

A large, abstract graphic of a multi-colored ribbon (rainbow spectrum) that flows and loops across the page, starting from the top left and ending at the bottom right.

TasNetworks Pty Ltd

ANNUAL REPORT | 2014

Tasmanian Networks Pty Ltd Annual Report 2014

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Company overview

Our vision

To be trusted by our customers to deliver today and create a better tomorrow.

Our purpose

We deliver electricity and telecommunications network services, creating value for our customers, our owners and our community.

TasNetworks owns and maintains the poles and wires that deliver electricity to more than 280,000 Tasmanian customers.

TasNetworks' core distribution assets include approximately 15,000 kilometres of overhead high-voltage lines; 5,000 kilometres of overhead low-voltage lines; 2,170 kilometres of high-and-low voltage underground cables; 30,000 ground and pole-mounted substations; and almost 222,000 poles. TasNetworks also owns about 46,000 street lights and maintains them on behalf of local councils.

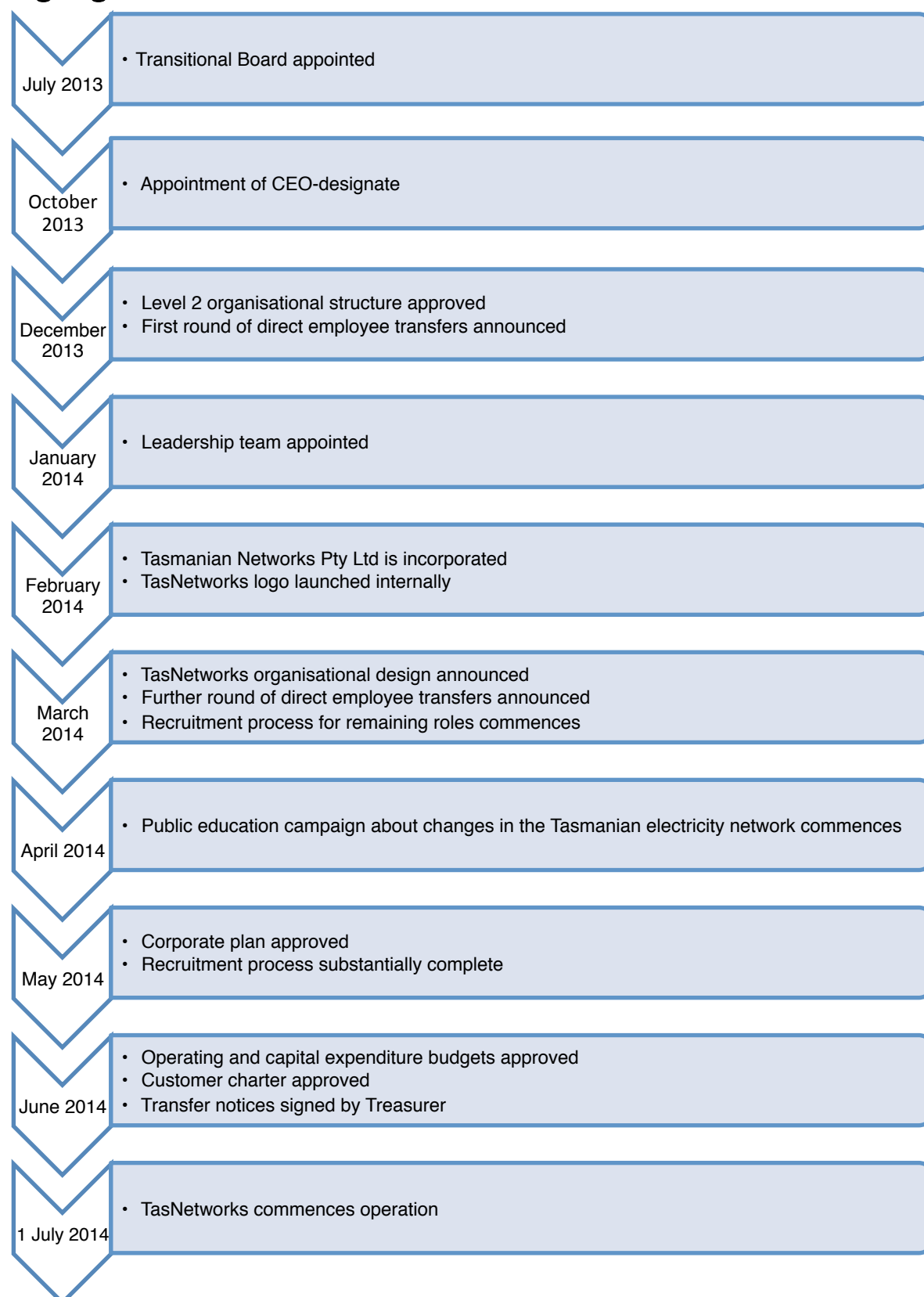
TasNetworks' core transmission assets include 3,516 circuit kilometres of transmission lines; 7,852 transmission line support structures; 49 substations; seven switching stations; two transition stations; 11,176 hectares of easements; and 37 communications repeater sites.

