



TASMANIAN NETWORKS PTY LTD
ANNUAL REPORT 2015-16



*Front cover: One of our crews performing extra high voltage live line insulator replacement work.
Top, left to right: Patrick Carroll and Tony Bowerman,
Bottom, left to right: Matthew Conlan and Timothy Banks*

Tasmanian Networks Pty Ltd
ABN 24 167 357 299

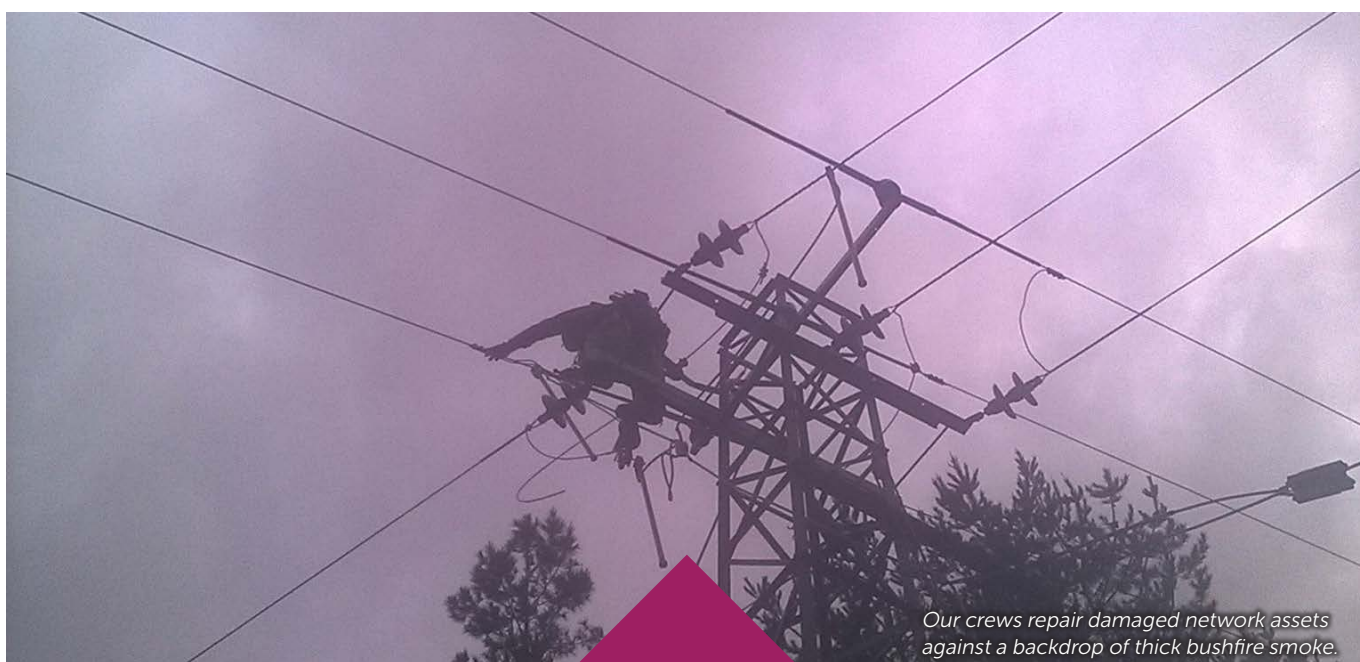
PO Box 606, Moonah, TAS 7009
1-7 Maria Street, Lenah Valley, Tasmania 7008

1300 12 7777 | tasnetworks.com.au

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2015-16 IN FOCUS



Our crews repair damaged network assets against a backdrop of thick bushfire smoke.

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THE 2015-16 YEAR WAS A PERIOD OF SIGNIFICANT CHALLENGES AND ACHIEVEMENTS FOR OUR BUSINESS. WE CONTINUE TO DELIVER A DEMANDING AGENDA WHILST KEEPING SAFETY AT THE FOREFRONT OF OUR ACTIVITIES. IN THIS SECTION WE HIGHLIGHT OUR PERFORMANCE OVER THE YEAR, AS WE STRIVE TO ACHIEVE OUR VISION TO BE TRUSTED BY CUSTOMERS TO DELIVER TODAY, AND CREATE A BETTER TOMORROW.

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Safety first

Our 2015-16 safety performance was not up to the high standards we set for ourselves and the community. We responded to a decline in safety performance early in 2016 through a range of proactive measures, arresting the decline.

TasNetworks teams kept safety at the front of mind as we responded to a number of severe weather events impacting our customers during the year: appropriately prioritising safety ahead of supply restoration. Our proactive safety measures, including our behavioral safety program and near-hit reporting focus, continue to drive our business towards zero harm.

OUR CUSTOMERS

Mother Nature threw everything at us in 2015-16: a record dry spring, bushfires, then floods on the east coast, extreme winds, heavy snow and storm events, and more floods in the north and north-west.

Our teams braved the elements to maintain and restore supply to our customers in a range of adverse conditions. We kept the lines of communication open with our customers as we worked to safely restore electricity to homes and businesses affected by multiple incidents across the state.

We received fantastic community support for our efforts to restore supply. Feedback from the Tasmanian public, including through social media channels, recognised the efforts of our crews often working in difficult conditions. The Hon Michael Gaffney MLC congratulated TasNetworks for our support to the Latrobe and North-West communities through the extreme flooding events.

Despite volatile conditions, our overall network service performance for the year was above target. This will see us earn reward payments under national incentive schemes.



During the year our customers and network were impacted by heavy flooding (top) and severe storms (below).

DESPITE VOLATILE CONDITIONS, OUR OVERALL NETWORK SERVICE PERFORMANCE FOR THE YEAR WAS ABOVE TARGET. THIS WILL SEE US EARN REWARD PAYMENTS UNDER NATIONAL INCENTIVE SCHEMES.



Supplementary diesel generation we connected to our network at our George Town Substation to support Tasmania's Energy Supply Plan.

Supporting the energy supply challenge

Damage to the Basslink cable, coupled with some of the driest conditions Tasmania has experienced for many years, presented an energy supply challenge for the state. As part of Tasmania's Energy Supply Plan, TasNetworks teams collaborated to provide innovative and practical solutions, including connecting 200 megawatts of supplementary diesel generation sites across the state. We worked closely with the Australian Energy Market Operator to ensure these new network connections satisfied the technical design, performance, customer and stakeholder engagement criteria.

PREMIER OF TASMANIA, THE HON WILL HODGMAN, AND MINISTER FOR ENERGY, THE HON MATTHEW GROOM, ACKNOWLEDGED THE HARD WORK UNDERTAKEN BY TASNETWORKS TEAMS AND EXPRESSED THEIR GRATITUDE FOR THE IMMEDIATE AND COMPETENT RESPONSE.

TasNetworks demonstrated agility and responsiveness to support Hydro Tasmania and the Tasmanian public, and our efforts were recognised by our customers. Premier of Tasmania, the Hon Will Hodgman, and Minister for Energy, the Hon Matthew Groom, acknowledged the hard work undertaken by TasNetworks teams and expressed their gratitude for the immediate and competent response.



Keeping the network in good shape and doing things better

Over the year we invested \$171 million to maintain, replace and extend the network to deliver services to our 280,000 customers. We reviewed our bushfire mitigation activities, and implemented a range of activities to improve vegetation management around our assets.

We completed the \$11 million replacement of poor condition assets in the George Town 110,000 volt (110 kV) Substation, which will sustain a reliable supply at this critical node in our transmission network.

We completed a complex and important protection upgrade at the Risdon Substation in Hobart, which serves our distribution customers and Nyrstar, one of our largest transmission customers.

We delivered a significant upgrade to our supervisory control and data acquisition (SCADA) platform, to deliver better visibility of our distribution network and support better customer service outcomes.

WE COMPLETED THE \$11 MILLION REPLACEMENT OF POOR CONDITION ASSETS IN THE GEORGE TOWN 110,000 VOLT (110 KV) SUBSTATION, WHICH WILL SUSTAIN A RELIABLE SUPPLY AT THIS CRITICAL NODE IN OUR TRANSMISSION NETWORK.

The project has improved reliability across our distribution network.

We continue to trial innovative technologies to support the safe and efficient operation, maintenance and reinvestment in our network.

Enabling connection choice

Feedback from our customers was that the process to connect to our distribution network needed to improve. As a result, we're overhauling our current connection processes. A key change is the introduction of choice of service providers to design and construct the services needed for underground subdivision developments.

Transforming the business

We are well underway in our 'Ajilis' project to transform business systems and processes. Ajilis will deliver an integrated platform to replace many disparate and disjointed IT systems, and support process efficiencies that will provide the foundation for TasNetworks' operations over the next 10 years.

In particular Ajilis will create a TasNetworks way of working, remove duplication and simplify operations across the business, improve data quality and reporting, and streamline business processes.

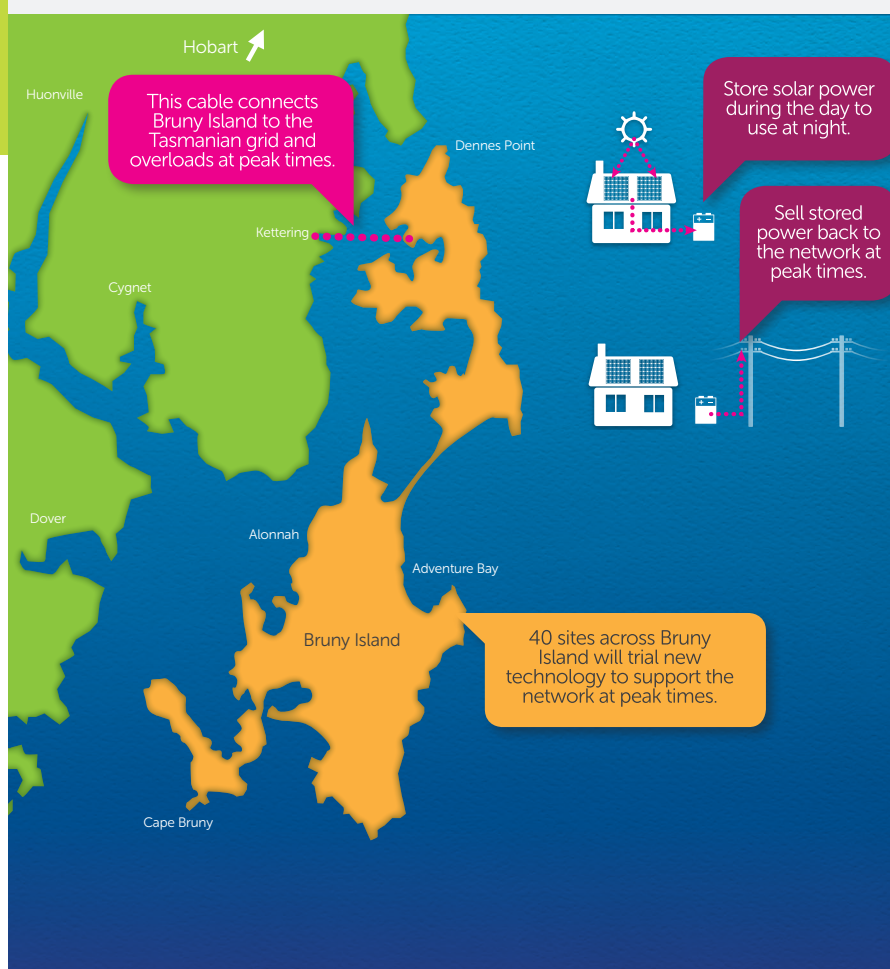
EMBRACING NEW TECHNOLOGY

WE ARE COMMITTED TO TESTING NEW TECHNOLOGY TO PROVIDE CUSTOMER VALUE, AND SHARE OUR EXPERIENCE WITH OUR CUSTOMERS.

Creating a better tomorrow

Our industry is undergoing a significant period of transition. Navigating our business through this period will require us to act quickly and to be agile. Part of our plan is contributing to the Network Transformation Roadmap project, undertaken by the Energy Networks Association and CSIRO. This project released a number of key documents during 2015-16 including research on customer expectations, customer engagement, and network pricing reform. For more information on this important initiative see www.ena.asn.au/electricity-network-transformation-roadmap.

Bruny Island battery storage trial.



Battery storage

Batteries are expected to play a key role in transforming the energy sector world-wide. To better understand how batteries can support our customers and our network, TasNetworks has embarked on a three-year project on Bruny Island.

We have partnered with the Australian National University, the University of Sydney, University of Tasmania and battery control software business Reposit Power to undertake the research. Bruny Island was selected because of its unique combination of network limitations and customer desire to take charge of energy use.

The project will research how customers can take charge of their energy use through batteries, and be rewarded for helping manage the electricity grid. The batteries will include energy management software that allows homeowners to sell their power back to the grid, and reward them for helping to meet electricity demand on peak days. The project was awarded \$2.9 million in funding by the Australian Renewable Energy Agency (ARENA).

Electric vehicles become part of the family

Interest in electric vehicles (EVs) is growing, from how they operate, how much they cost to run and where they can be recharged. To demonstrate leadership in the electric vehicle arena, we've added two electric vehicles to the TasNetworks fleet. The Nissan Leaf runs entirely on electricity—there is no fuel tank. The EVs are primarily based at our Maria Street campus, with charging stations also installed at our Cambridge and Mornington sites.



TasNetworks' Paul Rayner presents the keys to an electric vehicle to Lyndon Stevenson of Community Transport Services Tasmania Inc. as part of our new partnership with the organisation.

TASNETWORKS IS LEARNING ABOUT THE IMPACT OF EVS ON OUR NETWORK, AND WILL SHARE THE LESSONS WITH OTHER FLEET MANAGERS AND OUR CUSTOMERS.

These EVs are in addition to two plug-in hybrid vehicles we are already trialling in our fleet at our Cambridge and Devonport sites. The acquisition of these two fully electric vehicles is the next stage of us trialling this new technology.

In Australia, there has been limited uptake of EVs but things are likely to change in the future as prices of EVs reduce, technology improves and the world continues to look to reduce carbon dioxide emissions. Within Tasmania, it is possible that EVs running on our state's renewable energy will be part of a cleaner future.

TasNetworks is learning about the impact of EVs on our network, and will share the lessons with other fleet managers and our customers.

TASNETWORKS AND THE COMMUNITY

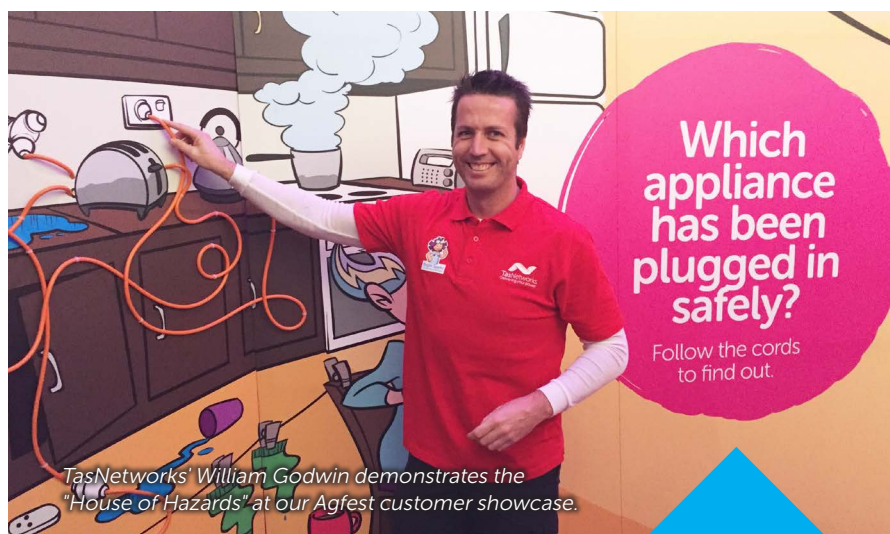
Keeping kids safe and informed about energy

Over the last 12 months, a fun and informative Safety in Schools program was delivered to more than 10,000 junior school students, teaching them how to be safe around electricity. The purpose of the program is to help students understand the dangers so as to reduce the risk of electrical incidents and prevent accidents. We also hosted a House of Hazards, as part of our Agfest customer showcase, reinforcing safety messages. We have seen many children take home what they have learnt and reinforce our key safety messages.

Partnering

During the past year, TasNetworks has partnered with a number of organisations to support the Tasmanian community including:

- **Greening Australia energy-wise school program** – to develop an energy literacy education program to young Tasmanians in secondary school. The program will support young Tasmanians gain the knowledge and skills needed to navigate a rapidly changing energy sector.
- **Menzies Institute** – to deliver the Tasmanian Mental Health and Wellbeing Research Program, through Mental Health and Wellbeing PhD scholarships. The program will explore what a mentally



TasNetworks' William Godwin demonstrates the "House of Hazards" at our Agfest customer showcase.

WE HAVE SEEN MANY CHILDREN TAKE HOME WHAT THEY HAVE LEARNT AND REINFORCE OUR KEY SAFETY MESSAGES.

- healthy workplace looks like for different businesses and organisations across Tasmania. It will consider different types of strategies to promote good mental health, including work stress approaches, such as mindfulness training.
- **Trowunna Wildlife Park and Bonorong Wildlife Sanctuary** – to help mitigate our impact on threatened birds, we have partnered with two wildlife parks that support the care of threatened birds, such as Wedge-tailed Eagle, White-bellied Sea Eagle and the Grey Goshawk.
- **Rural Alive and Well (RAW)** – to deliver the Tasmanian Mental Health and Wellbeing Research Program, to explore what a mentally healthy workplace looks like for different businesses and organisations across Tasmania.
- **Community Transport Services Tasmania Inc.** – to equip a Tasmanian charity (Community Transport Services Tasmania Inc.) with an electric vehicle for its fleet. This supports the important community work they are doing and means we can share our knowledge and experience about electric vehicles with the Tasmanian public.

OUR BUSINESS

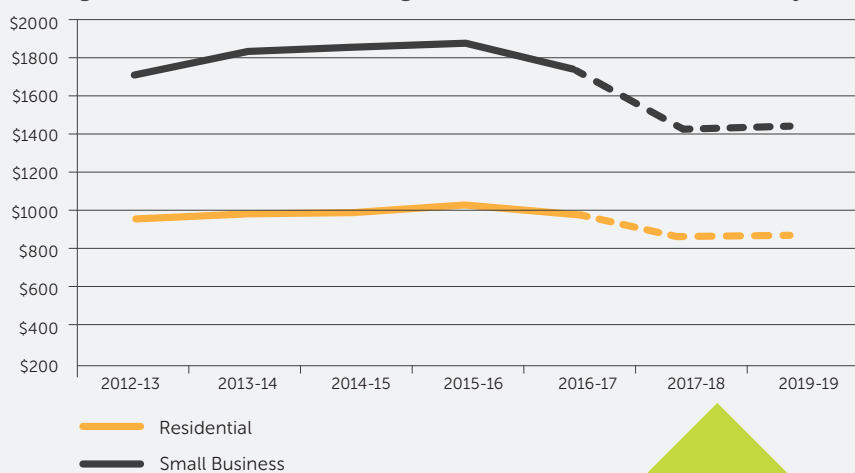
Sound financial performance

Consumption on our transmission and distribution networks was up in 2015-16, which has supported our above-target profit for the financial year. As a regulated network business operating under a revenue cap, we hand back these over recovered revenues in future years. This has already contributed to the lower distribution network charges customers are receiving in 2016-17.

We also took the opportunity to refinance some of our debt portfolio during the year. While this has had a short-term impact on our profitability, it delivers improved shareholder outcomes over the medium term.

Our non-regulated business lines, including our telecommunications services, continue to support customer value and shareholder returns. We will pursue these opportunities in a rapidly evolving energy landscape, building scale and expertise to support our focus on safe, reliable and affordable network services.

Average Annual Network Charge (\$ nominal dollars of the day)



THE AVERAGE RESIDENTIAL CUSTOMER WILL SEE A REDUCTION OF AROUND \$160 IN THEIR ANNUAL NETWORK CHARGE AND SMALL BUSINESS CUSTOMERS WILL RECEIVE \$300 REDUCTION. THESE ESTIMATED ANNUAL REDUCTIONS ARE BASED ON A NUMBER OF USAGE ASSUMPTIONS AND WILL VARY BETWEEN CUSTOMERS.

Enterprise Agreement

We continue to develop and implement our TasNetworks policies, processes and frameworks post-merger to ensure we have a solid foundation for the operation of our business.

This year we invested considerable time and effort working with our people to establish our first TasNetworks Enterprise Agreement (EA). In August 2016, a majority of TasNetworks team members voted 'yes' to our first TasNetworks Enterprise Agreement.

After considerable negotiation, we are pleased to take this important step towards working together as 'one business'.

PLANNING FOR THE FUTURE

In January we lodged a proposal to the Australian Energy Regulator (AER) for our distribution services income for the 2017-18 and 2018-19 financial years. The proposal included pricing for a range of network services, including connections, with a transition to more cost-reflective pricing over time. Our proposal reflected a range of inputs from customers and stakeholder groups.

We are really proud that our customer engagement has been recognised at a national level, with the AER Board members noting:

"We have heard significant positive feedback in response to TasNetworks' customer engagement program, Voice of the Customer. It was clear that TasNetworks took a very inclusive approach that recognised the diverse segments of their consumer groups.

"At the core of its engagement program was TasNetworks seeking to 'earn the trust of its consumers' and to build a culture of 'putting the customer first'. The program highlighted that cost and affordability were the greatest concerns for its consumers."

We have also commenced planning and consultation for our first combined transmission and distribution revenue proposal that will determine network revenues for 2019 to 2024.



GRAD CAMPAIGN TARGETS THE UP AND COMERS

TASNETWORKS LAUNCHED A NEW GRADUATE CAMPAIGN TO SHOWCASE THE BROAD RANGE OF CAREERS IN THE ENERGY INDUSTRY AND EXPAND THE GRADUATES APPLYING TO TASNETWORKS FROM DISCIPLINES OUTSIDE OF ENGINEERING. WITH A TAGLINE "CAN YOU HANDLE THIS MUCH POWER?", THE CAMPAIGN BUILDS ON TASNETWORKS' STRONG ENGINEERING GRADUATE PROGRAM AND EXPANDS IT TO OTHER DISCIPLINES.

WE HAD A GREAT POOL OF APPLICANTS, ALLOWING TASNETWORKS TO CHOOSE THE BEST OF THE BEST. WE WILL WELCOME 7 NEW GRADUATES TO OUR BUSINESS IN FEBRUARY 2017, IN THE FIELDS OF ENGINEERING, FINANCE, STRATEGY, IT AND PEOPLE.

ABOUT TASNETWORKS

Tasmanian Networks Pty Ltd (TasNetworks) delivers electricity and telecommunications network services to customers in Tasmania. TasNetworks is owned by the State of Tasmania and is a commercial business with assets of over \$3 billion.

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

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

What we do?

TasNetworks owns and maintains the electricity transmission and distribution network in Tasmania. We provide a variety of electricity network services to customers, these relationships are shown pictorially in Figure 1.

We deliver a safe, cost-effective and reliable electricity supply to more than 280,000 residential, commercial and industrial customers. Our responsibilities include:

- Keeping our people and our customers safe;
- Maintaining and replacing network infrastructure to ensure a reliable service for our customers;
- Connecting new customers to the network;
- Investing in the network to support capacity growth;
- Connecting small-and large-scale generation to the network;
- Operating the network on a day-to-day basis, including all fault restoration;
- Maintaining the public lighting system; and
- Recording and providing meter data to retailers.

