial position on 1 July 2019 is 3.68%

The following table shows the operating lease commitments disclosed applying AASB 117 at 30 June 2019, discounted using the incremental borrowing rate at the date of initial application and the lease liabilities recognised in the statement of financial position at the date of initial application.

Impact on retained earnings as at 1 July 2019:**\$'000**

Operating lease commitments at 30 June 2019	2,897
Short-term leases and leases of low value assets	(1,055)
Effect of discounting above amounts	(420)
Finance lease liabilities recognised at 30 June 2019	2,456
Present value of the variable lease payments that depend on a rate or index	(665)
Lease liabilities recognised at 1 July 2019	3,213

TasNetworks has recognised \$1.221m of right-of-use assets and \$1.422m of lease liabilities upon transition to AASB 16. The difference of \$0.201m is recognised in retained earnings.

H5. 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 2018-7	Definition of Material	These amendments address concerns that the wording in the definition of 'material' was different in the <i>Conceptual Framework for Financial Reporting</i> , AASB 101 <i>Presentation of Financial Statements</i> and AASB 108 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> . These amendments will not have a material impact on TasNetworks.	1 January 2020	30 June 2021
AASB 2019-1	Conceptual Framework	This amendment makes changes to the various accounting standards and other pronouncements to support the issue of the revised <i>Conceptual Framework for Financial Reporting</i> .	1 January 2020	30 June 2021
AASB 1059	Service Concession Arrangements: Grantors	AASB 1059 has been issued to provide accounting guidance for public sector entities (grantors) who enter into service concession arrangements with private sector operators. The standard requires grantors to recognise a service concession asset or liability on the balance sheet. This standard will not impact the financial statements as TasNetworks does not have any public or private service concession arrangements in place whereby an operator provides a public service on behalf of TasNetworks.	1 January 2020	30 June 2021
AASB 2018-5	Amendments to Standards - Defers application date			

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

H6. Subsequent events**Dividends**

Subsequent to the end of the financial year, the Board recommended a dividend of \$26.738m (2019: \$28.907m) in respect to the current financial year. The dividend recommended is in line with the Tasmanian Government Dividend Policy. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2020.

COVID-19

The situation with the COVID-19 pandemic is continuing to evolve and the full impact is yet to be realised. In considering the financial statements, reasonable assessments and judgements have been made based on available data and current assumptions. The situation and impacts on the TasNetworks Group will continue to be monitored.

Other

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

DIRECTORS' DECLARATION

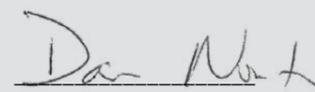
For the year ended 30 June 2020

The directors declare that:

- 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;
- the financial statements comply with international financial reporting standards as disclosed in these notes to the financial statements;
- in the directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including being in compliance with Australian Accounting Standards and giving a true and fair view of the financial position and performance of Tasmanian Networks Pty Ltd; and
- the directors have been provided with declarations from the Chief Executive Officer and the General Manager Strategy, Finance and Business Services for the financial year.

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

On behalf of the directors



Dr Dan Norton AO

Chairman
Hobart

12 August 2020



Mrs Joanne Doyle

Director
Hobart

12 August 2020

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Powering a Bright Future

Over the past year, we've invested some time as a business discussing 'why' we come to work each day, solidifying our drive, our reason for being – our Purpose.

The carefully considered articulation of our TasNetworks Purpose as 'Powering a bright future' is personal to us. It represents our unique intention to secure a positive, sustainable future for our Tasmanian community through energy transmission and distribution.



TasNetworks
Delivering your power