IN ADDITION TO ELECTRICITY NETWORK SERVICES, WE PROVIDE SPECIALIST, HIGH RELIABILITY TELECOMMUNICATIONS SERVICES TO CUSTOMERS INCLUDING THOSE IN THE TASMANIAN ELECTRICITY SUPPLY INDUSTRY. OUR TELECOMMUNICATIONS SERVICES SUPPORT POWER SYSTEM PROTECTION, MONITORING AND CONTROL, VOICE COMMUNICATIONS AND ASSET MANAGEMENT FUNCTIONS. WE ALSO PROVIDE WHOLESALE TELECOMMUNICATIONS WHICH INCLUDES SUPPORTING THE STATE GOVERNMENT'S TRUNK MOBILE RADIO NETWORK.

Our shareholders have directed us to perform some non-commercial activities, primarily funding the 'grandfathered' solar feed-in-tariff payment to customers, supporting the rollout of the National Broadband Network on the West Coast of Tasmania, and inspecting private electricity infrastructure until a long-term solution is implemented. Any profits we make from delivering our services to our customers are returned back to Tasmanians in the form of returns and dividends paid directly to the State.

About this report

This report reviews the operations of Tasmanian Networks Pty Ltd and our subsidiaries Auroracom Pty Ltd and Ezikey Group Pty Ltd for the 2015-16 financial year.

Figure 1 TasNetworks' customer service relationships

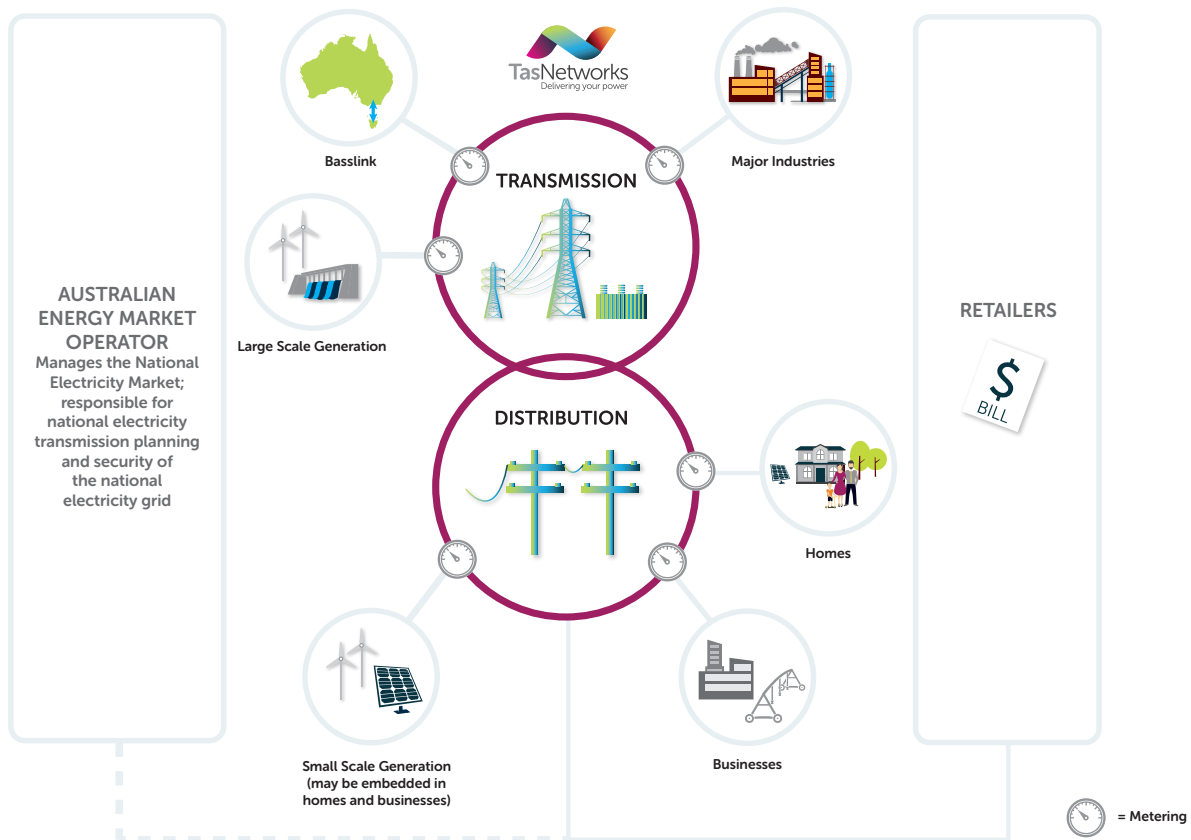


Figure 2 What it takes to deliver your power

The network is made up of:

Transmission

3,500 circuit kilometres of transmission lines
8,500 transmission line support structures
11,000 hectares of easements

Distribution

15,000 kilometres of high voltage powerlines
5,000 kilometres of low voltage powerlines
2,000 kilometres of high and low voltage underground cables
222,000 poles

Telecommunications

1,675 kilometres of fibre optic cable
2 data centres



CHAIRMAN'S REVIEW

Since commencing our business on 1 July 2014 we have devoted substantial effort to delivering the benefits of operating as an integrated network business. We are building our business and continue our focus on making our customers central to all we do. We are now ready to plan our longer-term strategy and fulfil the part of our vision about 'creating a better tomorrow'.

Our vision for the future state of the business to 2025 is currently being developed. This is a critical input to our next revenue proposal which will cover both our distribution and transmission services. We intend to create shared ownership and clarity about our future state by engaging our customers in our long-term plans, building the capability of our people and confirming appropriate investment plans to meet the future needs of the business.

AS AN INDUSTRY IN TRANSITION, A NUMBER OF KEY DEVELOPMENTS INCLUDING THE AEMC'S POWER OF CHOICE REVIEW, ARE RESULTING IN SIGNIFICANT REFORMS TO THE NATIONAL ELECTRICITY MARKET AND REGULATORY FRAMEWORKS. WE HAVE BEEN INSTRUMENTAL IN INFLUENCING THESE REVIEWS TO ENSURE THE CHANGES DELIVER APPROPRIATE OUTCOMES FOR TASMANIAN CUSTOMERS, OUR BUSINESS AND OUR SHAREHOLDERS.

More of the services we provide are being opened up to competition, including new metering arrangements that are likely to result in significant changes to the way these services are provided in the state. As a business we will continue to evolve and position ourselves to successfully navigate these changes and take advantage of new opportunities where it makes sense for us to participate.



A RANGE OF EMERGING TECHNOLOGIES, AND THE WAY CUSTOMERS USE, PRODUCE AND VALUE ELECTRICITY AND ENERGY SERVICES OFFER AN INTERESTING OPPORTUNITY FOR US TO CONSIDER AND TRIAL NEW TECHNOLOGIES, INCLUDING BATTERY STORAGE INTEGRATED WITH SOLAR GENERATION, ELECTRIC VEHICLES FOR OUR FLEET AND ADVANCED METERS INCLUDING THE COMMUNICATIONS REQUIRED TO SUPPORT THEM.



We continue to implement a demanding agenda to deliver our strategic initiatives and build our understanding and capability of our people to deliver value to customers, while delivering safe and reliable network services.

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I WISH TO ACKNOWLEDGE THE VERY SUCCESSFUL YEAR TASNETWORKS HAS HAD IN 2015-16. WE ARE CLEARLY DELIVERING THE OUTCOMES ENVISAGED WHEN TASNETWORKS WAS ESTABLISHED AS AN INTEGRATED NETWORK BUSINESS ONLY 2 YEARS AGO. ON BEHALF OF THE BOARD I EXPRESS OUR APPRECIATION TO EVERYONE IN THE BUSINESS FOR THEIR RESPECTIVE CONTRIBUTIONS.

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I would like to acknowledge the contributions of my fellow directors and the dedication of our people at TasNetworks. In particular I would like to acknowledge the service of Peter Lowe who retired from the Board in November 2015. Peter provided strong financial guidance during the formative stages of TasNetworks and was also a Director of Aurora Energy. I would also like to welcome Joanne Doyle to our Board who was appointed on 1 July 2016. Joanne brings a wealth of contemporary financial and business knowledge to our business and will be a valuable addition to our team.

I would also like to thank our shareholders for their continued assistance and guidance during the year.

Dr Daniel Norton AO
Chairman

CEO'S REVIEW

Our first year of operation in 2014-15 saw us achieve a great deal as a business. The 2015-16 year has seen TasNetworks continue to build on the work we started allowing us to further improve the value we provide to our customers, our shareholders and the broader stakeholder community.

SAFETY IS PARAMOUNT AT TASNETWORKS AND WE MUST CONTINUE TO BE VIGILANT WHEN IT COMES TO THE SAFETY OF OUR PEOPLE AND THE TASMANIAN COMMUNITY. OUR 2015-16 SAFETY PERFORMANCE WAS DISAPPOINTING AS A NUMBER OF OUR SAFETY MEASURES SHOWED PERFORMANCE TRACKING BELOW TARGET FOR MUCH OF THE YEAR.

However, it was pleasing to note the improvement on a number of our lead safety indicators in the later months of the year. This was the result of our leaders, with the support of our people, taking a stand to arrest our declining safety performance and drive our business towards Zero Harm. One of our most inspiring safety initiatives was the development of our personal safety plans across the business. This was part of a theme of "bringing safety back to self" and it was powerful to see what safety meant personally to our people as they compiled these plans. The important time taken to reflect on safety has helped to drive improvement in our proactive safety activities as our teams seek to ensure they are able to work and operate safely, ensuring they are fit to continue to do the things that they value in life.



IN 2016 TASMANIA FACED A SIGNIFICANT CHALLENGE FOLLOWING THE EXTREMELY LOW INFLOWS AND THE BASSLINK CABLE FAULT WHICH THREATENED THE SECURITY OF OUR ENERGY SUPPLY. I AM INCREDIBLY PROUD OF THE RESPONSE FROM OUR TEAM AND HOW THEY COLLABORATED WITH THE OTHER BUSINESSES AND GOVERNMENT DEPARTMENTS IN THE TASMANIAN ELECTRICITY INDUSTRY TO DELIVER AGAINST THE TASMANIAN ENERGY SUPPLY PLAN.



OUR ROLE PREDOMINANTLY INVOLVED THE CONNECTION OF TEMPORARY DIESEL GENERATORS TO OUR NETWORK. THAT WE WERE ABLE TO SAFELY CONNECT SUCH A LARGE AMOUNT OF DIESEL GENERATION TO OUR NETWORK EFFICIENTLY, WITHIN A VERY TIGHT TIMEFRAME AND WITHOUT INCIDENT, IS A TESTAMENT TO ALL OF THOSE IN OUR TEAM THAT MADE IT HAPPEN. WE NOW LOOK FORWARD TO ENGAGING WITH THE TASMANIAN ENERGY SECURITY TASKFORCE WHICH HAS COMMENCED ITS DELIBERATIONS.

Another major challenge we have faced throughout the year has been a number of severe weather events. In August, January, May and June, our field crews safely restored power to more than 95,000 affected customers. Unrelenting weather conditions throughout the year tested the resilience, collaboration and teamwork of our entire business. It was pleasing to see that our people made good choices under pressure and kept safety at the forefront of their activities.

I also wish to thank our customers for the appreciation they showed to our frontline workers who often worked in treacherous conditions to restore electricity supplies. I also thank our customers for their patience and understanding at those times of prolonged electricity outages which were often driven by dangerous weather conditions or access issues. Safety of our team is our top priority which results in restoration activities not commencing until conditions have abated.

Our people are one of the strategic pillars of our business strategy. Our people survey conducted in March was an opportunity to remeasure the culture and engagement of our team. On the back of our previous surveys, we implemented a number of initiatives to shift our culture to a more constructive style, better equipping our people to deal with the rapidly changing environment within which TasNetworks is operating. Pleasingly we saw a substantial lift in our constructive styles and we were able to maintain team member engagement at 42%, which is 8% higher than the benchmark for Australian businesses. These results were excellent given some of the challenges we faced during the year, including those outlined above.

This year we have also invested a considerable amount of time and effort working with our people to establish our first TasNetworks Enterprise Agreement. A 'Yes' vote was achieved in August 2016 and we are pleased to be taking this important step towards working together as 'one business'.

Customer consultation is one of TasNetworks' strengths. One outcome of our customer consultation since our establishment was the commencement in January 2016 of Connections Choice. This initiative provides a more collaborative way of doing business as it allows developers to choose which company undertakes the design and construction work for electrical infrastructure within new underground residential developments. Customers and other industry stakeholders have expressed positive feedback and appreciation of the improved connection processes.

Also in January, we submitted our distribution regulatory proposal that will determine the distribution network revenue and pricing framework for 2017-2019. When we asked our customers what they wanted from our proposal they told us they wanted us to maintain existing levels of reliability without increasing prices. Our proposal delivers on this request with proposed revenue showing a 12.3% reduction on our current distribution determination, but importantly without compromising safety or reliability. We have already begun working on our first combined transmission and distribution revenue proposal that will determine network prices for 2019 to 2024 and we will continue to maintain downward pressure on the network component of electricity prices.

THIS YEAR SAW US EMBARK ON AN ENTERPRISE-WIDE BUSINESS TRANSFORMATION PROGRAM (AJILIS) THAT WILL CREATE A SINGLE TASNETWORKS WAY OF WORKING. THIS IS A SIGNIFICANT INVESTMENT AND AS WE DELIVER THIS PROGRAM A KEY AREA OF FOCUS IS FULLY REALISING THE BENEFITS OF THIS INVESTMENT. TO DO THIS, OUR BUSINESS MUST UNDERTAKE A SIGNIFICANT CHANGE MANAGEMENT EXERCISE IN ORDER TO FULLY EMBRACE AND BENEFIT FROM THE REQUIRED CHANGES TO THE WAY WE WORK.

We delivered profit after tax for the 2015-16 financial year of \$98.4 million which exceeded budget by nearly \$19 million. This was primarily driven by strong regulated revenues as a result of increased electricity consumption, with the resultant over recoveries against our regulated revenues being passed back to customers, again assisting to maintain downward pressure on prices. The strong revenue result was supported by effective management of costs as we met our targets for controllable operating expenditure. Despite this, the effects of the severe storm events outlined above resulted in a \$3.2 million impact on our overall operating expenditure levels. In all, we delivered total returns to our shareholders of \$250.7 million which continues the strong financial returns our business makes to the State.

I WOULD LIKE TO THANK AND CONGRATULATE EVERYONE IN THE TASNETWORKS TEAM FOR ALL THAT HAS BEEN ACHIEVED DURING 2015-16. I WOULD ALSO LIKE TO ACKNOWLEDGE THE SUPPORT PROVIDED BY THE BOARD AS WE CONTINUE TO DELIVER A CHALLENGING AGENDA.

Lance Balcombe
Chief Executive Officer

BUSINESS PERFORMANCE REVIEW



Our business measures its performance against a range of key performance metrics which measure our progress against delivering on our strategic goals. These metrics are supported and delivered by a range of activities which drive the performance of our business to help us achieve our vision.

.....
**IN ALL OUR ACTIVITIES WE REMAIN
FOCUSED ON ZERO HARM TO OUR
PEOPLE, CONTRACTORS, COMMUNITY
AND THE ENVIRONMENT.**
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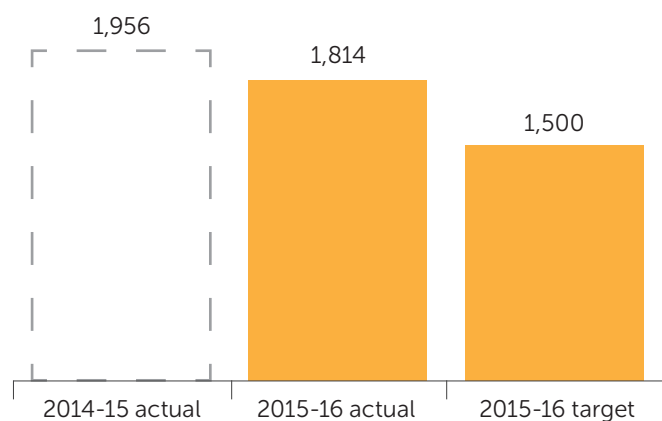
ZERO HARM: HEALTH, SAFETY AND ENVIRONMENT

	Target	Actual	
LifeSafe observations	≥ 1,500	1,814	✓
LifeSafe participation (%)	≥ 20	17.5	✗
Near hit reporting	> 105	270	✓
Significant incidents	≤ 9	21	✗
Reportable incidents	≤ 14	18	✗
Leadership Zero Harm interactions (%)	100	90	✗
Lost time injury frequency rate	0	4.7	✗

Zero Harm: Health, Safety and Environment notes

- Our safety performance was well below our targets. Our targets are ambitious and we make no apology for that.
- There were 21 significant incidents recorded in 2015-16. Of these, there were 13 public safety incidents and four contractor safety incidents, three employee incidents and one environmental incident. We investigated these incidents and undertook corrective actions to reduce recurrence risks.
- There were 14 incidents reportable to the Department of Primary Industries, Parks, Water and Environment relating to two oil spills, 11 deaths of Wedge Tailed Eagles and one clearing of threatened flora. Two incidents were reported to WorkSafe Tasmania relating to arc flash burns to an employee and electric shock to an employee. Two incidents were also reported to the Australian Energy Regulator related to not providing notification to life support customers of planned power outages.
- We did not meet our target of 100% Leadership Zero Harm interactions for the year and have increased our focus on this measure, with an improving trend.
- The Lost Time Injury Frequency Rate (**LTIFR**) performance for our people has remained consistent at 3.9 from February to June following a disappointing start to the year. TasNetworks recorded 8 LTIs for the year. The combined TasNetworks / contractor LTIFR was 4.7 at the end of the year. While the severity of injuries continues to trend down, the actual number remains consistent and not yet at our target of zero.

LifeSafe observations



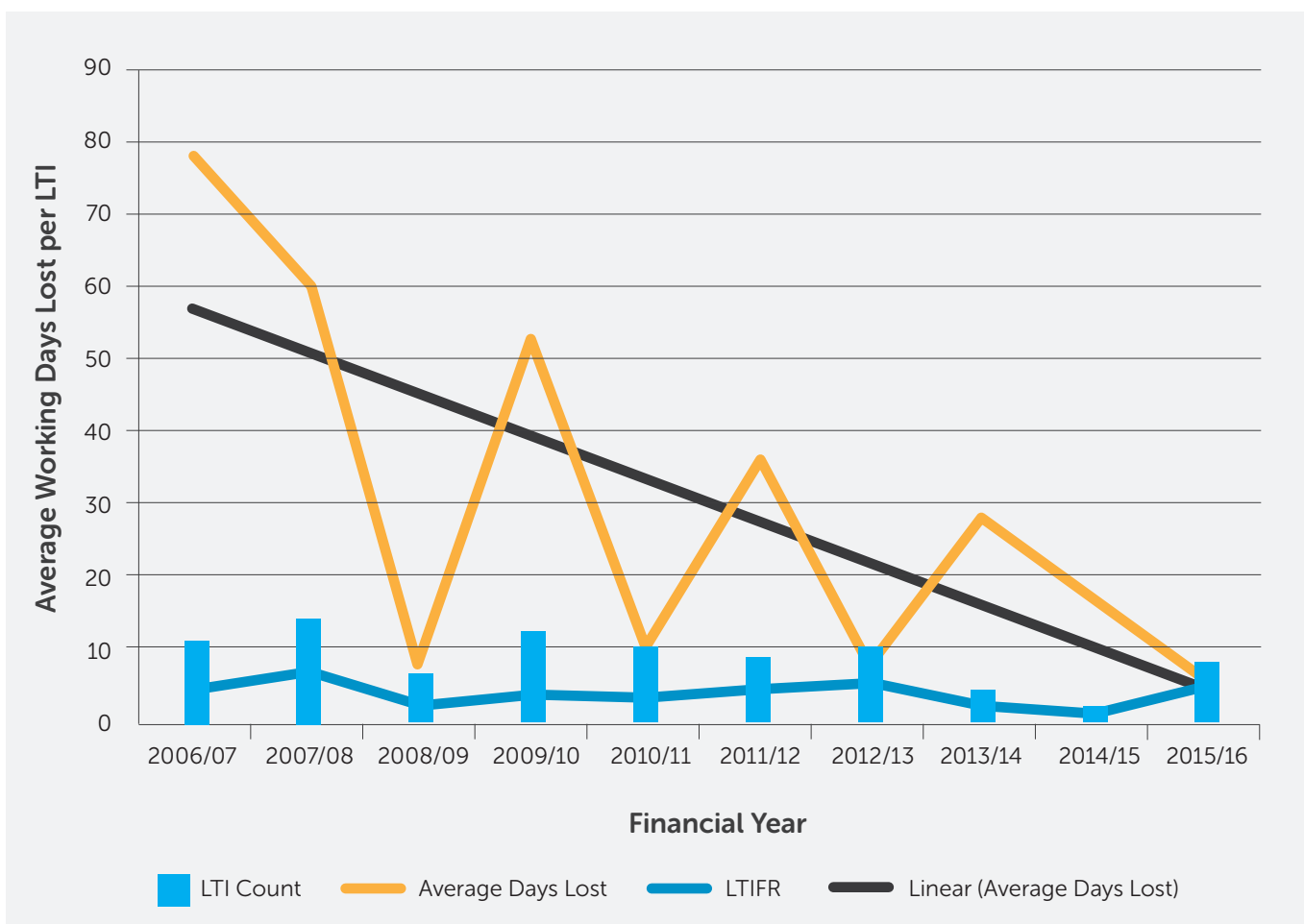
LifeSafe observations were ahead of target supporting our culture of Zero Harm.

Lead indicators helping us to achieve Zero Harm

	Q3	Q4	% increase
LifeSafe observations	385	472	23%
LifeSafe participation	13.6%	21.1%	7.5%

We have seen improvement in our lead safety indicators such as LifeSafe observations and LifeSafe participation in the latter months of the year. These are activities that all of our people can participate in to help us achieve Zero Harm.

Lost Time Injury Frequency Rate (LTIFR)



Our key activities – Health, Safety and Environment

Public safety

We have a range of proactive schemes to educate the public about the risks associated with electricity. These include safety awareness campaigns, school education programs, involvement with industry organisations and public events.

During 2015-16, we launched our Safe Growing campaign that focused on preparing for bushfire season. The integrated campaign included traditional media and digital media (including social) to ensure we captured the attention of a broad target audience.

Threatened Bird Strategy in action

Despite our mitigation efforts, there is still a significant residual risk to threatened birds from our assets. We have been working to reduce our impact on threatened birds, which requires commitment, innovation and engagement.

In 2015-16 we developed a Threatened Bird Strategy. The strategy describes a range of tactics that we will be implementing to build knowledge and awareness, mitigate new and existing assets, and voluntarily offset our residual impact. As part of our voluntary offset we have engaged in partnerships with Trowunna and Bonorong Wildlife Sanctuaries to build new aviaries specifically for the rehabilitation of injured birds of prey and professional development for vets to build capacity within Tasmania to rehabilitate injured birds of prey.

.....

THE IMPLEMENTATION OF THE THREATENED BIRD STRATEGY SUPPORTS OUR COMMITMENT TO ZERO HARM BY MINIMISING OUR IMPACT ON THE ENVIRONMENT.

.....



CablePI

Since its introduction, the CablePI device has identified over 3,400 faults including 190 potentially lethal high impedance/broken neutrals.

When we identified a defect in a particular batch of CablePI devices we took action to quarantine unissued devices and voluntarily recall the faulty devices. The fault relates to devices manufactured in 2013 and a key part of the recall is to help customers identify if they are in possession of one of the impacted devices.

Of the 26,000 impacted devices issued in 2013, we have successfully accounted for over 20,000 devices. We continue to remind our customers to let us know if they have a device manufactured in 2013 and call our customer service line to report a device, and be issued with a replacement.

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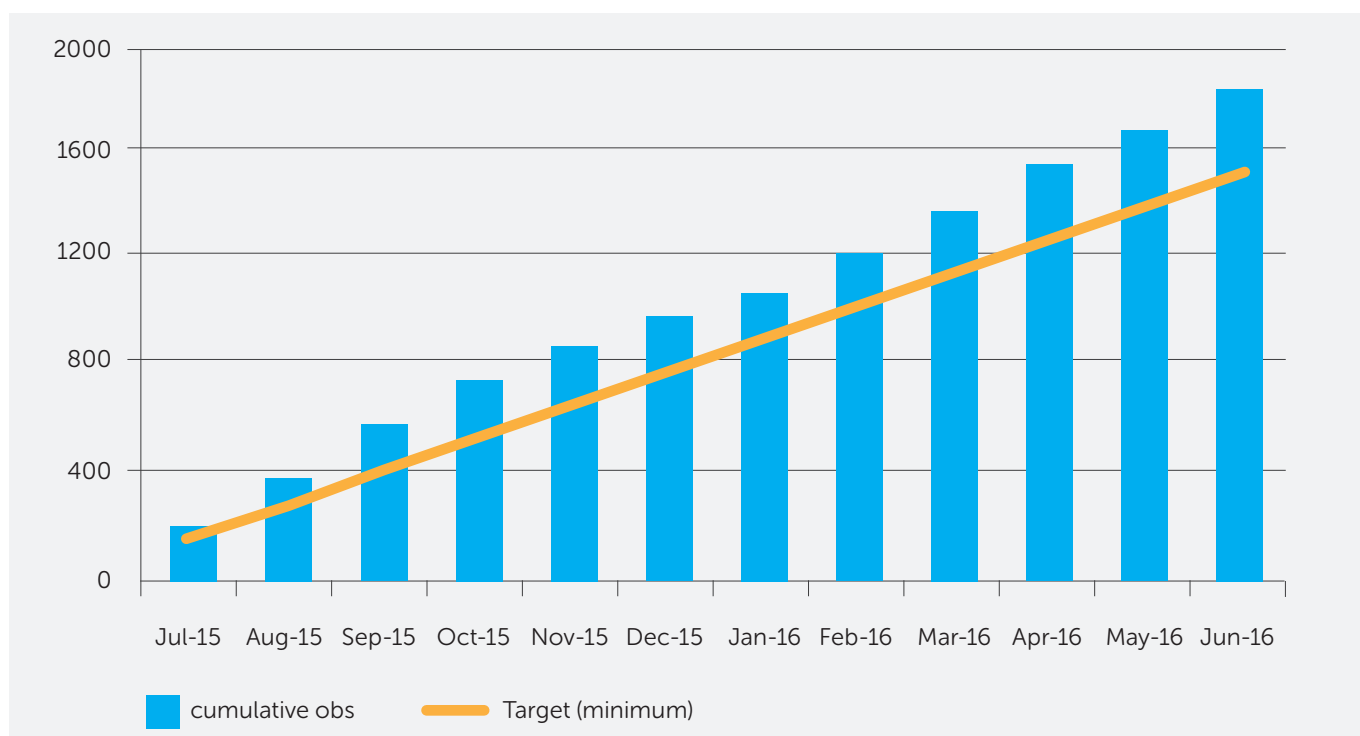
WE ALSO ENCOURAGE OUR CUSTOMERS WHO HAVE CABLEPI DEVICES TO PLUG THEM IN. WHERE DEVICES ARE NO LONGER WORKING, CUSTOMERS SHOULD GIVE US A CALL AND WE WILL ISSUE A NEW DEVICE.

.....

LifeSafe – strong finish to the year

Our LifeSafe program focuses on promoting safe behaviours within our business. We encourage 24/7 safety which includes the sharing of observations made while undertaking work and activities outside of normal working hours. Team members can lodge safety observations that usually focus on behaviours. Observations are reviewed and encouragement is given to follow through to address the issue, where possible.

OUR OBSERVATION SCORE WAS ABOVE TARGET THROUGHOUT THE YEAR. WE ALSO SAW AN UPWARD TREND IN ACTIVE OBSERVERS IN THE SECOND HALF OF THE YEAR. THIS WAS A DIRECT RESPONSE TO OUR POOR SAFETY PERFORMANCE AND THE RECOGNISED NEED TO DO MORE TO PROACTIVELY MANAGE SAFETY RISKS.



Bringing it back to self – Zero Harm focus

We conducted a number of successful Zero Harm sessions with our people and contractors throughout the state.

Our people wanted more focus on personal health and wellbeing, and we built sessions focused on **bringing it back to self**: returning to the most important part of safety – our people. The Zero Harm sessions focused on what team members can do to ensure safety comes first at TasNetworks.

We had people present their hands-on experience. We heard from Anton Guinea, a former electrician who suffered severe arc flash burns while on the job, Core Health Consulting conducted individual health assessments, St John Ambulance provided tailored first aid training in both office and field workplace and Cultural Heritage Management Australian provide insight into the Aboriginal and historic heritage of Tasmania.

THE SESSIONS ALLOWED OUR PEOPLE TO REFLECT ON THE IMPORTANCE OF FOSTERING A STRONG SAFETY CULTURE AT TASNETWORKS AND PROTECTING THE UNIQUE HERITAGE WE HAVE IN TASMANIA.

As a part of these sessions, our General Manager Works and Service Delivery Natasha Brown demonstrated her personal commitment to zero harm by sharing her personal Zero Harm (Safety) Plan and encouraged everyone to develop one. A Personal Zero Harm (Safety) Plan outlines personal commitments, including three reasons for not getting hurt at work, three commitments to a "safer me" and three commitments to looking after others.

PEOPLE

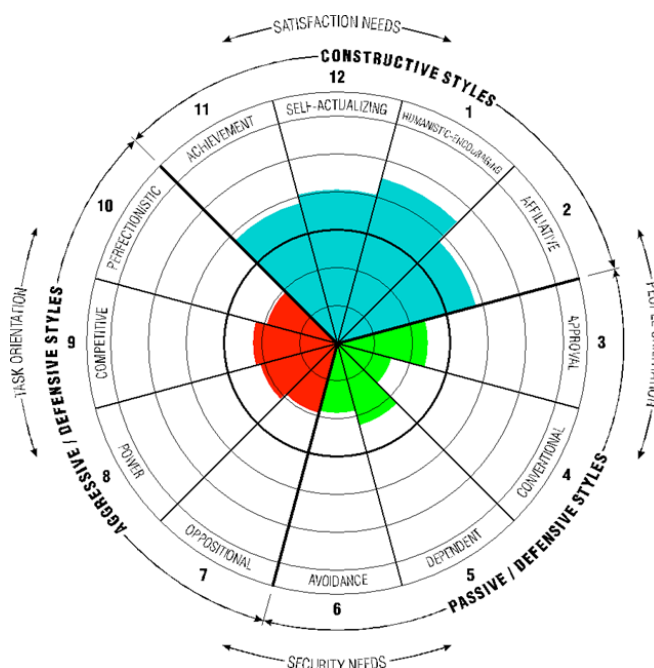
	Target	Actual	
Culture score improvement	Improvement in constructive styles over 2014-15 baseline score	Yes	✓
Employee engagement score improvement	> 42%	42%	☯

People notes

- There has been a significant positive shift in all four constructive styles and a reduction in the aggressive/defensive and passive/defensive styles.
- Our engagement score has been maintained.
- Our teams continue to work on culture and engagement plans for a more constructive and engaged workforce, to support better customer and business outcomes.

Culture

In March 2015, we measured our culture and found significant improvement in the constructive behaviours and reduction in the defensive (less effective) styles. Our target for 2016-17 is to build all four constructive styles over the 25th percentile with all oppositional and aggressive styles to come under the 50th percentile. Longer term, our aspirational target is for our constructive styles to be over the 75th percentile. That is, for TasNetworks to perform better than 75% of organisations in the Human Synergistics global comparison group.



Engagement

We measured our engagement in March 2015 and again in March 2016. Our overall engagement result remained stable at 42%, which is above the Australian benchmark (34%) and on par with the Utilities benchmark (42%). We have set our aspirational engagement target at the high performing benchmark of 58%.

91%

ARE PROUD OF THE WORK THEY DO

89%

ARE COMMITTED TO TASNETWORKS' SUCCESS

74%

SPEAK HIGHLY OF OUR PRODUCTS AND SERVICES

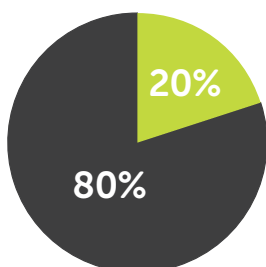
Diversity

We are committed to improving our workplace diversity because we know it is good for our people and our business. Benefits include richer experiences and better outcomes for our customers, our community, our people and their families.

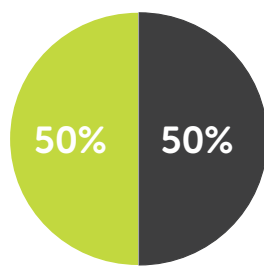
In September 2015 we approved a new Diversity Policy and now include an equal opportunity statement in 100% of our job advertisements. We are particularly proud of the gender diversity we have achieved in our business, especially in leadership roles.

Figure 3 TasNetworks' team members by gender as at 30 June 2016

Board of Directors*

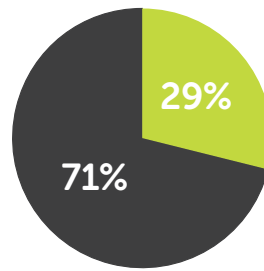


Leadership (executive) Team

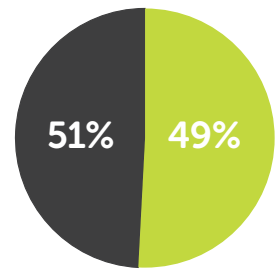


*As of 1 July 2016, an additional female joined the Board of Directors.

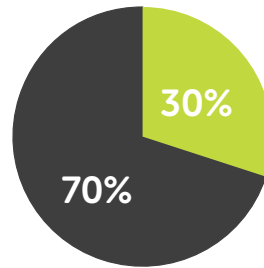
All Leaders



Senior Leaders



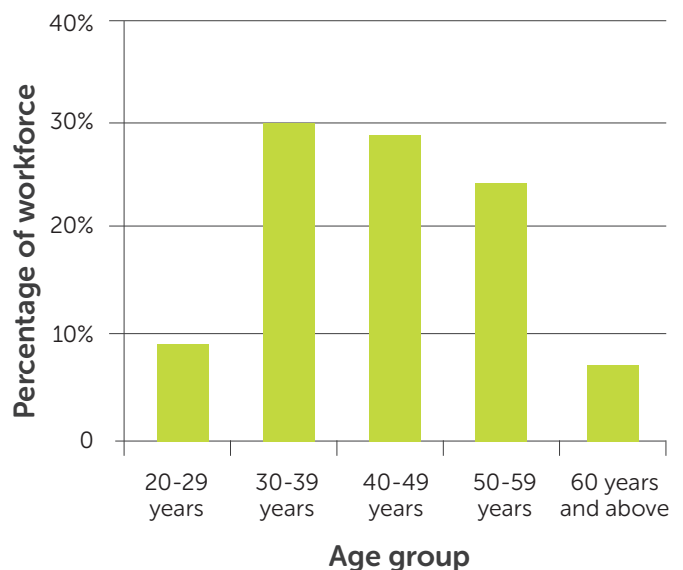
All staff



■ Male
■ Female

The implementation of our Diversity Policy has led to greater analysis of the age profile of our workforce. We have an ageing workforce (see figure below) and have implemented some key activities to encourage new talent and enable knowledge transfer from older team members prior to retirement. These activities include:

- Opening up our Graduate Program to include positions across a range of disciplines, not just engineering;
- Marketing ourselves as an exciting employment choice to schools and the University of Tasmania; and
- Development of our new Phased in Retirement Policy to retain the capability of our people as they transition to retirement.



FINANCIAL

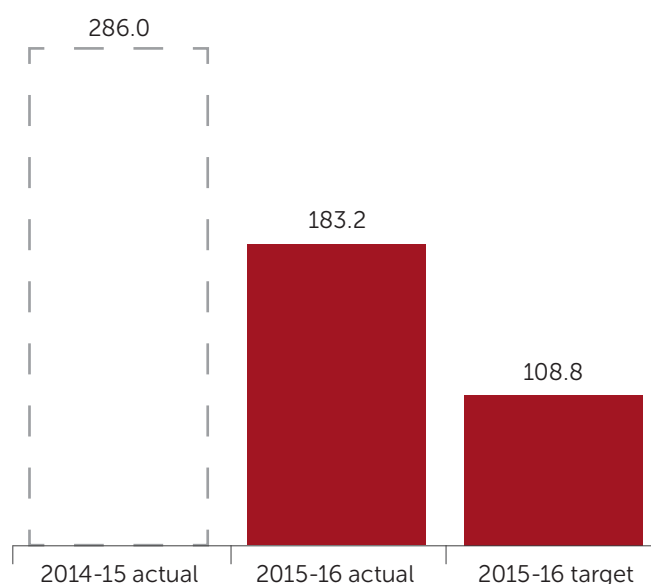
Financial Returns to Shareholders and Government

	Target	Actual	
Dividends (\$M)	58.8	63.2	✓
Return of equity (\$M)	50.0	120.0	✓
Total returns to Shareholders (\$M)	108.8	183.2	
Guarantee fees (\$M)	11.8	11.8	✓
Income tax equivalent payments (\$M)	59.3	55.6	✗
Total returns to Government (\$M)	71.1	67.4	

Financial returns notes

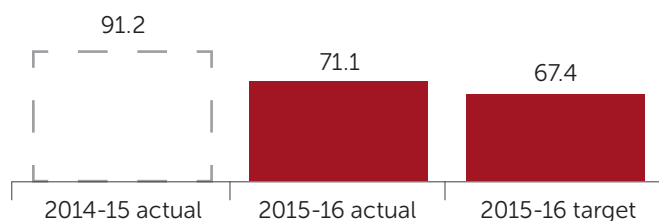
- We delivered strong returns for the Tasmanian community.
- During the year we provided shareholders \$183.2 million in returns, 68% more than our \$109 million target.
- We paid a dividend of \$63.2 million in relation to our 2014-15 performance.
- We returned equity of \$120 million comprising \$20 million to TasRail, \$30 million to Forestry Tasmania and a debt transfer of \$70 million from Hydro Tasmania.
- We returned a total of \$67.4 million to Government. This included \$11.8 million in Guarantee fees and \$55.6 million in tax equivalents. This was below our forecast, due to receiving a tax equivalent refund during the year following lodgement of our 2014-15 return.

Total returns to Shareholders (\$M)



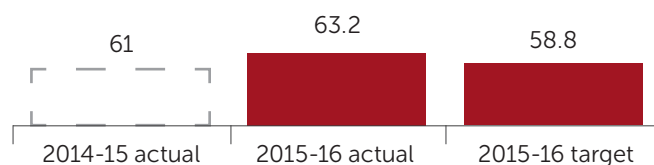
Total returns to our shareholders were in excess of our target. The reduction from the 2014-15 actuals is primarily due to lower equity withdrawals.

Total returns to Government (\$M)



Our returns to Government were close to our forecast, with reductions reflecting lower tax expenses.

Dividends (\$M)



We paid over \$4 million more than our target in dividends to our shareholders as a result of our 2014-15 performance

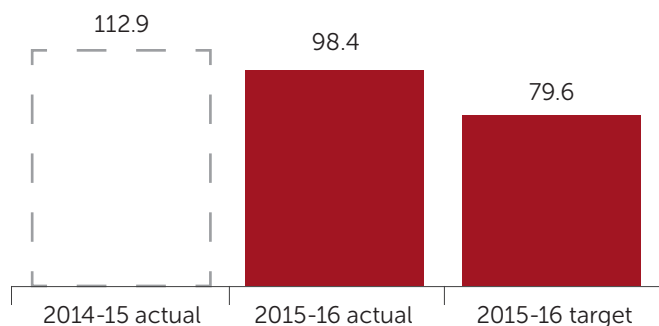
Financial Performance

	Target	Actual	
Operating profit after tax (\$M)	> 79.6	98.4	✓
Return on assets (%)	> 6.2	8.1	✓
Return on equity (%)	> 8.2	10.2	✓
Gearing (%)	< 66.2	63.4	✓
Pre-tax interest cover (times)	> 2.2	2.4	✓
Operating expenditure (\$M)	< 138.9	145.8	✗
Capital expenditure (\$M)	< 175.4	156.8	✓

Financial performance notes

- We delivered a positive operating profit after tax result of \$98.4 million for the year. Our profit after tax was \$18.8 million above our target.
- The 2015-16 result is attributable to higher than forecast regulated revenues. This reflected higher than forecast electricity consumption and higher Australian Energy Market Operator (AEMO) settlement residue receipts with Basslink offline.
- The over recovery of regulated revenue compared to AER allowances is adjusted in lower future revenues, reflected in 2016-17 and future years' prices.
- We restructured a significant portion of our debt portfolio to lock in low interest rates for long term duration. This is expected to deliver long-term benefits to the business through lower borrowing costs in future periods. The net impact of this was a reduction in the 2015-16 profit of \$12.1 million.
- We invested \$156.8 million to maintain the reliability of our network and services including investment in the Ajilis enterprise-wide business transformation project.
- We spent \$19 million less than forecast in delivering the capital program, principally in transmission works. This reflected improved asset condition, changed customer requirements over the year, together with some project implementation delays and realisation of cost efficiencies. We have strengthened our processes to reduce future project delays.
- Recurring operating costs were \$139.2 million which was broadly in line with our target for the year. Total operating costs were higher than target, reflecting a number of abnormal costs incurred during the year and higher than budgeted expenses to manage severe weather events, including the floods during June.

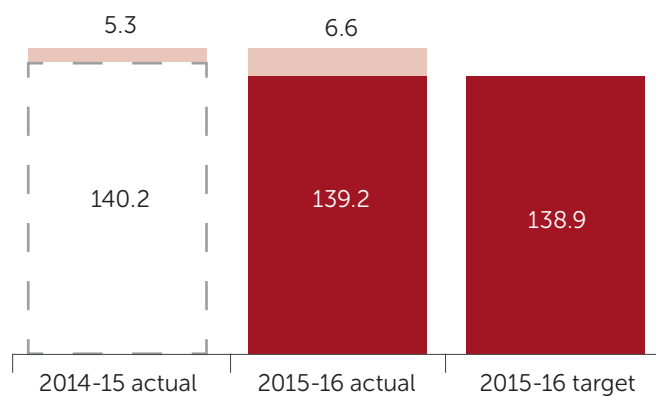
Operating profit after tax (\$M)



Operating profit was ahead of target.

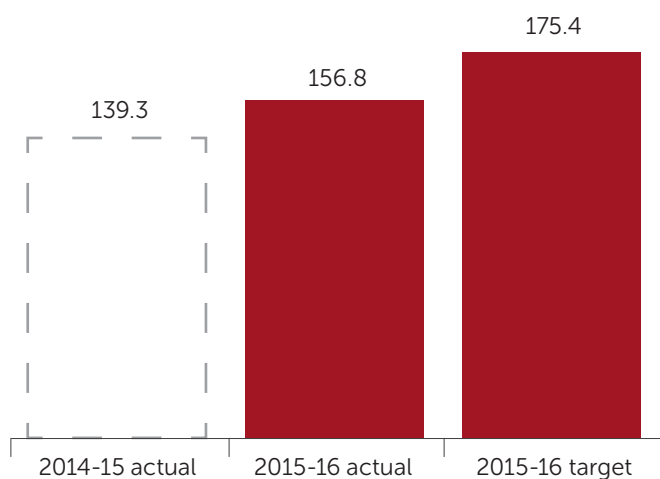
Operating expenditure (\$M)

recurring opex
non-recurring opex



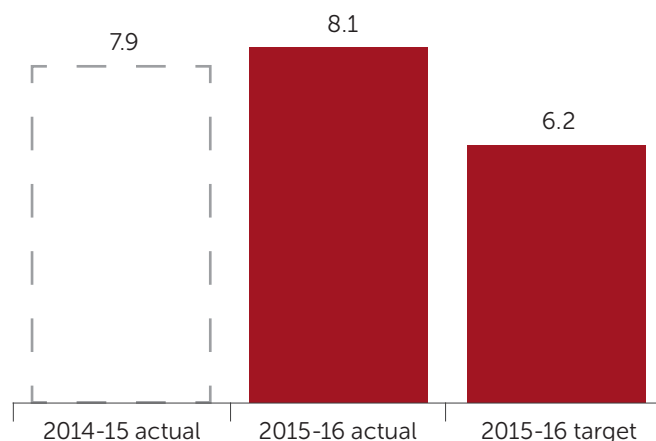
Operating expenditure was above the target of \$138.9m primarily due to a number of abnormal costs totalling \$6.6 million during the year.

Capital investment (\$M)



Capital expenditure was less than target for the year reflecting deferral of some projects.

Return on assets (%)



Our improved revenue and cost control supported a higher return on our assets.

CUSTOMERS

	Target	Actual	
Customer net promoter score*	>+2	-1	✗
Customer complaints volume	< 4,000	2,925	✓
Connection applications completed within standard or agreed timeframes (%)	100	100	✓
Call answering within 30 seconds – combined (%)	78.7	72.0	✗

* Rolling 12 month average.

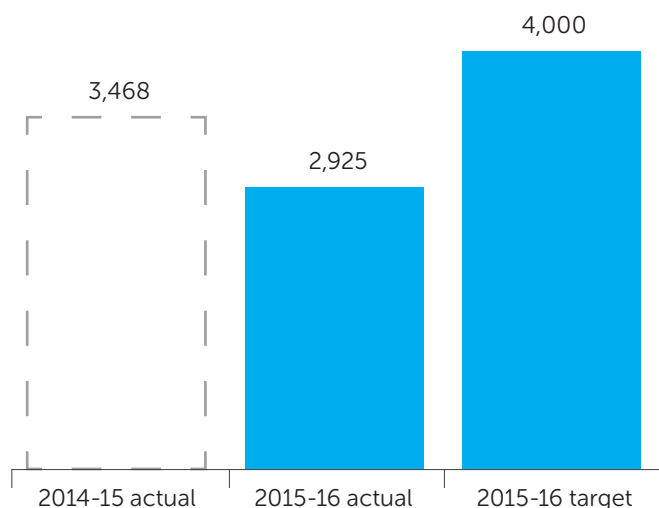
Customer performance notes

- Our customer net promoter score of -1 was not as high as we had hoped, given our baseline score of +2 from 2014-15. In response, we have drilled down to identify two main drivers ('doing what we promise' and 'keeping our customers informed') and will develop key activities into our ongoing improvement plan. Whilst below our target, our score is well ahead of the average for our industry.
- Our customer complaint levels have continued to decrease and are well below our target level. This decrease is due to ongoing efforts to improve customer processes and systems. We also implemented a number of communication activities throughout the year to be more proactive with our customers.
- We continue to maintain 100% of connection applications being completed within standard or agreed timelines.



- Our combined 'grade of service' measures the percentage of calls to our Customer Service Centre that are answered within 30 seconds. In 2015-16 we were able to answer 72% of all calls within 30 seconds. Large storm events in January impacted our overall annual grade of service. Following the events, we trained additional resources that were deployed during subsequent storm events. Since January, our grade of service has improved and is trending upwards.

Customer complaints volume



Our efforts to improve a number of customer-facing processes and supporting systems have supported significant declines in the number of customer complaints.

Customer satisfaction

7.4

On average, our customers scored us 7.4 out of 10 for customer satisfaction across the year. This compares favourably against an industry average of 6.9.

New connection applications

7,600

We processed 7,600 customer applications for new connections to our network. 100% of the applications were processed within standard or agreed timeframes.

Our key activities – customers

Engaging with our customers

We believe our success is anchored to that of our customers. We are committed to engaging with, informing and educating our customers about our activities and plans for the future. This is particularly the case when those plans directly impact them. Throughout this year we have continued to engage with customers through a range of forums such as:

- Our Customer Council – made up of a broad range of stakeholders across our customer groups. Quarterly meetings provide an opportunity for input and feedback on our activities and strategies, as well as assisting us in identifying emerging customer trends and issues; and
- Our Tariff Reform Working Group – made up of retailers, customer advocacy groups and business and residential customer representatives. The group provides a forum where members can contribute to the direction of our tariff strategy and provide their views on tariff reform.

Solar meter replacement

During 2014-15 we identified a problem with a specific type of solar meter where some solar meters were incorrectly displaying the amount of solar energy exported back to the network. We completed the process of rectifying the error during the first half of the 2015-16 financial year. Altogether, we exchanged over 8,000 meters ahead of the planned timeframe and under budget.

Working with industrial customers

We continue to work with our customers to support their operations. Over the year we have worked with our largest load customer, Bell Bay Aluminium (BBA), as it undertakes work to support increased load. TasNetworks has worked collaboratively with BBA to share expertise and develop innovative solutions that allow efficient operation of our assets and BBA's assets to support mutually beneficial outcomes.

Telecommunications services

As well as providing regulated telecommunications services to support our core business, we provide telecommunications and data centre services to customers on a commercial basis. In the 2015-16 financial year, we were selected as one of four companies to provide telecommunications, and one of two companies providing specialised data centre services, to the Tasmanian Government. This provides services agreements for up to 13 years, providing opportunities to leverage our existing capabilities and provide valued services to our customers.

NETWORK SERVICE

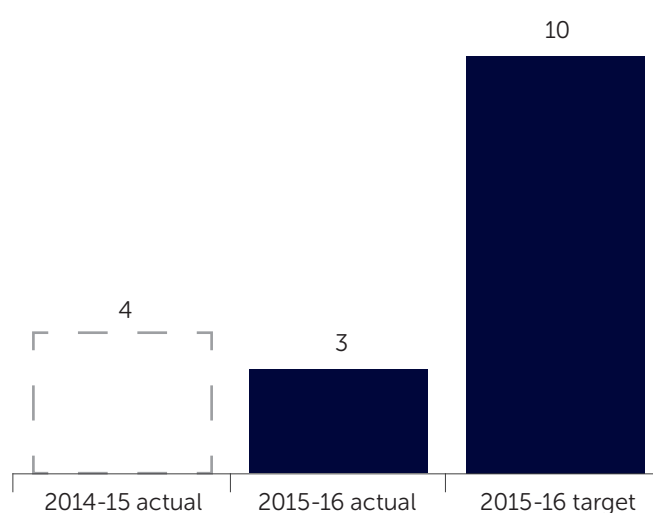
	Target	Actual	
Transmission Loss of Supply (LOS) events > 0.1 system minutes	< 10	3	✓
Transmission LOS > 1.0 system minute	< 3	0	✓
Distribution system average interruption duration index (SAIDI) (minutes)	<231	221	✓
Distribution system average interruption frequency index (SAIFI) (events)	< 1.9	1.86	✓

Network performance notes

- Our distribution network performance targets are based on financial years. For the 2015-16 financial year we were ahead of target for performance with both the frequency and duration distribution measures better than target.
- When each category of distribution performance is analysed, only low density rural was below target. This was primarily due to storm events experienced throughout the year, causing vegetation or other windborne debris to blow onto energised powerlines. Identified issues during storm events contributed 34% of total annual outage duration in this classification, with faults of unknown origin (also a common outcome during storm events) contributing a further 19%.
- Our transmission network performance targets are based on calendar years. For the 2015 calendar year we recorded just 3 minor loss of supply events and no major loss of supply events, continuing the strong recent service performance of the transmission network.
- The reliability of supply performance for our transmission network over the past 5 years is improving. The significant investment in renewing and strengthening the Tasmanian transmission network over the last 15 years, together with

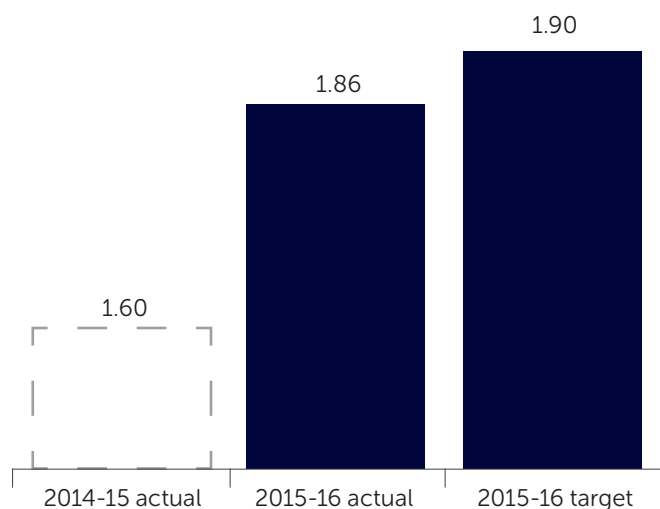
improved operational processes, is bearing fruit. For the first half of the 2016 calendar year we recorded no transmission loss of supply events.

Transmission loss of supply events (> 0.1 system minutes)

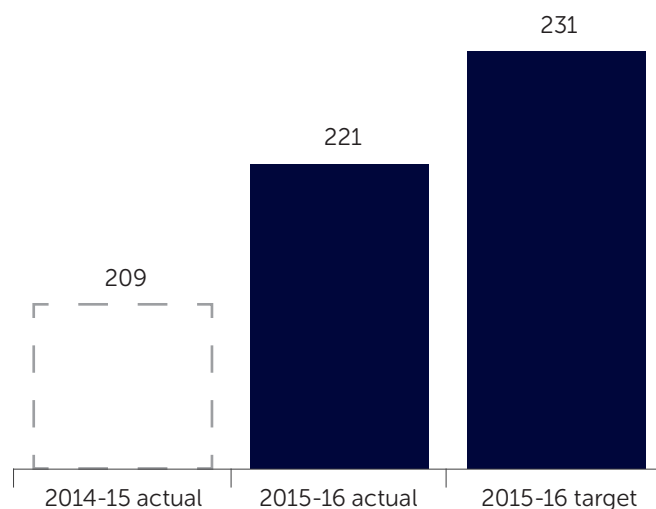


One measure of transmission reliability is the number of Loss of Supply events. The reliability of our transmission network has performed ahead of target levels for events greater than 0.1 and 1.0 system minutes.

Distribution system interruption frequency (number of events)

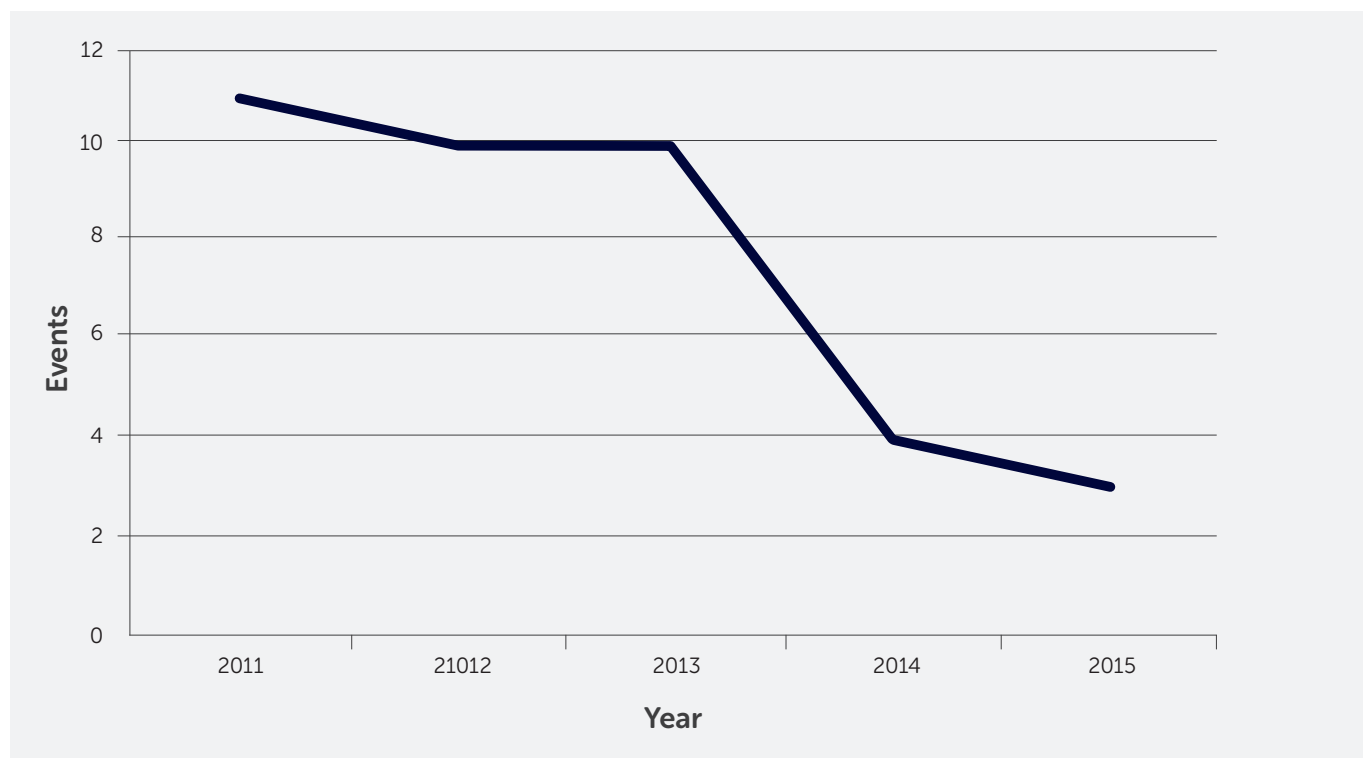


Distribution system interruption duration (minutes)



Our distribution network has performed ahead of target for average interruption length (duration) and occurrence (frequency). Severe weather events throughout 2015-16 saw lower performance than 2014-15 levels.

Frequency of loss of supply >0.1 system minutes



Our key activities – network services

Efficient network investment

We invested \$171.1 million in network operating and capital expenditure over 2015-16 in order to effectively operate and maintain the safety and reliability of our network. Table 1 below lists the major network programs (operating and capital) during the 2015-16 year.

Table 1 Major Network Program of Work (Operating and Capital >\$3m)

Project	Description	2015-16 Program Expenditure (\$million)
Distribution Customer Programs		
Supply high voltage Irrigation overhead	Supplied high voltage irrigation overhead services as initiated by our customers	3.10
Supply overhead high voltage General Supply Installation	Supplied overhead high voltage general supply services as initiated by our customers	4.30
Supply overhead to Permanently Occupied Residence	Supplied overhead services to permanently occupied residence services as initiated by our customers	4.00
Supply Underground to General Supply Installations	Supplied underground services as initiated by our customers	3.20
Supply Underground to Subdivisions	Supplied underground to subdivision services as initiated by our customers	5.00
Quoted Service for Relocation	Quoted service for relocation of assets at the customer request initiated through our internal customer connection process	3.10
Distribution Fault and Emergency Programs		
Emergency and unscheduled power response	Responded to fault and emergency activities and unscheduled power system outages that required immediate attention and carried out repairs to restore the system to a safe and stable operation	8.50
Emergency Response – Major Events	Responded to major events that required immediate attention and carried out repairs to restore the system to a safe and stable operation	3.50
Distribution Metering Programs		
Install Metering Equipment	Installed meters for new and altered customer installations as requested by retailers	3.20
Meter Reading	Provided quarterly and monthly meter reading service for new and existing customers	3.90
Distribution Reliability Programs		
Replace damaged and condemned poles	Renewed poles requiring replacement to maintain supply and ensure the safety of our assets	9.10
Replace low voltage crossarms	Replaced decayed timber crossarms to reduce the risk associated with unsafe assets	5.10
Transformer replacements under fault	Replaced transformers under fault	3.60
Distribution Vegetation Management		
Vegetation Management Program	Vegetation management programs to reduce risks and ensure adequate clearance around our assets	8.70
Transmission Operating Programs		
Substations Operations & Maintenance program	Operations and maintenance of Extra High Voltage substation assets.	4.06
Transmission Lines Operations & Maintenance program	Operations and maintenance of Extra High Voltage transmission line assets.	5.40

Successful George Town redevelopment

In November 2015 TasNetworks successfully completed the George Town 110 kV Substation redevelopment project. The \$11.67 million project, which commenced in 2014, addressed safety issues and improved security and reliability of electricity supply by upgrading poor-condition, maintenance-intensive assets.

George Town substation was constructed in 1964 to meet the demand for electricity supply by major industrial customers located in the area. It provides connection points for Basslink, Bell Bay Power Station, directly connected industrial customers and our distribution customers. Supply is provided from Hadsden and Sheffield substations.

It is a critical node on the transmission system and it is vital to sustaining a reliable and secure electricity supply in Tasmania. As there are major industrial customers connected to the substation 24/7 and no alternative supply, a great deal of work went into coordinating outages and contingency planning. The project was completed with no major safety incidents.

.....

THERE WERE 49 STAGES OF OUTAGES AND COMMISSIONING UNDERTAKEN, TO ALLEVIATE A LARGE AMOUNT OF PLANNED HIGH-RISK LIVE LINE WORK. AS A RESULT, IT WAS A COMPLEX REDEVELOPMENT. OF THE HUNDREDS OF 110 KV COMPLEX SWITCHINGS UNDERTAKEN THERE WERE NO OPERATIONAL ERRORS ENCOUNTERED.

.....

Collaboration between our contractors and our own people contributed to a successful project outcome.

SCADA upgrade success

TasNetworks celebrated the end of one of the most technically complex projects to be delivered by the business. The completion of a four-year Supervisory Control and Data Acquisition (SCADA) upgrade project has improved reliability across our distribution network. The original control system used was unique, complex and unmaintainable. The solution was to migrate the Distribution SCADA onto the existing fit-for-purpose Transmission SCADA platform to ensure appropriate technology, performance and level of functionality while being fully maintainable. The project was undertaken internally, using the expertise of TasNetworks teams.

Risdon protected

We completed a \$1.5 million complex and important protection and control upgrade at the Risdon Substation in Hobart, which serves Nyrstar and our distribution customers. This project replaced unsupported equipment with fully maintainable assets, reduced risk and supports improved customer reliability. It is testament to the skill of our people that this work was again completed predominantly in-house, on-time, under budget and with no safety issues.

Telecommunications backbone renewal

In July 2015, our Board approved the replacement of our telecommunications backbone radio network with new, reliable, high capability assets that will sustain the safe, secure and reliable operations of the power system and provide the required levels of service to our customers. TasNetworks' telecommunications backbone radio network operates in conjunction with TasNetworks' optical fibre network to provide versatility, geographic coverage and diversity for the telecommunication network. It also facilitates high-speed data services between locations. The installation of modern, reliable microwave radio units with remote monitoring capabilities will result in a reduction of operation and maintenance costs, increased network reliability and increased network capacity. The project will cost approximately \$5.8 million with an expected completion date of June 2017.

Strengthening Hobart's eastern shore

The \$9 million Rosny Park Zone substation is the final stage of our current strategy to strengthen the network on Hobart's eastern shore. The substation will offload two other substations on the eastern shore, and support a reliable supply for our customers. The project commenced in 2014 and is approaching completion in late 2016.

Total energy delivered

Our network delivered lower total energy in 2015-16 compared to the previous year. Low water storage levels and hydro-electric generation, and the outage of the Basslink Interconnector, contributed to this outcome. As part of the energy supply plan, some industrial (transmission connected) customers temporarily reduced their load during the year.

Table 2 Tasmania energy delivery by customers

Customer type	2015-16		2014-15	
	GWh	%	GWh	%
Industrial (transmission connected)	5,796	54	5,928	54
Distribution Network	4,269	40	4,225	38
Auxiliary	44	1	60	1
Total Tasmanian	10,109	95	10,213	75
Export	508	5	771	7
Total Energy Delivered	10,617	100	10,984	100

Maximum demand on our network

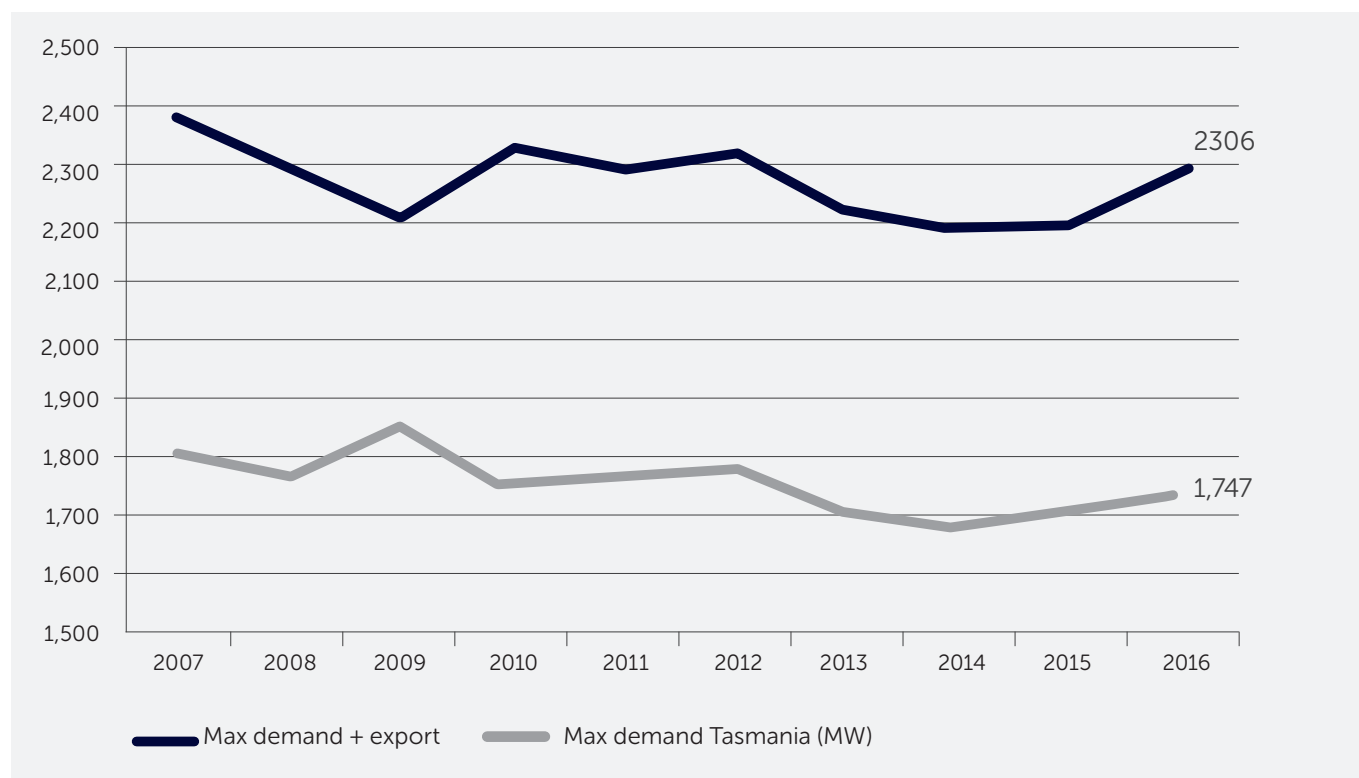
Table 3 below shows Tasmanian peak demand increased slightly from the previous year, as did the maximum combined demand of Tasmanian load and Basslink export. Although our overall energy delivered was lower than the previous year, our network worked harder at times of peak demand than the previous year.

Table 3 Maximum demand for electricity (MW)

Maximum demand	2015-16	2014-15	Record
Tasmania + export	2,306	2,219	2,395 MW (18 June 2007)
Tasmanian only	1,747	1,715	1,861 MW (21 July 2008)

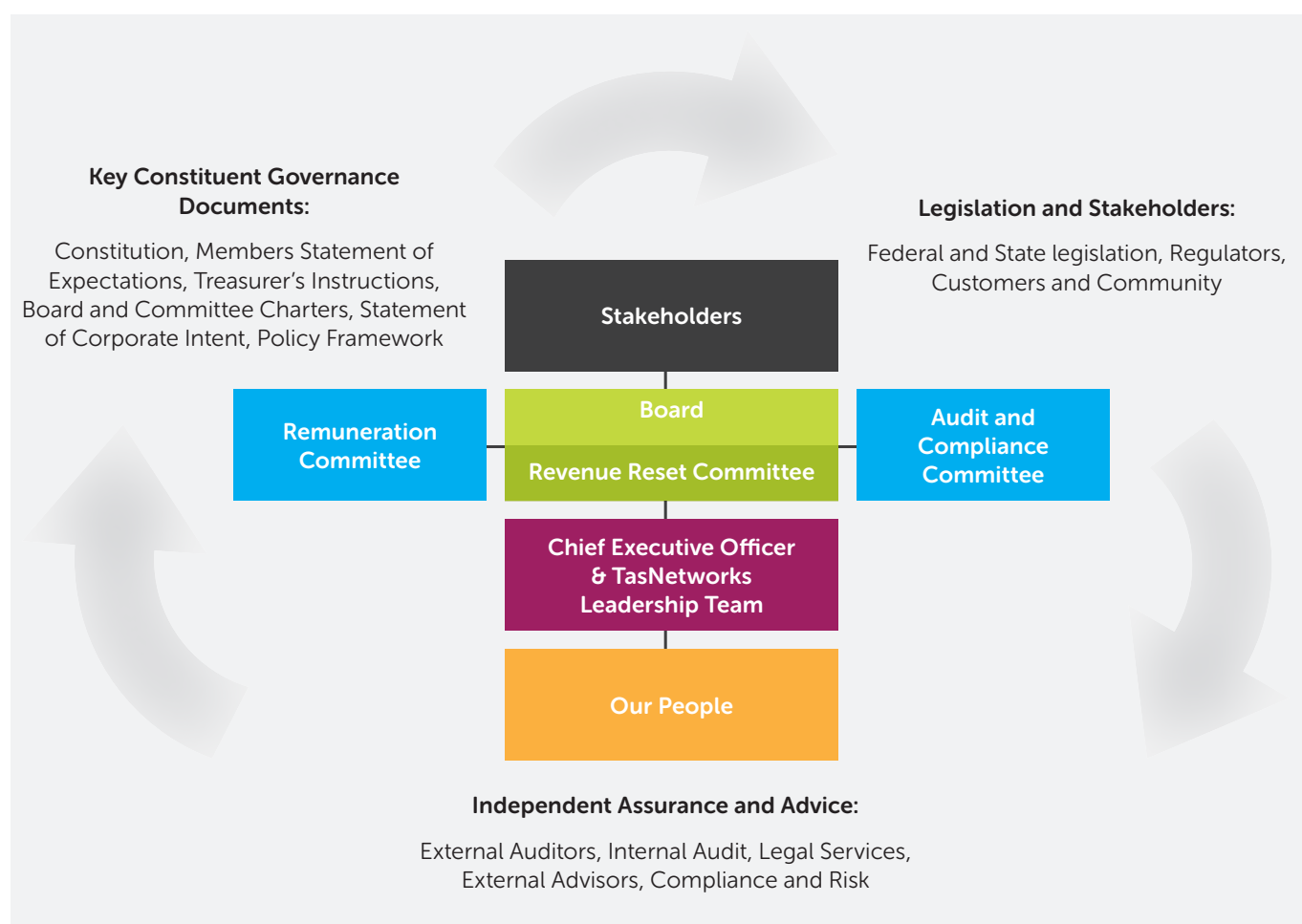
Figure 4 below illustrates the maximum demand on the transmission system over a 10-year period. There was a slight increase from 2014-15 levels, with an increase in industrial load, and the colds days experienced in August contributing to higher demand from our distribution customers.

Figure 4 Transmission system maximum demand, 2006-07 to 2015-16 (MW)



CORPORATE GOVERNANCE

Our governance structure





Left to right: Donald Challen, Jane Sargison, Joanne Doyle, Mervyn Davies, Daniel Norton and Kevin Murray

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:

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

Board composition

Up until 12 November 2015 the TasNetworks Board comprised six¹ non-executive directors and subsequently five non-executive directors, who brought a variety of skills, knowledge and experience to the company. On 1 July 2016, Joanne Doyle was appointed to the Board as a non-executive director.

Dr Daniel Norton AO (Chairman) **BAgric (Hons), MEd, PhD, Hon LLD, FAICD**

Appointed 4 February 2014 (and to the Network Integration Transition Board from May 2013)

Dan is also Chairman of WINconnect, a Board Member of Infrastructure Australia, Chairman of the Executive Steering Committee Royal Hobart Hospital Redevelopment, and a Director of his consulting company, Trinitas.

¹ Peter Lowe retired as a director on 12 November 2015.

His former positions include: 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 & 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).

Donald Challen AM
BEng (Hons), MEc, FAICD, FCPA, FCA, FIPAA

Appointed 4 February 2014 (and to the Network Integration Transition Board from June 2013)

Don is also Chairman of the Motor Accidents Insurance Board, a trustee director of the Retirement Benefits Fund and a director of the Tasmanian Symphony Orchestra. He is a past Chairman of the Tasmanian Public Finance Corporation, Transend Networks Pty Ltd and was formerly Secretary of the Department of Treasury and Finance. His previous board positions include Hydro Electric Corporation, the Basslink Development Board, Trust Bank and the Tasmanian Development Authority.

Kevin Murray
BEng, Dip Bus Studies, FAICD

Appointed 4 February 2014 (and to the Network Integration Transition Board from June 2013)

Kevin is Chairman of TasNetworks' Remuneration Committee.

He is a past director of Transend Networks Pty Ltd (where he also chaired the Corporate Governance Committee), Essential Energy and the Energy Industries Superannuation Scheme in NSW. He is a past Chief Executive Officer of Transgrid, the electricity transmission company in NSW.

Mervyn Davies
BEng Sc, BCom

Appointed 4 February 2014 (and to the Network Integration Transition Board from June 2013)

Mervyn is currently a director of NT Power and Water Corporation.

He is a past director of Aurora Energy Pty Ltd, Electricity Networks Corporation (Western Power) and ENERGEX. He has previously held senior management roles with Energy Australia and has been principal and managing director of Girna Engineering Management Services, specialising in the engineering and economics of the electricity distribution industry.

Dr Jane Sargison
BEng (Hons), DPhil, GAICD, FIEAust, CPEng

Appointed 1 July 2014

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

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

Peter Lowe
BCom, MBA, MAICD, FCPA

1 July 2014 – 12 November 2015

Peter was Chairman of the TasNetworks Audit and Compliance Committee until November 2015. He has also been a director of Aurora Energy Pty Ltd (where he also chaired the Audit and Risk Committee), a board member of Citywide Services Pty Ltd, Linking Melbourne Authority, and was Chairman of United Energy Distribution Holdings Pty Ltd, and Multinet Group Holdings Pty Ltd and a former director of Aurora Energy.

Joanne Doyle
BCom, FCA, RCA, MAICD

Appointed 1 July 2016

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

Board service

Directors who held office during the 2015-16 financial year have served the following periods:

Director	Length of office
Dr Daniel Norton AO	2 years and 5 months
Donald Challen AM	2 years and 5 months
Kevin Murray	2 years and 5 months
Mervyn Davies	2 years and 5 months
Dr Jane Sargison	2 year and 0 months
Peter Lowe	1 year and 4 months ²

Directors' meetings

The following table sets out the number of directors' meetings (including committee meetings) held during the financial year and the number of meetings attended by each director who held office during the 2015-16 financial year.

Director	Board of Directors*		Audit and Compliance Committee		Remuneration Committee		Revenue Reset Committee	
	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended
Dr Daniel Norton AO	13	13	-	2	4	4	4	4
Donald Challen AM	13	13	-	1	4	4	4	4
Kevin Murray	13	12	-	-	4	4	4	4
Mervyn Davies	13	13	6	6	-	3	4	4
Dr Jane Sargison	13	13	6	6	-	-	4	4
Peter Lowe	5	5	3	3	-	-	2	2

Board Committees

The Board has three standing committees: the Remuneration Committee and the Audit and Compliance Committee (both comprised of three non-executive directors) and the Revenue Reset Committee (comprised of all directors):

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

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 six times during the 2015-16 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 2015-16 financial year and provided the Board with minutes from each meeting.

The Revenue Reset Committee oversees the preparation of TasNetworks' revenue proposals to the Australian Energy Regulator.

The Revenue Reset Committee met four times during the 2015-16 financial year and provided the Board with minutes from each meeting.

² Peter Lowe retired as a director on 12 November 2015.

Subsidiary companies

TasNetworks has two wholly-owned subsidiary companies:

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

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

Diversity

Background

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

Policy and procedures

TasNetworks has a formal diversity policy, which was launched to all TasNetworks team members in September 2015. 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);
- 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:

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

Please refer to page 24 for more information on 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 approved by the Board in June 2014.

During the 2015-16 financial year, a total of 13 formal applications for Assessed Disclosure were received. In five of the determinations, the information applied for was released in full and in two determinations the information applied for was provided in part. In three cases the information sought was not released and in two instances the application was withdrawn. One application which was received remains undetermined pending further details from 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 our 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 approved by the Board in June 2014. TasNetworks had its draft procedures approved by the Ombudsman on 21 April 2016. TasNetworks did not receive any PID Act Disclosures this financial year.

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

During the 2015-16 financial year TasNetworks received several general enquires and one external complaint pursuant to governing legislation. All enquiries have been determined or resolved.

Corporate Governance principles

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

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

Principle 1: Lay solid foundations for management and oversight

During the 2015-16 financial year, the TasNetworks Board was made up of five to six³ independent, non-executive directors.

The Board's responsibilities are summarised on pages 36 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 on page 40 of this report.

Principle 2: Structure the Board to add value

All TasNetworks directors are independent of management; no directors hold shares in the company. More information about individual directors and their length of service is set out on page 36-38 of this report. Directors have an ongoing requirement to notify the Board of any material personal interest in any matter relating to the affairs of TasNetworks. The Chairman is an independent director and is not an executive of the company. There is a clear division of responsibilities between the Board's Chairman and the CEO.

Directors are selected and appointed by the Government Minister Members on the basis of their skills and experience and the needs of the business.

The appointment process involves the creation of a Director Selection Advisory Panel. Candidates are required to undergo probity checks prior to appointment. An executive search firm is appointed to assist the panel in identifying potential candidates. TasNetworks maintains a Board Skills Matrix, setting out the mix of skills and diversity that the Board has.

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

TasNetworks has a process for periodically evaluating the performance of the Board, its committees and individual directors. The Remuneration Committee advises and assists the Board with setting key performance indicators for the CEO. The TasNetworks performance evaluation process has been reviewed in the 2015-16 period and the Board is satisfied that it continues to be sound. Evaluations have been conducted for the 2015-16 financial year with the Board commissioning an independent external provider to undertake an in-depth appraisal of the performance of the Board, Board Committees and individual directors. An external independent review will normally be conducted every three years. Recommendations from this appraisal will be implemented with oversight by the Remuneration Committee.

³ Peter Lowe retired as a director on 12 November 2015.

Principle 3: Act ethically and responsibly

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

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

- work safely and in accordance with the law;
- treat customers, the public and fellow workers with honesty, courtesy and respect;
- perform our duties with professionalism, integrity and efficiency;
- ensure our personal business and financial interests do not conflict with our duty to TasNetworks;
- ensure the security and privacy of all confidential information received in the course of our work;
- ensure we do not misuse our position;
- ensure that TasNetworks' assets and resources are only used for proper business purposes;
- recognise, value and effectively utilise the diversity among our people; and
- 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 to act ethically and responsibly. These include the Directors' Travel and Expense Policy, Compliance Policy, Fraud and Corruption Policy, Public Interest Disclosures ("Whistleblowers") Policy, Workplace Behaviour Policy, 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 TasNetworks' policy and protocols.

Principle 4: Safeguard integrity in corporate reporting

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

This process includes:

- external audit;
- internal audit; 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 38 of this report.

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

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

Principle 5: Make timely and balanced disclosure

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

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

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

Details about disclosures made under the *Right to Information Act 2009* (Tas) are set out on page 39.

Principle 6: Respect the rights of security holders

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

Principle 7: Recognise and manage risk

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

In accordance with the Risk Management Policy, TasNetworks:

- prepared and delivered a plan for managing risk in accordance with TasNetworks' risk appetite, the expectations of its stakeholders and the law;
- integrated effective and appropriate risk management into all business and management activities and TasNetworks policies;
- made available the necessary resources for effectively managing risk;
- provided regular reports to the Board detailing material business risks and the effectiveness of associated risk management strategies; 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.

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

The TasNetworks Remuneration Committee provides advice to the Board and assists it to fulfil its governance responsibilities in relation to remuneration strategies and policies for the CEO, members of the TasNetworks Leadership Team and Leaders contained within the scope of the TasNetworks Leaders Remuneration Policy. More information about the Remuneration Committee is included on page 38 of this report.

TasNetworks Leadership team

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



Lance Balcombe
BCom, FCPA, FCA, MAICD
Chief Executive Officer



Natasha Brown
BCom
General Manager Works and Services Delivery



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



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



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



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

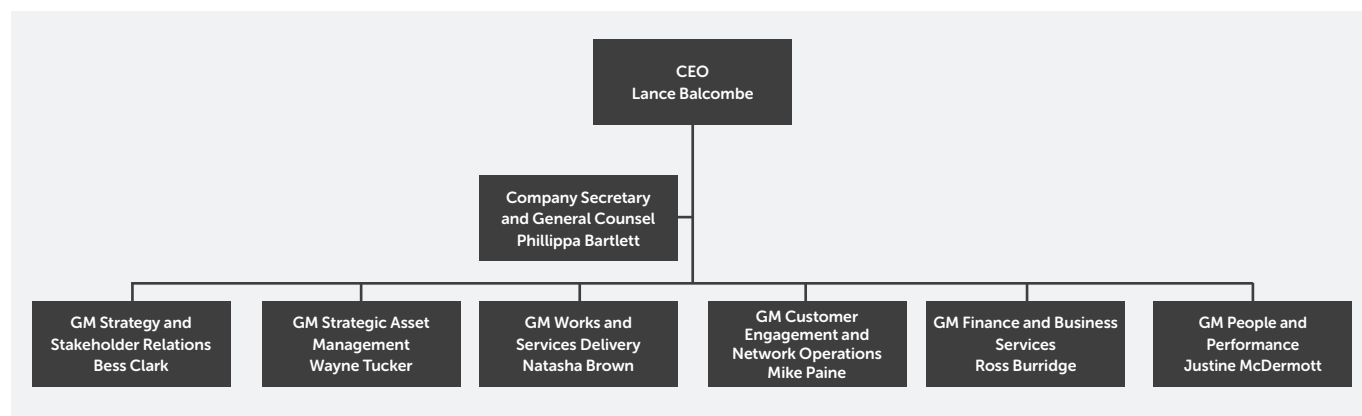


Bess Clark
BCom, Grad Dip Urb Reg Plan, GAICD
General Manager Strategy and Stakeholder Relations



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

Organisational structure



Company Secretary and General Counsel

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

Strategy and Stakeholder Relations

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

Strategic Asset Management

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

Works and Service Delivery

Works and Service Delivery is responsible for asset stewardship, including design and estimation, works program management and reporting, project and program works delivery, contract management, field operations, works schedule and dispatch, safety and environment policy, strategy and implementation, the TasNetworks Training Centre, and quality accreditation processes.

Customer Engagement and Network Operations

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

Finance and Business Services

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

People and Performance

This division is responsible for HR strategy, change management, HR policies (excluding health, safety and environment), industrial relations, recruitment, performance management systems, learning and development, HR advice and support, and payroll and timekeeping.

Tasmanian Government reporting requirements

Table 4 Purchases from Tasmanian Businesses

Purchases from Tasmanian Businesses	
% of purchases from Tasmanian businesses	78.4%
Value of purchases from Tasmanian businesses	\$114,714,718

Table 5 Consultancies valued at more than \$50,000 (ex GST)

Name of Consultant	Location	Description	Period of engagement	Amount
K&L Gates	Melbourne, VIC	Legal services for TasNetworks ERP Business Transformation Project (Ajilis)	1 July 2015 – 30 Nov 2015	335,746
Ernst & Young Pty Ltd	Sydney, NSW	Review and expert advice on TasNetworks Metering Strategy in response to the AEMC proposed customer choice rule change	1 July 2015 – 30 June 2016	263,838
Sandstone Services Pty Ltd	Melbourne, VIC	Provide expert advice in establishing TasNetworks ERP Business Transformation Project (Ajilis)	1 July 2015 – 30 June 2016	180,140
Mountain Associates Pty Ltd T/A Nuttall Consulting	Glen Iris, VIC	Provision of advisory services regarding the Australian Energy Regulator Repex and Augex Modelling to inform the preparation of TasNetworks Distribution Regulatory proposal.	20 July 2015 – 31 Mar 2016	88,781
The Pitt Crew Pty Limited	Sydney, NSW	Assist in the strategy development for IT Service, Asset and Configuration Management	3 Aug 2015 – 21 Sept 2015	71,744
Deloitte Touche Tohmatsu (Hobart)	Hobart, TAS	Quality assurance review of TasNetworks ERP Business Transformation Project (Release 1)	1 July 2015 – 30 June 2016	72,608
Strada Associates	Melbourne, VIC	Review of the current state of the GIS Environment, including business questionnaire, current risk review and strategic brief and recommendations on improvements	9 Feb 2016 – 1 April 2016	61,197
Gillespie Power Consultancy	Wishart, Qld	Consultancy services for a legal matter	10 Aug 2015 – 30 June 2016	50,252
Total				1,124,304
There were 11 Consultants engaged for \$50,000 or less totalling				342,600
Total Payments to Consultants				1,466,904

Table 6 Accounts due or paid within each year

Measure	2015-16*
Creditor Days (average days to pay)	33.8
Number of accounts due for payment	37,905
Number of accounts paid on time	30,657
Amount due for payment	\$318,383,163
Amount paid on time	\$266,041,351
Number of payments for interest on overdue accounts	1,318
Interest payable on overdue accounts	\$43,523

* Following a review of the Shareholder Guidelines in December 2015 TasNetworks amended its internal policy. This resulted in a reduction of penalty interest payments in 2015-16.

Statement of Corporate Intent 2015-16

Performance agreement

Below is our Statement of Corporate Intent for the 2015-16 year. It outlines the 2015-16 performance targets we agreed with our shareholders for the year as well as forecasts for future years.

Our performance against these targets has been reported throughout the business performance review section of this report.

Sustainable shareholder outcomes

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

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

Customers

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

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

People

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

One business

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

Zero Harm

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

Network service

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

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

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

Sustained cost reduction

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

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

Directors' report

Directors' Report

The directors present their report together with the financial report of Tasmanian Networks Pty Ltd (**TasNetworks**) for the financial year ended 30 June 2016.

Directors

- Dr Daniel Norton AO (Chairman and Director) – appointed 4 February 2014
- Donald Challen AM – appointed 4 February 2014
- Kevin Murray – appointed 4 February 2014
- Mervyn Davies – appointed 4 February 2014
- Dr Jane Sargison - appointed 1 July 2014
- Peter Lowe – appointed 1 July 2014; retired 12 November 2015
- Joanne Doyle – appointed 1 July 2016

Principal activities

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

Review of operations

TasNetworks recorded an after-tax profit of \$98.4 million for the year ended 30 June 2016 and the company invested \$156.8 million in a number of capital projects.

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

Shareholders' capital reductions and distributions

During 2015-2016 TasNetworks made two Shareholder mandated capital reductions of \$10 million each (on 16 November 2015 and 16 May 2016) pursuant to Transfer Notices made by the Treasurer under section 10A of the *Government Business Enterprises Act 1995*. This responded to a Shareholder direction provided to Transend Networks Pty Ltd in June 2011 and resulted in a total transfer of \$20 million from TasNetworks to Tasmanian Railway Pty Ltd (TasRail) in 2015-2016. There was an equity transfer of \$30 million to Forestry Corporation (Forestry Tasmania) made on 1 July 2015 pursuant to a Transfer Notice also made under section 10A of the *Government Business Enterprises Act 1995*.

Additionally, \$70 million of debt liabilities were transferred to TasNetworks from Hydro-Electric Corporation (Hydro Tasmania) on 29 January 2016 pursuant to a Transfer Notice made by the Treasurer under section 10A of the *Government Business Enterprises Act*. It is expected there will be further transfers of debt totaling \$50 million in 2016-17.

Changes in state of affairs

There were no significant changes in TasNetworks' state of affairs during the financial year ended 30 June 2016.

Environmental regulation

TasNetworks' operations are subject to many environmental regulatory requirements including the *Environmental Management and Pollution Control Act 1994*. There were 13 reportable environmental incidents during the financial year. One oil spill and one clearing of threatened flora species were reported to the Environmental Protection Authority Tasmania. There were also 11 wedge tailed eagle deaths that were reported to the Department of Primary Industries, Parks, Water, and Environment

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

Dividends

TasNetworks paid to its shareholders a dividend of \$63.2 million on 31 December 2015 from after-tax profits for the 2014-2015 financial year.

In respect of the 2016-17 financial year TasNetworks' intention is to pay a dividend based upon 80 per cent of Adjusted Net Profit after Tax for the 2015-2016 year. In accordance with our shareholders' revised dividend guideline this is expected to increase to 90 per cent from 2017-18, subject to funding capacity.

Indemnities and insurance

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

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

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

Proceedings on behalf of the company

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

Rounding of amounts

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

Auditor's independence declaration

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

Signed in accordance with a resolution of the directors

A handwritten signature in black ink that reads "Dan Norton". The signature is written in a cursive, flowing style.

Dr D T Norton AO Chairman

Date: 10/8/2016

Independent Auditor's Report



Independent Auditor's Report

To the Members of Tasmanian Networks Pty Ltd

Consolidated Financial Report for the Year Ended 30 June 2016

Report on the Consolidated Financial Report

I have audited the accompanying consolidated financial report (the financial report) of Tasmanian Networks Pty Ltd (the Company), which comprises the statement of financial position as at 30 June 2016 and the statements of profit or loss, comprehensive income, changes in equity and cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the Directors' declaration on the financial report on the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Auditor's Opinion

In my opinion:

- (a) the Company's financial report is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of its own and the consolidated entity's financial position as at 30 June 2016 and their financial performance for the year ended on that date
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

The Responsibility of the Directors for the Financial Report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the Directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report complies with International Financial Reporting Standards.

...1 of 2

To provide independent assurance to the Parliament and Community on the performance and accountability of the Tasmanian Public sector.
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Auditor's Responsibility

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

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

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

Independence

In conducting my audit, I have complied with the independence requirements of the *Corporations Act 2001*.

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

I confirm that the independence declaration required by the *Corporations Act 2001*, provided to the Directors on 10 August 2016 and included in the Directors' Report, would be unchanged if provided to the Directors as at the date of this auditor's report.

Tasmanian Audit Office



Rod Whitehead
Auditor-General

Hobart
17 August 2016

...2 of 2

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CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Profit or Loss

For the financial year ended 30 June 2016

	Note	2016 \$'000	2015 \$'000
Revenue	2	597,778	583,613
Total revenue		597,778	583,613
Operating expenses	3(a)	(172,501)	(168,750)
Depreciation and amortisation expenses	3(b)	(167,856)	(161,518)
Finance costs	4	(110,245)	(91,949)
Impairment expense	8	(6,652)	-
Total expenses		(457,254)	(422,217)
Profit before income tax equivalent		140,524	161,396
Income tax equivalent expense on profit	5(a)	(42,142)	(48,465)
Net profit for the year		98,382	112,931

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 2016

	Note	2016 \$'000	2015 \$'000
Net profit for the year		98,382	112,931
Items that will not be reclassified subsequently through profit or loss:			
Net fair value movements on property, plant and equipment	14	34,629	56,117
Superannuation actuarial gains/(losses)	23	(37,594)	23,091
Income tax equivalent expense on items that will not be reclassified subsequently through profit or loss	5(b)	998	(23,762)
		(1,967)	55,446
Items that may be reclassified subsequently through profit or loss:			
Hedge reserve			
– Gain/(loss) taken to equity	14	(3,248)	(3,345)
– Transferred to profit for the year	14	4,173	2,727
Income tax equivalent expense on items that may be reclassified subsequently through profit or loss	5(b)	(277)	185
		648	(433)
Total comprehensive income for the year		97,063	167,944

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 2016

	Note	2016 \$'000	2015 \$'000
Current assets			
Cash and cash equivalents	11(a)	20,219	768
Trade and other receivables	16	103,286	105,500
Inventories	17	18,374	17,029
Current tax asset	5(c)	2,086	2,121
Other current assets	18	4,323	4,505
Total current assets		148,288	129,923
Non-current assets			
Intangible assets	6	56,506	40,882
Property, plant and equipment	7	2,993,161	2,992,647
Other non-current assets	18	281	1,449
Total non-current assets		3,049,948	3,034,978
Total assets		3,198,236	3,164,901
Current liabilities			
Trade and other payables	20	57,960	52,406
Borrowings	9	155,000	189,427
Employee benefits	22	28,436	22,113
Provisions	19	1,205	7,309
Other current liabilities	21	7,678	10,736
Total current liabilities		250,279	281,991
Non-current liabilities			
Borrowings	9	1,594,302	1,454,291
Net deferred tax equivalent liabilities	5(d)	218,208	237,302
Employee benefits	22	187,218	147,785
Provisions	19	3,003	3,085
Other non-current liabilities	21	25,143	34,227
Total non-current liabilities		2,027,874	1,876,690
Total liabilities		2,278,153	2,158,681
Net assets		920,083	1,006,220
Equity			
Retained earnings	12	137,961	129,095
Contributed equity	13	112,725	232,725
Reserves	14	669,397	644,400
Total equity		920,083	1,006,220

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 2016

	Note	Contributed Equity \$'000	Asset Revaluation Reserve \$'000	Hedge Reserve \$'000	Retained Earnings \$'000	Total \$'000
At 1 July 2015		232,725	651,238	(6,838)	129,095	1,006,220
Profit for the year		-	-	-	98,382	98,382
Other comprehensive income:						
Net fair value movements on property, plant and equipment	14	-	34,629	-	-	34,629
Superannuation actuarial gains/(losses)	23	-	-	-	(37,594)	(37,594)
Hedge reserve	10	-	-	925	-	925
Income tax relating to components of other comprehensive income	5(b)	-	(10,280)	(277)	11,278	721
Total comprehensive income for the year		-	24,349	648	72,066	97,063
Transactions with owners in their capacity as owners:						
Capital contributed by owners		-	-	-	-	-
Return of capital	13	(50,000)	-	-	-	(50,000)
Distribution to owners	13	(70,000)	-	-	-	(70,000)
Dividends paid	12	-	-	-	(63,200)	(63,200)
As at 30 June 2016		112,725	675,587	(6,190)	137,961	920,083

	Note	Contributed Equity \$'000	Asset Revaluation Reserve \$'000	Hedge Reserve \$'000	Retained Earnings \$'000	Total \$'000
At 1 July 2014		-	-	-	-	-
Profit for the year		-	-	-	112,931	112,931
Other comprehensive income:						
Net fair value movements on property, plant and equipment	14	-	56,117	-	-	56,117
Superannuation actuarial gains/(losses)	23	-	-	-	23,091	23,091
Hedge reserve	10	-	-	(618)	-	(618)
Income tax relating to components of other comprehensive income	5(b)	-	(16,835)	185	(6,927)	(23,577)
Total comprehensive income for the year		-	39,282	(433)	129,095	167,944
Transactions with owners in their capacity as owners:						
Capital contributed by owners	13	457,725	611,956	(6,405)	-	1,063,276
Return of capital	13	(20,000)	-	-	-	(20,000)
Distribution to owners	13	(205,000)	-	-	-	(205,000)
Dividends paid	12	-	-	-	-	-
As at 30 June 2015		232,725	651,238	(6,838)	129,095	1,006,220

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 2016

	Note	2016 \$'000	2015 \$'000
Cash flows from operating activities:			
Receipts from customers		647,315	626,086
Interest received		69	16
Payment to suppliers and employees		(233,073)	(263,842)
Interest and loan reconstruction costs paid		(92,446)	(60,439)
Guarantee fee paid		(11,862)	(11,954)
Income tax equivalents paid		(55,612)	(79,089)
Net cash provided by operating activities	11(b)	254,391	210,778
Cash flows from investing activities:			
Proceeds from sale of property, plant and equipment		1,366	1,469
Payment for property, plant and equipment		(131,255)	(137,463)
Payment for intangible assets		(27,435)	(5,442)
Net cash used in investing activities		(157,324)	(141,436)
Cash flows from financing activities*:			
Cash transferred in		-	665
Proceeds from borrowings		1,195,146	1,181,453
Repayment of borrowings		(1,159,562)	(1,169,692)
Return of shareholder capital	13	(50,000)	(20,000)
Dividends paid	12	(63,200)	(61,000)
Net cash used in financing activities		(77,616)	(68,574)
Net increase in cash and cash equivalents		19,451	768
Cash and cash equivalents at the beginning of the financial year		768	-
Cash and cash equivalents at the end of the financial year	11(a)	20,219	768

* See note 11 for non-cash financing activities.

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

Notes to the consolidated financial statements

For the financial year ended 30 June 2016

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Notes to the consolidated financial statements (continued)

For the financial year ended 30 June 2016

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.

Whilst TasNetworks shows a negative working capital position of \$101.991m at 30 June 2016 its operating cash flows are strong. The deficiency in working capital is due to the existence of current borrowings of \$155.000m with short term maturities. These debt maturities will be refinanced in line with TasNetworks' treasury policy (see note 9). If the current borrowings are excluded the working capital is \$53.009m.

The financial statements were authorised for issue by the directors on 10 August 2016.

(a) Basis of preparation

The financial statements have been prepared as consolidated financial statements to include all the external transactions for Ezikey Group Pty Ltd and AuroraCom Pty Ltd. Full provision to accommodate AASB 10 *Consolidated Financial Statements* has not been applied due to immateriality. Details of controlled entities are provided in note 31 and results for the parent entity are provided in note 32.

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.

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

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.

Notes to the consolidated financial statements (continued)

For the financial year ended 30 June 2016

1. Statement of compliance and basis of preparation (continued)

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

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in notes 2, 5, 8, 19, 22 and 23.

(d) Accounting policies

The accounting policies as set out in these notes, have been applied in preparing the financial statements for the financial year ended 30 June 2016 and the comparative information presented in these financial statements for the period ended 30 June 2015. The changes made to these accounting policies for the financial year ended 30 June 2016 are detailed in note 33.

(e) Correction of prior period amounts

During the financial year, TasNetworks made corrections to two prior period amounts in accordance with Accounting Standard AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

The adjustment is to correct the take on balance of net assets on acquisition and impacts both contributed equity and current tax equivalent receivable.

The take on balance at 1 July 2014 for the current tax equivalent receivable was overstated by \$9.830m and the reported balance of \$11.951m in the 2014-15 annual accounts should have been \$2.121m.

This resulted in an overstatement of contributed equity by the same amount, and the reported opening balance of \$467.555m in the 2014-15 annual accounts should have been \$457.725m.

In accordance with AASB 108 TasNetworks has restated these elements in the financial statements as if the prior period error had never occurred.

Notes to the consolidated financial statements (continued)

For the financial year ended 30 June 2016

TasNetworks' performance

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

2. Revenue

	2016 \$'000	2015 \$'000
Provision of regulated distribution services	336,769	328,200
Provision of regulated transmission services	191,511	192,780
Provision of non-regulated telecommunication services	18,476	17,599
Provision of other non-regulated services	31,911	25,991
Customer contributions	12,075	10,991
Rent and lease income	982	1,734
Interest received	69	16
Other revenue	5,985	6,302
	597,778	583,613

Recognition and measurement

Revenue is recognised at fair value of the consideration received or receivable net of the amount of GST payable.

Provision of regulated services

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

TasNetworks does not accrue or defer for 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.

Notes to the consolidated financial statements (continued)

For the financial year ended 30 June 2016

2. Revenue (continued)

Provision of non-regulated services

Non-regulated services income is income received for services that are not economically regulated, including operating and maintenance, connections and external work.

Included in non-regulated services is income received in advance. This is predominately non-prescribed services revenue that has been received from customers for a long term connection to the electricity system. The income is recorded upon receipt and recognised over the life of the agreement to which it pertains, reflecting the performance of the contractual obligations.

Where projects are still progressing revenue is recognised in the statement of profit or loss in proportion to the stage of completion of TasNetworks obligations under the contract at balance date where appropriate.

Significant event

Non regulated services income includes \$8.190m of connection income that was previously recorded as income in advance in TasNetworks' statement of financial position. This has been immediately recognised as revenue in the statement of profit or loss following termination of Forestry Tasmania's connection agreement with TasNetworks on 30 June 2016. Termination of the agreement divested Forestry Tasmania from the distribution ring main and transmission assets connected to the Huon River Substation. Control over the operations of the transmission assets transferred to TasNetworks from the date of terminating the agreement. Refer to note 8 for further detail.

Customer contributions

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

Interest

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

Asset sales

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

Rental income

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

Notes to the consolidated financial statements (continued)

For the financial year ended 30 June 2016

3. Expenses

(a) Operating Expenses

	Note	2016 \$'000	2015 \$'000
Employee benefits expenses	3(c)	97,037	91,258
Services ¹		37,488	36,194
External contracting		13,451	12,270
IT and Communications		14,420	16,948
Feed-in-tariff ² expenses		13,023	12,865
Property costs		6,153	6,351
Materials		4,321	3,718
Licence fees		5,939	5,262
Insurance		2,394	2,369
Distribution claims and payments		2,498	4,429
(Gain)/loss on disposal of property, plant and equipment		227	(152)
Other expenses		11,471	11,800
Capitalised indirect costs ³		(35,921)	(34,562)
		172,501	168,750

1. Services expenditure primarily comprises of the provision of both 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.
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.

(b) Depreciation and amortisation expenses

Depreciation of property, plant and equipment	7	158,302	148,955
Amortisation of intangible assets	6	9,554	12,563
		167,856	161,518

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2016

3. Expenses (continued)

(c). **Employee benefits expenses**

Post employment benefits:

Defined benefit plan

Defined contribution plan

Termination benefits

Other employee benefits (salary and wages)

Total employee benefit expenses

Interest cost on defined benefit plan

Employee benefits expenses in profit or loss

Note	2016 \$'000	2015 \$'000
23	9,863	10,732
	10,025	8,454
	19,888	19,186
	1,679	2,501
	82,424	76,422
	103,991	98,109
23	(6,954)	(6,851)
3(a)	97,037	91,258

4. Finance costs

Finance costs incurred during the financial year

Loss recognised on debt restructure

Government guarantee fee

Interest costs on defined benefit plan

Total finance costs

	68,167	73,144
	23,262	-
	11,862	11,954
23	6,954	6,851
	110,245	91,949

5. Income tax equivalents

(a) **Recognised in profit or loss**

Income tax equivalent expense/(income) comprises:

Current income tax expense

Net increase/(decrease) in deferred tax equivalent liability

Prior year under/over provision

Total income tax equivalent expense/(income)

60,515	58,295
(18,547)	(9,830)
174	-
42,142	48,465

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

Profit before income tax equivalent

Income tax equivalent calculated at 30%

Increase in income tax equivalent expense due to:

Non-deductible expenses

Total income tax equivalent expense/(income)

140,524	161,396
42,157	48,419
(15)	46
42,142	48,465

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2016

5. Income tax equivalents (continued)

(b) **Recognised in other comprehensive income**

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

Income tax equivalent on fair value movements

Income tax equivalent on superannuation actuarial gains/(losses)

Total recognised in other comprehensive income

Items that may be reclassified subsequently through profit or loss:

Income tax equivalent on hedge reserve

Total recognised in other comprehensive income

Total income tax equivalent recognised in other comprehensive income

(c) **Current tax equivalent assets and liabilities**

Current tax equivalent payable/(receivable)

(d) **Deferred tax equivalent balances**

Deferred tax equivalent assets comprise:

Temporary differences

Deferred tax equivalent liabilities comprise:

Temporary differences

Net deferred tax equivalent liabilities

	2016 \$'000	2015 \$'000
	10,280	16,835
	(11,278)	6,927
	(998)	23,762
	277	(185)
	277	(185)
	(721)	23,577
	(2,086)	(2,121)
	69,229	57,749
	287,437	295,051
	218,208	237,302

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2016

5. Income tax equivalents (continued)

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

	Balance 1-Jul-15 \$'000	Recognised in income \$'000	Recognised in equity \$'000	Prior year unders/ overs \$'000	Balance 30-Jun-16 \$'000
Deferred tax equivalent liabilities:					
Property, plant and equipment	(295,051)	18,068	(10,280)	(174)	(287,437)
Receivables	-	-	-	-	-
	(295,051)	18,068	(10,280)	(174)	(287,437)
Deferred tax equivalent assets:					
Employee benefits	50,546	2,600	11,278	-	64,424
Provisions	3,692	(1,879)	-	-	1,813
Derivatives	2,863	30	(277)	-	2,616
Other items	648	(272)	-	-	376
	57,749	479	11,001	-	69,229
Net deferred tax equivalent liabilities	(237,302)	18,547	721	(174)	(218,208)

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

	Transfer In 1-Jul-14 \$'000	Recognised in income \$'000	Recognised in equity \$'000	Prior year unders/ overs \$'000	Balance 30-Jun-15 \$'000
Deferred tax equivalent liabilities:					
Property, plant and equipment	(289,831)	11,615	(16,835)	-	(295,051)
Receivables	(433)	433	-	-	-
	(290,264)	12,048	(16,835)	-	(295,051)
Deferred tax equivalent assets:					
Employee benefits	58,787	(1,314)	(6,927)	-	50,546
Provisions	4,368	(676)	-	-	3,692
Derivatives	2,649	29	185	-	2,863
Other items	905	(257)	-	-	648
	66,709	(2,218)	(6,742)	-	57,749
Net deferred tax equivalent liabilities	(223,555)	9,830	(23,577)	-	(237,302)

Notes to the consolidated financial statements (continued)

For the financial year ended 30 June 2016

5. Income tax equivalents (continued)

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 tax rates that have been enacted 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 that would follow from the manner in which TasNetworks expects at reporting date to recover or settle the carrying amount of its assets and liabilities.

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

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

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.

Notes to the consolidated financial statements (continued)

For the financial year ended 30 June 2016

TasNetworks' assets

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

6. Intangible assets

Intangible assets – at cost

Gross carrying value

Opening balance

Transferred at fair value

Additions

Closing balance

Accumulated amortisation

Opening balance

Transferred

Amortisation expense

Closing balance

Capital works in progress – at cost

Carrying amount – at cost

Note	2016 \$'000	2015 \$'000
	159,056	-
	-	155,899
	4,457	3,157
	163,513	159,056
	(120,432)	-
	-	(107,869)
3(b)	(9,554)	(12,563)
	(129,986)	(120,432)
	22,979	2,258
	56,506	40,882

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.

The intangible capital works in progress includes the expenditure on the development and implementation of TasNetworks Ajilis Enterprise Resource Planning (ERP) Business transformation project.

Notes to the consolidated financial statements (continued)

For the financial year ended 30 June 2016

7. Property, plant and equipment

Network assets – Transmission

Network assets – at fair value

Accumulated depreciation

Carrying amount

Network assets – Distribution

Network assets – at fair value

Accumulated depreciation

Carrying amount

Communications asset

Communications asset – at fair value

Accumulated depreciation

Carrying amount

Easements

Easements – at fair value

Land

Land – at fair value

Buildings

Buildings – at fair value

Accumulated depreciation

Carrying amount

Other plant and equipment

Other plant and equipment – at cost

Accumulated depreciation

Carrying amount

Capital works in progress – at cost

Total property, plant and equipment

2016 \$'000	2015 \$'000
1,922,281	1,871,377
(642,733)	(568,411)
1,279,548	1,302,966
3,087,035	2,965,703
(1,678,318)	(1,576,194)
1,408,717	1,389,509
49,219	44,273
(22,763)	(19,074)
26,456	25,199
76,627	75,321
35,099	32,549
76,691	68,232
(12,733)	(9,648)
63,958	58,584
172,339	173,486
(115,367)	(109,372)
56,972	64,114
45,784	44,405
2,993,161	2,992,647

Notes to the consolidated financial statements (continued)

For the financial year ended 30 June 2016

7. Property, plant and equipment (continued)

Recognition and measurement

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

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

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

Network assets

Network assets are categorised as Transmission assets (to transport electricity from generators to distribution networks and directly connected transmission customers at high voltages) and Distribution assets (to transport electricity from points along the transmission network to customers. Electricity must be stepped down to lower voltages in a distribution network for safe use by customers).

Network assets are valued in accordance with 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 its fair value and income earning capacity.

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

The AER makes a determination of asset values and the applicable weighted average cost of capital (WACC) (currently 8.267% for distribution and 6.48% for transmission) post tax nominal, which is used in determining the revenue allowed to be earned in the future from the network assets.

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

Communication assets

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

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

Easements

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

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

Land

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

TasNetworks' most significant land is 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.

Notes to the consolidated financial statements (continued)

For the financial year ended 30 June 2016

7. Property, plant and equipment (continued)

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 most significant buildings are valued in accordance with an independent valuation conducted by Opteon in February 2016. The valuation is based on capitalisation of income supported by direct comparison of a rate per square metre of improvements.

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

Other plant and equipment

Other plant and equipment includes optic fibre, motor vehicles, computer equipment, office furniture and equipment. These assets are stated at cost less accumulated depreciation and impairment, where applicable. These assets are valued at written down value as they are low value, short life and high turnover assets.

Capital works in progress

Capital works in progress are recognised at cost.

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 transferred directly to retained earnings.

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.

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2016

7. Property, plant and equipment (continued)

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

Communication assets:

Communications	10-40 yrs
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Other assets:

Buildings	40 yrs
Optic fibre	20 yrs
Other plant and equipment	3-15 yrs

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2016

7. Property, plant and equipment (continued)

	2016								
	Network assets – Transmission at fair value	Network assets – Distribution at fair value	Communications at fair value	Easements at fair value	Land at fair value	Buildings at fair value	Other plant & equipment at cost	Capital works in progress at cost	Total
Gross carrying value	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Carrying amount at beginning of financial year	1,871,377	2,965,703	44,273	75,321	32,549	68,232	173,486	44,405	5,275,346
Transfer between classes	-	3,950	-	-	-	(1,854)	(2,096)	-	-
Additions during the year	-	-	-	-	-	-	-	132,392	132,392
Disposals	-	-	-	-	-	-	(7,735)	-	(7,735)
Transfers of WIP to non-current assets	23,536	93,199	4,200	81	279	1,034	8,684	(131,013)	-
Net revaluation increments/(decrements)	27,368	24,183	746	1,272	2,271	9,279	-	-	65,119
Carrying amount at end of financial year	1,922,281	3,087,035	49,219	76,674	35,099	76,691	172,339	45,784	5,465,122
Accumulated depreciation and impairment losses									
Carrying amount at beginning of financial year	(568,411)	(1,576,194)	(19,074)	-	-	(9,648)	(109,372)	-	(2,282,699)
Transfer between classes	-	(16)	-	-	-	-	16	-	-
Disposals	-	-	-	-	-	-	6,182	-	6,182
Net revaluation increments/(decrements)	(8,214)	(21,815)	(320)	-	-	(141)	-	-	(30,490)
Impairment losses charge to profit	(5,712)	-	(2)	(47)	-	(891)	-	-	(6,652)
Depreciation charge for the year	(60,396)	(80,293)	(3,367)	-	-	(2,053)	(12,193)	-	(158,302)
Carrying amount at end of financial year	(642,733)	(1,678,318)	(22,763)	(47)	-	(12,733)	(115,367)	-	(2,471,961)
Carrying amount at 30 June 2016	1,279,548	1,408,717	26,456	76,627	35,099	63,958	56,972	45,784	2,993,161
Carrying amount of assets had they been recognised at cost									
Balance at 30 June 2016	1,246,581	1,372,652	25,702	74,236	32,575	56,583	56,972	45,784	2,911,085

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2016

7. Property, plant and equipment (continued)

	2015								
	Network assets – Transmission at fair value	Network assets – Distribution at fair value	Communications at fair value	Easements at fair value	Land at fair value	Buildings at fair value	Other plant & equipment at cost	Capital works in progress at cost	Total
Gross carrying value	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Carrying amount at beginning of financial year	-	-	-	-	-	-	-	-	-
Transferred at fair value	1,818,342	2,839,464	41,562	74,151	32,296	64,639	169,172	40,878	5,080,504
Additions during the year	-	-	-	-	-	-	-	137,021	137,021
Disposals	(1,193)	-	-	-	-	-	(4,709)	-	(5,902)
Transfers of WIP to non-current assets	25,632	94,496	2,099	4	-	2,240	9,023	(133,494)	-
Net revaluation increments/(decrements)	28,596	31,743	612	1,166	253	1,353	-	-	63,723
Carrying amount at end of financial year	1,871,377	2,965,703	44,273	75,321	32,549	68,232	173,486	44,405	5,275,346
Accumulated depreciation and impairment losses									
Carrying amount at beginning of financial year	-	-	-	-	-	-	-	-	-
Transferred	(515,314)	(1,498,306)	(15,605)	-	-	(7,506)	(94,040)	-	(2,130,771)
Disposals	331	-	-	-	-	-	4,302	-	4,633
Net revaluation increments/(decrements)	(7,437)	-	(169)	-	-	-	-	-	(7,606)
Impairment losses charge to profit	-	-	-	-	-	-	-	-	-
Depreciation charge for the year	(45,991)	(77,888)	(3,300)	-	-	(2,142)	(19,634)	-	(148,955)
Carrying amount at end of financial year	(568,411)	(1,576,194)	(19,074)	-	-	(9,648)	(109,372)	-	(2,282,699)
Carrying amount at 30 June 2015	1,302,966	1,389,509	25,199	75,321	32,549	58,584	64,114	44,405	2,992,647
Carrying amount of assets had they been recognised at cost									
Balance at 30 June 2015	1,282,554	1,359,609	24,812	74,155	32,296	57,242	64,114	46,663	2,941,472

Notes to the consolidated financial statements (continued)

For the financial year ended 30 June 2016

7. 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.

Level 3 significant valuation inputs and relationship to fair value

Asset	Fair Value as at 30 June 2016 \$'000	Fair Value as at 30 June 2015 \$'000	Significant inputs	Range of inputs	Relationship of inputs to fair value
RAB assets (including Network Assets, Communications Assets and Easements)	2,791,348	2,792,995	CPI	+/- 1%	A 1% increase in CPI increases the fair value of assets by \$28m
			AER Determination	N/A	AER determination of the asset values via regulatory revenue reset process
Buildings – Office Buildings	63,958	58,584	Notional lease for 10 years at a current market rent adjusted annually for CPI	+/- 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 adjusted annually for CPI	+/- expected rental growth and occupancy rates	The higher the expected rental growth and occupancy rates the greater the fair value

Notes to the consolidated financial statements (continued)

For the financial year ended 30 June 2016

8. Impairment of assets

	2016 \$'000	2015 \$'000
Impairment expense – network assets	5,761	-
Impairment expense – buildings	891	-
	6,652	-

Recognition and measurement

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

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

Key Estimates and Assumptions

Impairment testing results

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

Significant events

During the year there were two significant asset impairment events.

Network asset impairment

On 30 June 2016 Forestry Tasmania and TasNetworks signed an agreement to divest Forestry Tasmania of the distribution ring main and transmission assets connected to Huon River Substation. This agreement terminated the existing connection agreement dated 2 May 2007.

Transmission assets

Forestry Tasmania originally funded the building of the transmission assets (Newood Huon transmission line and Newood substation connection assets) via a capital contribution. Prior to 30 June 2016 these assets were operated by Newood Energy, a subsidiary of Forestry Tasmania via a contract to maintain those assets.

The Huon River spur transmission line and the Huon River Substation transmission assets were held as a negotiated asset and included in Property, Plant and Equipment of TasNetworks' statement of financial position. Termination of the agreement triggered an impairment event due to there no longer being a future income stream associated with the capital value of the assets. The value in use of these assets has reduced to nil. The capital contribution that was prepaid by Forestry Tasmania and treated as income in advance on the statement of financial position under the pre-existing contract has been transferred to revenue in the statement of profit or loss.

Notes to the consolidated financial statements (continued)

For the financial year ended 30 June 2016

8. Impairment of assets (continued)

Distribution assets

In addition to the above the distribution ring main assets that were previously owned by Forestry Tasmania were gifted to TasNetworks for \$1 consideration. There was no impact to 2015-16 financial statements from the gifting of these assets.

The total impairment of the assets is \$8.578m. Of that amount, \$2.817m reversed previous asset revaluation increases and the remaining \$5.761m has been recognised in the statement of profit or loss. The expense recognised in the statement of profit or loss has been offset by the recognition of income of \$8.190m that was prepaid by Forestry Tasmania and had previously been treated as income in advance under the existing contract.

Building Impairment

The revaluation of TasNetworks' significant properties resulted in a building impairment amount of \$0.891m. This has been recognised in the statement of profit or loss.

Financing TasNetworks' business

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

9. Borrowings

All loans have been transacted through the Tasmanian Public Finance Corporation (TASCORP). All borrowings are secured by a floating charge on all present and future trade and other receivables.

Current:

Overnight borrowings

Borrowings

2016 \$'000	2015 \$'000
-	34,427
155,000	155,000
155,000	189,427

Non-current:

Borrowings

1,594,302	1,454,291
1,594,302	1,454,291
1,749,302	1,643,718

Total Borrowings

Notes to the consolidated financial statements (continued)

For the financial year ended 30 June 2016

9. Borrowings (continued)

TasNetworks' Treasury 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. In recognition of the low interest rate environment, the Board resolved to exclude the \$100.000m of 30 year long term debt to 2046 from the benchmark debt portfolio (refer Long term debt section below). The current borrowings of \$155.000m (2015: \$155.000m) that are held in current will be refinanced in line with this policy. See below for details of the borrowing facilities.

Unused borrowing facilities at balance date

	Limit 2016 \$'000	Drawn 2016 \$'000	Undrawn 2016 \$'000	Limit 2015 \$'000	Drawn 2015 \$'000	Undrawn 2015 \$'000
Unsecured bank overdraft facility	2,000	–	2,000	2,500	2	2,498
Corporate MasterCard	3,500	237	3,263	8,650	198	8,452
Guarantee facility	10,000	173	9,827	75,000	–	75,000
TASCORP Master Loan Facility*	1,900,000	1,749,302	150,698	1,840,000	1,645,474	194,526

*The amount drawn from the TASCORP Master Loan Facility includes interest rate swaps.

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.

Significant events

Debt refinancing

In August 2015 TasNetworks refinanced \$518.300m of debt to lock in lower interest rates for the longer term, out to February 2026. The total funded cost to TasNetworks to close out the debt amounted to \$23.262m (note 4). This upfront cost will be offset by lower interest payable on the new debt compared to the original debt. This resulted in a reduction in interest payments of \$11.998m in 2015-16.

Long term debt

In May 2016 TasNetworks executed \$100.000m of 30 year debt out to 2046. This occurred in two transactions as follows:

- Transaction 1: \$55.000m commencing on 2 May 2016 out to 2046. The issued rate was 4.73%
- Transaction 2: \$45.000m commencing on 20 May 2016 out to 2046. The issued rate was 4.53%

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2016

10. 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 in the current year

Note	Carrying Amount			Fair Value		
	Hedging Instrument \$'000	Loans and Receivables \$'000	Other Liabilities \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
Financial assets not measured at fair value:						
Cash and cash equivalents	11(a)	-	20,219	-	n/a	n/a
Trade and other receivables	16	-	103,286	-	n/a	n/a
Total financial assets		-	123,505	-		
Financial liabilities measured at fair value:						
Interest rate swaps	21	8,719	-	-	8,719	-
Financial liabilities not measured at fair value:						
Trade and other payables	20	-	-	57,960	n/a	n/a
Borrowings – fixed rate		-	1,629,302	-	1,675,234	104,715
Borrowings – floating rate		-	120,000	-	122,565	-
Total financial liabilities		8,719	1,749,302	57,960	1,806,518	104,715

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

Note	Carrying Amount			Fair Value		
	Hedging Instrument \$'000	Loans and Receivables \$'000	Other Liabilities \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
Financial assets not measured at fair value:						
Cash and cash equivalents	11(a)	-	768	-	n/a	n/a
Trade and other receivables	16	-	105,500	-	n/a	n/a
Total financial assets		-	106,268	-		
Financial liabilities measured at fair value:						
Interest rate swaps	21	9,546	-	-	9,546	-
Financial liabilities not measured at fair value:						
Trade and other payables	20	-	-	52,406	n/a	n/a
Borrowings – fixed rate		-	1,384,291	-	1,476,102	-
Borrowings – floating rate		-	259,427	-	265,091	-
Total financial liabilities		9,546	1,698,718	52,406	1,752,319	-
Other financial liabilities not measured at fair value:						
Forward start borrowings*		-	55,000	-	1,580	-

* Tasnetworks entered into forward start borrowings prior to 30 June 2015 for \$55.000m with settlement occurring in July 2015.

Notes to the consolidated financial statements (continued)

For the financial year ended 30 June 2016

10. 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 10(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

Derivative financial instruments

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

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is immediately recognised in profit or loss on the statement of comprehensive income unless the derivative is designated and effective as a hedging instrument. On the date the contract is entered, each contract is recorded in TasNetworks' hedge accounting system where the relevant effectiveness tests and documentation is created and all further designation and valuation data is recorded. The fair value of a hedging instrument is presented as current or non-current based on the timing of the contractual cash flows, with cash flows expected to be realised or settled after 12 months classified as non-current and cash flows expected to be realised or settled within 12 months classified as current. Other derivatives are presented as current assets or current liabilities.

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

Foreign currency transactions

Realised and unrealised gains and losses on foreign currency exposures are brought to account in the year to which they apply. Transactions in foreign currencies are initially recorded in Australian dollars by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at balance date are translated to Australian dollars at exchange rates in effect at that date. The gains and losses from hedging equipment exposures are transferred to the equipment accounts to become part of the acquisition cost of the assets. All exchange gains and losses relating to other hedge transactions are brought to account in the statement of comprehensive income in the same period as the exchange differences on the items covered by the hedge transactions. As a policy objective TasNetworks hedges its exposure to foreign currencies in excess of AUD \$1.000m.

Notes to the consolidated financial statements (continued)

For the financial year ended 30 June 2016

10. Financial instruments (continued)

(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	2016 \$'000	2015 \$'000
Debt to total capital ratio			
Debt (borrowings)	9	1,749,302	1,643,718
Cash and cash equivalents	11(a)	20,219	768
Net debt		1,729,083	1,642,950
 Total capital (net debt + total equity)		2,649,166	2,649,170
Debt to total capital ratio		65%	62%

Risk management

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

Credit risk

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

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

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

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

Liquidity risk

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

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

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

Notes to the consolidated financial statements (continued)

For the financial year ended 30 June 2016

10. Financial instruments (continued)

Market risk

Foreign exchange risk

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

TasNetworks uses forward exchange contracts to hedge its currency exposure where the exposure is in excess of AUD \$1.000m in line with the Board approved Treasury Risk Management Policy.

TasNetworks did not enter into any forward foreign exchange contract during the year ended 30 June 2016 (one in 2015).

Interest rate risk

The objective of TasNetworks' interest rate risk management policy is to manage within TasNetworks' approved 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 benchmark portfolio aligned to the regulatory regime within which TasNetworks operates. The AER uses the guideline 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.

TasNetworks' exposure to interest rates on financial assets and financial liabilities is detailed below.

Interest rate exposures and liquidity

TasNetworks' exposure to interest rate risk on financial instruments and contractual maturity thereof for financial liabilities and expected maturity for financial assets as at 30 June 2016:

	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	11(a)	1.75%	20,219	-	-	-	-	20,219
Trade and other receivables	16	n/a	-	-	-	-	103,286	103,286
Total financial assets			20,219	-	-	-	103,286	123,505
Financial liabilities:								
Trade and other payables	20	n/a	-	-	-	-	57,960	57,960
Borrowings – fixed rate		3.83%	187,439	142,794	534,824	1,258,225	-	2,123,282
Borrowings – floating rate		2.31%	33,223	1,817	94,115	-	-	129,155
Forward start borrowing commitments		n/a	-	-	-	-	-	-
Interest rate swaps		4.52%	2,855	3,502	3,271	-	-	9,628
Total financial liabilities			223,517	148,113	632,210	1,258,225	57,960	2,320,025
Net financial assets/ (liabilities)			(203,298)	(148,113)	(632,210)	(1,258,225)	45,326	(2,196,520)

The above table reflects both interest amounts payable and principal. TasNetworks' is able to manage these exposures within the Master Loan Facility Agreement with TASCORP. Amounts maturing in 5+ years include principal and interest amounts to year 2046.

Notes to the consolidated financial statements (continued)

For the financial year ended 30 June 2016

10. Financial instruments (continued)

Interest rate exposures and liquidity for the previous year

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

	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	11(a)	2.75%	768	-	-	-	-	768
Trade and other receivables	16	n/a	-	-	-	-	105,500	105,500
Total financial assets			768	-	-	-	105,500	106,268
Financial liabilities:								
Trade and other payables	20	n/a	-	-	-	-	52,406	52,406
Borrowings – fixed rate		4.65%	153,624	612,536	320,980	560,947	-	1,648,087
Borrowings – floating rate		2.50%	105,531	73,940	73,112	26,021	-	278,604
Forward start borrowing commitments		3.46%	(53,834)	1,902	29,290	35,970	-	13,328
Interest rate swaps		4.56%	4,173	3,759	3,214	-	-	11,146
Total financial liabilities			209,494	692,137	426,596	622,938	52,406	2,003,571
Net financial assets/ (liabilities)			(208,726)	(692,137)	(426,596)	(622,938)	53,094	(1,897,303)

Interest rate sensitivity analysis

If interest rates had been 1% higher or lower and all other variables were held constant the impact, attributable to TasNetworks' exposure to variable interest rates, is shown in the table below:

	Profit before tax		Equity after tax	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
1% increase in interest rate	-	300	2,634	2,800
1% decrease in interest rates	-	(300)	(2,742)	(2,900)

There is no floating interest rate exposure at 30 June 2016 due to the effectiveness of the hedges in place. There would be no impact on the profit before tax if there was a change in interest rates.

Notes to the consolidated financial statements (continued)

For the financial year ended 30 June 2016

10. Financial instruments (continued)

(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.

As at 30 June 2016 TasNetworks had 8 pay fixed/receive floating interest rate swaps with an aggregate face value of \$195.000m (2015: 10 totalling \$230.000m).

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

Outstanding floating for fixed contracts	Average contracted fixed interest rate 2016 %	Average contracted fixed interest rate 2015 %	Notional principal amount 2016 \$'000	Notional principal amount 2015 \$'000	Fair value 2016 \$'000	Fair value 2015 \$'000
Less than one year	4.02	4.60	45,000	40,000	(506)	(331)
One to two years	4.73	4.32	30,000	85,000	(924)	(2,699)
Three to five years	4.19	4.92	120,000	105,000	(7,289)	(6,516)
			195,000	230,000	(8,719)	(9,546)

Forward start borrowing commitments

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

As at 30 June 2016 TasNetworks had no forward start borrowings (2015: two totalling \$55.000m).

The notional principal amount and term of the forward start borrowing contracts at reporting date has been detailed in the liquidity table in note 10(b).

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.

Notes to the consolidated financial statements (continued)

For the financial year ended 30 June 2016

11. 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	2016 \$'000	2015 \$'000
Cash at bank		1,019	768
Cash investment		19,200	-
		20,219	768

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

Net profit for the year		98,382	112,931
Depreciation and amortisation of non-current assets	3(b)	167,856	161,518
(Gain)/loss on sale of property, plant and equipment	3(a)	227	(152)
Impairment expense	8	6,652	-
Increase/(decrease) in tax equivalent liabilities		(19,060)	(6,310)
(Increase)/decrease in receivables		2,214	(14,961)
(Increase)/decrease in inventories		(1,345)	(290)
(Increase)/decrease in other assets		1,351	(3,038)
Increase/(decrease) in creditors and accrued expenses		8,279	(32,640)
Increase/(decrease) in provisions and employee benefits		1,976	(6,562)
Increase/(decrease) in other liabilities		(12,141)	282
Net cash provided by operating activities		254,391	210,778

(c) Non-cash financing activities

There was an increase in debt of \$70.000m (2015: \$205.000m) as a result of a transfer of debt from Hydro-Electric Corporation to TasNetworks mandated by a Transfer Notice issued by the Treasurer under section 10A of the *Government Business Enterprises Act 1995*. This was transacted by TASCORP on TasNetworks' behalf.

Recognition and measurement

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

Notes to the consolidated financial statements (continued)

For the financial year ended 30 June 2016

TasNetworks' equity

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

12. Retained earnings

	Note	2016 \$'000	2015 \$'000
Balance at beginning of financial year		129,095	-
Net profit for the year		98,382	112,931
Actuarial gains/(losses)	23	(37,594)	23,091
Deferred tax effect on actuarial movement	5	11,278	(6,927)
Dividends paid during the year		(63,200)	-
Balance at end of financial year		137,961	129,095

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

13. Contributed equity

Balance at beginning of financial year		232,725	-
Equity contributed on transfer*		-	457,725
Capital reductions		(50,000)	(20,000)
Distribution to owners		(70,000)	(205,000)
Balance at end of financial year		112,725	232,725

During 2015-16 TasNetworks made two Shareholder mandated capital reductions of \$10.000m each (on 16 November 2015 and 16 May 2016) pursuant to Transfer Notices issued by the Treasurer under section 10A of the *Government Business Enterprises Act 1995*. This was in accordance with a Shareholder direction provided to Transend Networks Pty Ltd in June 2011 and resulted in a total transfer of \$20.000m from TasNetworks to Tasmanian Railway Pty Ltd (TasRail) in 2015-16. There was an equity transfer of \$30.000m to Forestry Corporation (Forestry Tasmania) made on 1 July 2015 pursuant to a Transfer Notice also issued under section 10A of the *Government Business Enterprises Act 1995*.

Additionally, TasNetworks reduced its contributed equity by \$70.000m as a result of a transfer of debt from Hydro-Electric Corporation to TasNetworks mandated by a Transfer Notice issued by the Treasurer under section 10A of the *Government Business Enterprises Act 1995*. It is expected there will be a further transfer of debt totalling \$50.000m in 2016-17.

* On 1 July 2014 all assets, rights, liabilities, reserves and obligations for Transend Networks Pty Ltd and the distribution business of Aurora Energy Pty Ltd were transferred to TasNetworks in accordance with the Gazette Notice no.21439 dated 25th June 2014. TasNetworks elected to apply AASB 3 *Business Combinations* and as such all assets, rights, liabilities, reserves and obligations were recorded at their fair value on acquisition date. As they were transferred at no consideration the net position arising from the transfers was reflected as contributed equity totalling \$457.725m.

Notes to the consolidated financial statements (continued)

For the financial year ended 30 June 2016

14. Reserves

Reserves comprise:

Asset revaluation reserve
Hedge reserve

Notes	2016 \$'000	2015 \$'000
	675,587	651,238
	(6,190)	(6,838)
	669,397	644,400

Asset revaluation reserve

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

	651,238	-
	-	611,956
	34,629	56,117
5(b)	(10,280)	(16,835)
	675,587	651,238

Revaluation of assets during the year

Revaluation of gross carrying value
Revaluation of gross accumulated depreciation
Net fair value movements on property, plant and equipment

7	65,119	63,723
7	(30,490)	(7,606)
	34,629	56,117

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

Hedge reserve

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

	(6,838)	-
	-	(6,405)
	(3,248)	(3,345)
	4,173	2,727
5(b)	(277)	185
	(6,190)	(6,838)

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

15. Issued capital

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

Notes to the consolidated financial statements (continued)

For the financial year ended 30 June 2016

Other assets and liabilities

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

16. Trade and other receivables

Current:

Trade receivables

Accrued income

Unbilled use of system (UoS)

Allowance for impairment

2016 \$'000	2015 \$'000
18,784	12,863
39,917	46,390
44,959	46,481
(374)	(234)
103,286	105,500

Movement in the allowance for impairment of debts

Balance at beginning of financial year

Balance at transfer date 1 July 2014

Impairment gain/(loss) recognised on receivables

Amounts written off as uncollectable

Balance at the end of the year

(234)	-
-	(426)
(306)	7
166	185
(374)	(234)

Ageing of trade receivables that were past due but not impaired

Less than 30 days overdue

Between 31 and 60 days overdue

Between 61 and 90 days overdue

Greater than 90 days overdue

3,886	2,325
463	296
3,324	789
3,752	787
11,425	4,197

Recognition and measurement

Trade receivables and other receivables are recorded at amounts due less any allowance for impairment. An allowance for impairment is recognised when there is objective evidence that the receivable may not be able to be collected. Financial difficulties of the debtor and default payments are considered objective evidence of impairment. An algorithm is applied to debtor balances that determines gross doubtful debts, based on the age of those debts and past collection history. This is then adjusted for proportionate recoveries. Any other known contingencies are taken into consideration. Bad debts are written off in the year in which they are identified. Construction work in progress receivable is stated at cost plus profit recognised to date less a provision for foreseeable losses and less progress billings.

Unbilled use of system is the accrual for the revenue TasNetworks expects to receive from retailers (see note 2 key estimate).

Analysis of aging and collectability

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

Amounts past 60 days due include use of system charges of \$5.312m that were in dispute at 30 June 2016. These disputes have subsequently been resolved and \$2.974m has been received at the time of preparing these financial statements. The remaining \$2.338m balance is expected to be collected in full.

Information on TasNetworks' exposure to credit and market risks for trade and other receivables is included in note 10.

Notes to the consolidated financial statements (continued)

For the financial year ended 30 June 2016

17. Inventories

Inventory
Allowance for impairment on inventory

2016 \$'000	2015 \$'000
18,927	17,294
(553)	(265)
18,374	17,029

During the financial year ended 30 June 2016, \$0.370m (2015: \$0.361m) of inventory was expensed in the statement of profit or loss.

Movement in the allowance for impairment of inventory

Balance at beginning of financial year
Balance at transfer date 1 July 2014
Impairment loss provided for
Inventory written off during the year
Balance at the end of the year

(265)	-
-	(152)
(336)	(269)
48	156
(553)	(265)

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 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 resale and are used 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.

18. Other assets

Current:
Prepayments
Other

4,317	4,500
6	5
4,323	4,505
281	1,449
281	1,449
4,604	5,954

Non-Current:
Prepayments

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2016

19. Provisions

Provisions for the current financial year

	Workers Compensation \$'000	Metered Services \$'000	Onerous Contracts \$'000	Dividend \$'000	Restructure \$'000	Total \$'000
Balance at 1 July 2015	1,128	4,621	4,645	-	-	10,394
Provision made during the year	1,095	-	574	-	-	1,669
Provision used during the year	(1,068)	(4,621)	(2,166)	-	-	(7,855)
Balance at 30 June 2016	1,155	-	3,053	-	-	4,208
Current provisions	502	-	703	-	-	1,205
Non-current provisions	653	-	2,350	-	-	3,003
	1,155	-	3,053	-	-	4,208

Provisions for the previous financial year

	Workers Compensation \$'000	Metered Services \$'000	Onerous Contracts \$'000	Dividend \$'000	Restructure \$'000	Total \$'000
Balance at transfer on 1 July 2014	558	6,007	5,731	61,000	639	73,935
Provision made during the year	570	-	-	-	-	570
Provision used during the year	-	(1,386)	(1,086)	(61,000)	(639)	(64,111)
Balance at 30 June 2015	1,128	4,621	4,645	-	-	10,394
Current provisions	807	4,621	1,881	-	-	7,309
Non-current provisions	321	-	2,764	-	-	3,085
	1,128	4,621	4,645	-	-	10,394

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

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

Notes to the consolidated financial statements (continued)

For the financial year ended 30 June 2016

19. Provisions (continued)

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. This actuarial calculation is based on historical claims performance within set minimum and maximum bands.

Metered Services

Embedded generation

The rectification of meters and the reimbursement to customers under the solar metering program has now been completed and the provision fully expended during the year.

Irrigation meters

The rectification of meters and the reimbursement to customers has now been completed and the provision fully expended during the year.

Onerous contracts

In 2010 Aurora Energy entered into a 10 year lease for their office premises and the office space is surplus to TasNetworks' requirements.

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

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

20. Trade and other payables

Current:

Trade payables

Accrued expenses

GST payable

Accrued interest

2016 \$'000	2015 \$'000
27,146	23,043
4,063	2,133
3,022	2,486
23,729	24,744
57,960	52,406

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.

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2016

21. Other liabilities

	Note	2016 \$'000	2015 \$'000
Current:			
Income received in advance		5,483	7,834
Derivative contracts	10	2,195	2,902
		7,678	10,736
Non-current:			
Income received in advance		18,619	27,583
Derivative contracts	10	6,524	6,644
		25,143	34,227

Recognition and measurement

Income received in advance

Income received in advance is predominantly non-prescribed services revenue that has been received from customers for a long term connection to the electricity system. The income is recorded upon receipt and recognised over the life of the agreement to which it pertains (note 2).

The balance of income received in advance is from construction projects currently being undertaken. This income is recognised in line with the stage of completion of the project.

Significant event

\$8.190m of connection income previously received in advance and recorded as a liability in the statement of financial position has been transferred to revenue in the statement of profit or loss. This relates to the impairment of the transmission assets associated with the termination of the Forestry connection agreement. See note 8.

Derivative contracts

Derivative contracts are interest rate swaps. See note 10 for TasNetworks' exposure to risk and fair value information for these swaps.

Derivative contracts include a capital loss of \$0.087m (2015: \$0.155m) that is being amortised over a 10 year period.

Notes to the consolidated financial statements (continued)

For the financial year ended 30 June 2016

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.

22. Employee benefits

	Note	2016 \$'000	2015 \$'000
Current:			
Annual leave		8,808	8,443
Long service leave		11,002	9,847
Defined benefits superannuation	23	5,605	1,593
Other employee benefits		3,021	2,230
		28,436	22,113
Non-current:			
Long service leave		3,305	3,248
Defined benefits superannuation	23	182,765	142,915
Other employee benefits		1,148	1,622
		187,218	147,785
		215,654	169,898

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.

Adjustments to these provisions are included in the cost of labour and charged directly to capital jobs or cost centres, and correspondingly, the provisions absorb the cost when employees utilise their benefits. An annual adjustment is made to the provisions in order to represent the fair value of the provision at year-end.

Key Estimates

Long service leave

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

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

Notes to the consolidated financial statements (continued)

For the financial year ended 30 June 2016

22. 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.

Workers compensation

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

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 (the Scheme) administered by the Retirement Benefits Fund (RBF) (note 23).

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 RBF are allocated to TasNetworks based on the percentage of funded past service liabilities for TasNetworks compared to the funded past service liabilities for the whole of government. 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.

Notes to the consolidated financial statements (continued)

For the financial year ended 30 June 2016

23. 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 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 *Retirement Benefits Act 1993* and the *Retirement Benefits Regulations 2005*.

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

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

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

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

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

Defined benefit superannuation risks

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

- Investment risk – The risk that investment returns will be lower than assumed and employers will need to increase contributions to offset this shortfall.
- Salary growth risk – The risk that wages or salaries (on which future benefit amounts will be based) will rise more rapidly than assumed, increasing defined benefit amounts and the associated employer contributions.
- Inflation risk – The risk that inflation is higher than anticipated, increasing pension payments and the associated employer contributions.
- Benefit options risk – The risk 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 plan amendments, curtailments or settlements during the year.

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2016

23. Defined benefit superannuation plan (continued)

Key Assumptions

Defined benefit superannuation plan

The actuarial assessment and key assumptions that have been used in determining this are as per the State Actuary's (Mercer) report, dated 12 July 2016 and are set out below:

Assumptions to determine defined benefit cost and start of year defined benefit obligation	2016 %	2015 %
Discount rate (active members)	4.80	4.10
Discount rate (pensioners)	4.80	4.10
Expected salary increase rate	3.00	3.00
Expected rate of increase of compulsory preserved amounts	4.50	4.50
Expected pension increase rate	2.50	2.50

Assumptions to determine end of year defined benefit obligation		
Discount rate (active members)	3.55	4.80
Discount rate (pensioners)	3.55	4.80
Expected salary increase rate	3.00	3.00
Expected rate of increase of compulsory preserved amounts	4.50	4.50
Expected pension increase rate	2.50	2.50

Fair value of Scheme assets

	30 June 2016*			
	Total	Quoted prices in active markets for identical assets – Level 1	Significant observable inputs – Level 2	Unobservable inputs – Level 3
Asset category:	\$'000			
Cash and cash equivalents	6,761	6,761	-	-
Equity instruments	26,583	12,100	11,674	2,809
Debt instruments	5,222	1,417	2,144	1,661
Derivatives	72	-	72	-
Real estate	316	-	316	-
Total	38,954	20,278	14,206	4,470

* Estimated based on assets allocated to TasNetworks as at 30 June 2016 and asset allocation of the RBF Scheme as at 30 June 2015.

Fair value of own financial instruments

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

Notes to the consolidated financial statements (continued)

For the financial year ended 30 June 2016

23. Defined benefit superannuation plan (continued)

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

	Note	2016 \$'000	2015 \$'000
Present value of defined benefit obligations		227,324	185,622
Total defined benefit obligation		227,324	185,622
RBF contributory scheme assets		(38,954)	(41,114)
Deficit/(surplus)		188,370	144,508
Movements in net liabilities			
Net liabilities at beginning of year		144,508	-
Past service cost transferred in on 1 July 2014		-	169,631
Employee benefits expense recognised in profit or loss	3(c)	9,863	10,732
Employee benefits loss recognised in other comprehensive income		37,594	(23,091)
Actual employer contributions		(3,595)	(12,764)
Net liability/(asset)		188,370	144,508
Current net liability	22	5,605	1,593
Non-current net liability	22	182,765	142,915
		188,370	144,508
Profit or loss amounts			
Employer service cost		2,909	3,881
Interest cost	4	6,954	6,851
Expense recognised		9,863	10,732
Other comprehensive income amounts			
Recognised actuarial gains/(losses)	12	(37,594)	23,091
Other comprehensive income recognised		(37,594)	23,091

Employee benefits expense is included in the direct expenses line item of the statement of profit or loss and superannuation actuarial gains/(losses) line item in the statement of comprehensive income. Interest costs are included within finance costs.

Fair value of plan assets

Fair value of plan assets at beginning of financial year		41,114	-
Interest Income		1,941	1,517
Actual return on plan assets less interest income		(1,833)	5,706
Employer contributions		6,626	9,732
Contributions by plan participants		1,089	1,225
Benefits paid		(9,599)	(14,273)
Taxes, premiums and expenses paid		(384)	(318)
Transfers in		-	37,525
Fair value plan assets at year end		38,954	41,114

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2016

23. Defined benefit superannuation plan (continued)

**Defined benefit obligations inclusive of contributions
tax for disclosure purposes**

Defined benefit obligation at beginning of year	185,622	-
Past service cost transferred in on 1 July 2014	-	169,631
Employer service costs plus operating costs	2,909	3,881
Interest costs	8,895	8,375
Actual participants' contributions	1,089	1,225
Transfers in	-	37,716
Actual benefit paid	(6,567)	(17,305)
Taxes, premiums and expenses paid	(384)	(318)
Expected defined benefit obligation at year end	191,564	203,205
Actuarial (gain)/loss arising from changes in demographic assumptions	-	-
Actuarial (gain)/loss arising from changes in financial assumptions	38,266	(20,632)
Actuarial (gain)/loss arising from liability experience	(2,506)	3,049
Actual total defined benefit obligations at year end	227,324	185,622

2016 \$'000	2015 \$'000
185,622	-
-	169,631
2,909	3,881
8,895	8,375
1,089	1,225
-	37,716
(6,567)	(17,305)
(384)	(318)
191,564	203,205
-	-
38,266	(20,632)
(2,506)	3,049
227,324	185,622

Effect of the asset ceiling

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

Sensitivity Analysis

The defined benefit obligation as at 30 June 2016 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 increase rate	Scenario D +1% pa pension increase rate
Discount rate	3.55% pa	2.55% pa	4.55% pa	3.55% pa	3.55% pa
Pension increase rate	2.50% pa	2.50% pa	2.50% pa	1.50% pa	3.50% pa
Defined benefit obligation (\$'000)	227,324	267,277	195,862	205,556	253,288

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

Notes to the consolidated financial statements (continued)

For the financial year ended 30 June 2016

23. Defined benefit superannuation plan (continued)

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 2017 of \$5.605m.

Maturity Profile of Defined Benefit Obligation

The weighted average duration of the defined benefit obligation for TasNetworks is 16.1 years.

24. Key management personnel compensation

The key management personnel of TasNetworks during the year were:

Dr Dan Norton AO (Chairman and Director)

Mr Donald Challen AM (Director)

Mr Kevin Murray (Director)

Mr Mervyn Davies (Director)

Dr Jane Sargison (Director)

Mr Peter Lowe (Director) until 12 November 2015

Mr Lance Balcombe (Chief Executive Officer)

Ms Bess Clark (General Manager Strategy and Stakeholder Relations)

Mr Wayne Tucker (General Manager Strategic Asset Management)

Ms Natasha Brown (General Manager Works and Service Delivery)

Mr Mike Paine (General Manager Customer Engagement and Network Operations)

Mr Ross Burridge (General Manager Finance and Business Services)

Ms Justine McDermott (General Manager People and Performance)

Mrs Phillippa Bartlett (Company Secretary and General Counsel)

Mrs Amy-Marie Parker (Acting General Manager Finance and Business Services (26 Aug – 14 Oct 2015))

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

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2016

24. Key management personnel compensation (continued)

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

	2016 \$'000	2015 \$'000
Short-term employee benefits	2,574	2,637
Post-employment benefits	236	242
Other long-term benefits	38	30
Termination benefits	-	-
	2,848	2,909

Director remuneration for the financial year

	Directors' Fees \$'000	Committee Fees \$'000	Superannuation ¹ \$'000	Other \$'000	Total 2015-16 \$'000
Dr D Norton AO	111	-	11	-	122
Mr D Challen AM	52	-	5	-	57
Mr K Murray	52	-	5	-	57
Mr M Davies	52	-	5	-	57
Dr J Sargison	52	-	5	-	57
Mr P Lowe	20	-	2	-	22
	339	-	33	-	372

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

Director remuneration for the previous financial year

	Directors' Fees \$'000	Committee Fees \$'000	Superannuation ¹ \$'000	Other \$'000	Total 2014-15 \$'000
Dr D Norton AO	107	-	10	-	117
Mr D Challen AM ²	95	-	9	-	104
Mr K Murray	51	-	5	-	56
Mr M Davies	48	-	7	-	55
Dr J Sargison	49	-	5	-	54
Mr P Lowe	50	-	5	-	55
	400	-	41	-	441

1. Superannuation means the contribution to the superannuation fund of the individual.
2. Donald Challen Director's fees include fees for his role as Chairman of Transend Networks Pty Ltd until after its final AGM in November 2014.

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2016

24. Key management personnel compensation (continued)

Executive remuneration for the financial year

	Commencement Date	Salary ¹	Short Term Incentives ²	Termination Benefits ³	Superannuation ⁴	Vehicle Allowances ⁵	Other Benefits ⁶	Total Cash	Other non-monetary benefits ⁷	Total 2015-16
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Mr L Balcombe	14-Oct-13	446	-	-	19	-	-	465	13	478
Ms B Clark	17-Feb-14	253	-	-	23	-	-	276	17	293
Mr W Tucker	17-Feb-14	239	-	-	30	-	-	269	(5)	264
Ms N Brown	18-Apr-14	286	-	-	26	-	-	312	28	340
Mr M Paine	11-Feb-14	250	-	-	24	-	-	274	-	274
Mr R Burridge	31-Mar-14	260	-	-	33	-	-	293	(14)	279
Ms J McDermott	05-Feb-14	265	-	-	25	-	-	290	(1)	289
Mrs P Bartlett	17-Mar-14	219	-	-	20	-	-	239	(14)	225
Acting Senior Executive:										
Mrs A Parker	26 Aug 15 to 14 Oct 15	28	-	-	3	-	-	31	3	34
		2,246	-	-	203	-	-	2,449	27	2,476

1. Salary received includes all forms of consideration paid and payable for services rendered, compensated absences during the period and salary sacrifice amounts.
2. Short term incentive payments are non-recurrent payments which depend on achieving specific performance goals within specified timeframes.
3. Termination benefits include all forms of benefits paid or accrued as a consequence of termination.
4. Superannuation means the contribution to the superannuation fund of the individual. This balance includes defined benefit amounts which were calculated using a notional superannuation rate of 12.5%.
5. Includes total cost of providing and maintaining vehicles provided for private use, including registration, insurance, maintenance cost, fuel and other consumables. TasNetworks no longer administers vehicle allowances. The business use component is paid directly to the Novated Lease vendor.
6. Other benefits include all other forms of employment allowances (excludes reimbursements such as travel, accommodation or meals), payments in lieu of leave, and any other compensation paid and payable.
7. Other non-monetary benefits include annual and long service leave movements and non monetary benefits expensed.

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2016

24. Key management personnel compensation (continued)

Executive remuneration for the previous year

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

1. Salary received includes all forms of consideration paid and payable for services rendered, compensated absences during the period and salary sacrifice amounts.
2. Short term incentive payments are non-recurrent payments which depend on achieving specific performance goals within specified timeframes.
3. Termination benefits include all forms of benefits paid or accrued as a consequence of termination.
4. Superannuation means the contribution to the superannuation fund of the individual. This balance includes defined benefit amounts which were calculated using a notional superannuation rate of 12.5%.
5. Includes total cost of providing and maintaining vehicles provided for private use, including registration, insurance, maintenance cost, fuel and other consumables. TasNetworks no longer administers vehicle allowances. The business use component is paid directly to the Novated Lease vendor.
6. Other benefits include all other forms of employment allowances (excludes reimbursements such as travel, accommodation or meals), payments in lieu of leave, and any other compensation paid and payable.
7. Other non-monetary benefits include annual and long service leave movements and non monetary benefits expensed.

Notes to the consolidated financial statements (continued)

For the financial year ended 30 June 2016

24. Key management personnel compensation (continued)

Director remuneration principles

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

Director remuneration arrangements

Directors are appointed by the Shareholding Ministers following Cabinet approval. Each instrument of appointment is for a maximum period of three years and prescribes the relevant remuneration provisions. Directors can be re-appointed.

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

Executive remuneration principles

Remuneration levels for Executive staff (including the Chief Executive Officer (CEO)) of TasNetworks are competitively set to attract and retain appropriately qualified and experienced Executives. TasNetworks' Board obtains independent advice on the appropriateness of remuneration packages of all Executive positions given trends in comparative entities both locally and interstate and the objectives of TasNetworks' remuneration policy. Remuneration levels for future CEO and Executives of TasNetworks will be set in accordance with the Director and Executive Remuneration Guidelines, as revised in October 2015. The appointment and setting of the initial remuneration for TasNetworks current CEO and Executive team predates the June 2014 Shareholder's Direction to comply with the guidelines, and the establishment of the Executive Remuneration Panel.

The remuneration structures take into account:

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

Executive remuneration arrangements

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

Acting arrangements

When members of key management personnel are on leave or 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 included as members of key management personnel when acting arrangements are for more than a period of one month.

Statement of compliance

TasNetworks has complied with the Government's Director and Executive Remuneration Guidelines for the year ended 30 June 2016 with the exception of three variations. These are the confidentiality and termination provisions contained in executive contracts and the setting of initial remuneration for TasNetworks current CEO which pre-date the June 2014 Shareholders Direction to comply with the Guidelines.

Notes to the consolidated financial statements (continued)

For the financial year ended 30 June 2016

25. Related party disclosures

Equity interest in related parties

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 31 to the financial statements.

Key management personnel compensation

Details of key management personnel compensation are disclosed in note 24 to the financial statements.

Transactions with key management personnel

Donald Challen AM was the Chairman of the Tasmanian Public Finance Corporation (TASCORP) until 30 May 2016. TasNetworks has long-term borrowings from TASCORP (note 9). The total amount of borrowing from TASCORP is \$1,749.302m. The interest paid to TASCORP during the year was \$88.860m.

Dr Dan Norton AO held the following positions during the year:

- Chairman, Tasmanian Ports Corporation Pty Ltd (Tasports) until 9 December 2015;
- Deputy Chairman, Tasmanian Water and Sewerage Corporation Pty Ltd (Taswater) until 24 February 2016; and
- Interim Chairman, Forestry Tasmania, 1 February 2016 to 31 May 2016.

All transactions with these parties were at arms length with terms and conditions no more favourable than would be available to non related parties.

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

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

Controlling entity

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

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

Notes to the consolidated financial statements (continued)

For the financial year ended 30 June 2016

Commitments

This section contains information about the commitments TasNetworks has made.

26. Leases

Operating leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2016 \$'000	2015 \$'000
Within one year	1,452	744
One year or no later than five years	3,946	2,429
Greater than five years	405	1,169
	5,803	4,342

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

Sublease

The future minimum sublease payments expected to be received is \$2.385m until the lease expires in 2020.

Operating leases as lessor

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

Within one year	2,565	3,470
One year or no later than five years	9,587	12,492
Greater than five years	21,831	34,142
	33,983	50,104

Finance leases

TasNetworks has no finance lease liabilities.

Recognition and measurement

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

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2016

27. Commitments for expenditure

Capital expenditure commitments:

Property, plant and equipment

Within one year

One year or later and no later than five years

Greater than five years

Operating expenditure commitments*:

Other expenses (excluding leases disclosed in note 26)

Within one year

One year or later and no later than five years

Greater than five years

2016 \$'000	2015 \$'000
61,782	48,000
18,969	22,883
-	6
80,751	70,889
15,974	22,427
10,269	4,484
895	97
27,138	27,008

*Operating expenditure commitments relate predominately to asset maintenance services.

28. Contingent liabilities and contingent assets

Claims related to property loss, personal injury (excluding claims by employees for personal injuries), contractual and other matters, and with an estimated potential cost to TasNetworks of \$2.155m (2015: \$0.625m) were outstanding at the date of publication of these accounts. TasNetworks is actively defending these claims and the directors are of the opinion, based on legal advice, that no provision is required.

Notes to the consolidated financial statements (continued)

For the financial year ended 30 June 2016

Other information

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

29. Auditor's remuneration

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

Audit of financial statements

Audit of regulatory financial statements

Audit of revenue reset Regulatory Information Notice*

2016 \$	2015 \$
230,930	234,300
12,130	11,620
250,000	292,000
493,060	537,920

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

30. Overseas travel

During the year, 7 overseas trips were undertaken by employees of TasNetworks at a total cost of \$51,473.

In addition 2 overseas trips with a costs of \$27,648 were paid and will be undertaken in 2016-17. One of these trips is for the CEO and the cost associated with that trip is \$13,892.

There were no overseas trips taken by Board members during 2015-16.

31. 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 except in note 32 when it relates to the parent entity only.

Name of entity	Country of incorporation	Ownership interest	
		2016 %	2015 %
Parent entity			
Tasmanian Networks Pty Ltd	Australia		
Subsidiaries			
Ezikey Group Pty Ltd	Australia	100	100
Auroracom Pty Ltd	Australia	100	100

Notes to the consolidated financial statements (continued)

For the financial year ended 30 June 2016

32. Parent entity disclosures

As at, and throughout the financial year ended 30 June 2016, the parent entity of the Group was Tasmanian Networks Pty Ltd.

	Parent	
	2016 \$'000	2015 \$'000
Result of parent entity		
Profit for the period	98,382	112,931
Other comprehensive income	(1,319)	55,013
Total comprehensive income for the period	97,063	167,944
Financial position of parent entity at year end		
Current assets	149,734	131,369
Non current asset	3,049,948	3,034,978
Total assets	3,199,682	3,166,347
Current liabilities	251,725	283,437
Non current liabilities	2,027,874	1,876,690
Total liabilities	2,279,599	2,160,127
Total equity of the parent entity comprising of:		
Contributed equity	112,725	232,725
Reserves	669,397	644,400
Retained earnings	137,961	129,095
Total equity	920,083	1,006,220

Parent entity contingent liabilities

Contingent liabilities of the parent entity are set out in note 28, and are the same for the consolidated entity.

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

Capital expenditure commitments:

Property, plant and equipment

Within one year	61,782	48,000
One year or later and no later than five years	18,969	22,883
Greater than five years	-	6
	80,751	70,889

Notes to the consolidated financial statements (continued)

For the financial year ended 30 June 2016

33. 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 2015-3	Various Accounting Standards	Makes amendments to accounting standards arising from the withdrawal of AASB 1031 <i>Materiality</i> . This change applies to annual reporting periods beginning on or after 1 July 2015. When assessing materiality, the requirements of AASB 101 <i>Presentation of Financial Statements</i> and AASB 108 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> must now be applied. The adoption of this amendment has no material impact on the financial statements.

Future pronouncements

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

AASB amendment	Affected standard	Nature of change to accounting policy	Effective date	Application date for TasNetworks
AASB 2014-4	AASB 116 Property Plant & Equipment and AASB 138 Intangible Assets	Amending Standard – amends AASB 116 and AASB 138 to provide additional guidance on acceptable methods for calculating depreciation or amortisation. This standard will not have a material impact on the financial statements as TasNetworks calculates depreciation and amortisation on a straight line basis over the life of the asset. This is in line with the acceptable methods.	1 January 2016	30 June 2017
AASB 2015-1	Amendments to Australian Accounting Standards – from Annual Improvements 2012-2014 cycle.	Amends various standards for the annual improvements including changes to discount rates in AASB 119 Employee Benefits. This standard will not have a material impact on the financial statements.	1 January 2016	30 June 2017

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2016

33. Changes in accounting policies (continued)

AASB amendment	Affected standard	Nature of change to accounting policy	Effective date	Application date for TasNetworks
AASB 2015-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101 Presentation of Financial Statements	Amends AASB 101 to provide clarification regarding the disclosure requirements and enables entities to use judgements when applying a Standard and determining what information to disclose in their financial statements (removes the requirement to disclose immaterial information).	1 January 2016	30 June 2017
AASB 2016-2	AASB 107 Statement of Cash Flows	Amendments will require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.	1 January 2017	30 June 2018
AASB 15	Revenue from contracts with customers	New standard replaces AASB 118 Revenue. Requires revenue to be recognised in line with contractual obligations. Management are in the process of undertaking a full assessment of the potential impact of the new standard, however expects the impact to be minor due to 90% of TasNetworks' income being regulated Use of System (UoS).	1 January 2018	30 June 2019
AASB 9	Financial Instruments	The final version of AASB 9 replaces AASB 139 Financial Instruments: Recognition and Measurement. Introduces new requirements for classifying and measuring financial assets, maintains the existing amortised cost measurement basis for financial liabilities. A new impairment model based on expected credit losses will apply. A new hedge accounting model has been put in place that is designed to be more closely aligned with how entities undertake risk management activities. A full review of the impact of this standard is being undertaken, however management expect it will not have a material impact on TasNetworks.	1 January 2018	30 June 2019

Notes to the consolidated financial statements (continued)

For the financial year ended 30 June 2016

33. Changes in accounting policies (continued)

AASB amendment	Affected standard	Nature of change to accounting policy	Effective date	Application date for TasNetworks
AASB 16	Leases	This standard replaces AASB 117 Leases. Requires entities to bring leases onto the Statement of Financial Position. As TasNetworks holds minimal leases as a lessee, management expects it will not have a material impact on the financial statements. A full review is being undertaken by management.	1 January 2019	30 June 2020

Management is currently reviewing the impact of these standards. It is management's expectation that the adoption of these standards and interpretations in future periods will have no material financial impact on the financial statements of TasNetworks. The introduction of AASB 15 Revenue from Contracts with Customers will see significantly increased disclosure requirements.

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

34. Subsequent events

Dividends

Subsequent to the end of the financial year, the Board recommended a dividend of \$72.628m in respect to the current financial year. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2016.

Enterprise Agreement

Subsequent to reporting date TasNetworks Enterprise Agreement was voted in favour by employees covered by the agreement. The offer includes an increase in salary and wages for employees covered by the agreement of 2% back dated to 1 July 2015. This has been provided for in the employee benefits expense in the statement of profit or loss.

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 2016

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that Tasmanian Networks Pty Ltd will be able to pay its debts as and when they become due and payable;
- (b) the financial statements comply with international financial reporting standards as disclosed in note 1;
- (c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including being in compliance with Australian Accounting Standards and giving a true and fair view of the financial position and performance of Tasmanian Networks Pty Ltd.
- (d) the directors have been provided with declarations from the Chief Executive Officer and the General Manager Finance and Business Services for the financial year.

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

On behalf of the directors



Dr Dan Norton AO
Chairman
Hobart
10 August 2016

Dr Jane Sargison
Director
Hobart
10 August 2016



Tasmanian Networks Pty Ltd
ABN 24 167 357 299

PO Box 606, Moonah, TAS 7009
1-7 Maria Street, Lenah Valley, Tasmania 7008

1300 12 7777 | tasnetworks.com.au

Addendum to 2016 Annual Report

Tasmanian Networks Pty Ltd
ABN 24 167 357 299

PO Box 606
Moonah TAS 7009

7 November 2016

Tasmanian Networks Pty Ltd provides the following addendum to its 2016 Annual Report to comply with section 298(1AA) of the *Corporations Act 2001*.

The Auditor's Independence Declaration was inadvertently omitted from the published Annual Report during the production process. It should have been included in the Annual Report with the Directors Report.





10 August 2016

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

Dear Board Members

Auditor's Independence Declaration

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

As the auditor of the financial report of Tasmanian Networks Pty Ltd for the financial year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours sincerely

E R De Santi
Acting Auditor-General

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