TasNetworks also provides specialist, high-reliability telecommunications services to customers in the Tasmanian electricity supply industry and to other customers, including support for the State Government's trunk mobile radio network. The telecommunications services are used for key operational purposes such as power system protection, monitoring and control, voice communications and asset management functions.

TasNetworks has a separate business function focused on wholesale telecommunications, which includes supporting the roll-out of the National Broadband Network in Tasmania.

Tasmanian Networks Pty Ltd
ABN 24 167 357 299
PO Box 606, Moonah TAS 7009
1–7 Maria Street, Lenah Valley TAS 7008
Phone 1300 12 7777
tasnetworks.com.au

Highlights 2013-14



Chairman's review

TasNetworks is a provider of electricity network services. It has been established to deliver the lowest sustainable prices to our customers, safely and reliably. Our business provides an essential service and is a key input to the Tasmanian economy.

The strategy for the new business has been built on three pillars: our customers, our people, and creating one business. We will work with our customers to deliver the services customers require now and in the future.

We must also deliver sustainable returns to the people of Tasmania, the ultimate owners of our business. With care, collaboration, innovation and hard work, we can create customer value and value for Tasmania as a whole.

The TasNetworks Corporate Plan has three distinct phases in the strategic development of the business. The first phase, completed on 30 June 2014, was focused on establishing the business, via the transition activities for the Aurora and Transend merger. I thank the Boards and management of Transend, Aurora and the Network Integration Transition Board for their significant efforts in preparing TasNetworks for successful operation from 1 July 2014.

Very sadly one of our initial Directors, Jayne Wilson, had to retire due to ill health in early 2014 and subsequently passed away. I would like to specifically acknowledge her valuable contribution, made when she was battling what was ultimately a terminal health condition.

The second phase relates to initial operation of the new network business. TasNetworks commenced operations on 1 July 2014 with a strong Leadership Team, headed by our Chief Executive Officer, Lance Balcombe. We have also recruited two new directors, Peter Lowe and Dr Jane Sargison, who bring extensive knowledge and skills to our Board.

For the first six months of operation we are focussed on the safe and reliable operation of the network. During this phase, the business will identify high priority initiatives for the next stage of the transition, planned to commence on 1 January 2015.

The objective of the third phase is to transform our business to deliver improved outcomes for customers, including additional efficiencies from operating TasNetworks as one network business. This will support TasNetworks' vision to be trusted by our customers to deliver today and create a better tomorrow.

As with all businesses we face significant challenges. However, I am confident that we have established a strong base that will position us well to meet these challenges and achieve our corporate objectives.

Dr Dan Norton AO
Chairman
August 2014

CEO's report

The first of July 2014 was a significant one for TasNetworks: the first day of operation. The successful merger of Transend Networks and the Distribution Business of Aurora Energy resulted in Tasmania's new transmission and distribution electricity and communications company.

TasNetworks' establishment was thanks to the tremendous effort of many people involved in managing the transition to ensure that we were ready for Day 1. Team members from Aurora and Transend worked collaboratively to transition to the new business and minimise risks on commencement. I would like to recognise the hard work and professionalism that all team members – from Transend, Aurora, and the transition team – demonstrated during that period, particularly when it was a difficult time for a many of those people.

I would also like to thank my predecessors, Peter Clark and Peter Davis, for their support during the integration process and for continuing to operate the Transend and Aurora businesses in a manner that supported the transition phase. In addition, I extend my thanks to the executive management of both Transend and Aurora for their assistance with the transition.

Resourcing our new organisation was a huge effort. This process commenced in December 2013, when almost 500 former Transend and Aurora staff were advised that they would be directly transferred to TasNetworks on 1 July 2014. The executive leadership team was appointed in January 2014. In March 2014, a further 277 staff were advised of their direct transfer. Soon after that, over 200 job vacancies were announced and advertised internally within the two former businesses. By May, the recruitment process was substantially complete.

A highlight in establishing the business has been the gender balance achieved in leadership roles across the business. Our workforce is 78 per cent males and 22 per cent females. In this context, we have achieved equal representation of males and females on our executive team; slightly higher than 50 per cent of their direct reports are female, and across our executives, leaders and team leaders over a third of the roles are filled by females.

A key milestone was preparing our first Corporate Plan, available on our website (tasnetworks.com.au). The plan puts understanding customers central to all we do, supported by enabled people and operating as one business. The merger has delivered \$8 million of immediate savings. However, we have more work to do to integrate people, systems and processes to fully realise the benefits of the merger.

We commenced operations with a focus on safe and reliable network operation. Looking to the future, it is evident that there are a number of challenges for the electricity industry as it balances the need to maintain a safe and reliable network with customer expectations in regard to electricity prices. We must also continue to evolve as the world around us changes. This presents TasNetworks with many exciting challenges and opportunities.

I look forward to working with our customers to provide valued services over the years to come. We are TasNetworks and we are delivering your power.

Lance Balcombe
Chief Executive Officer
August 2014

Corporate governance

Board of directors

The board currently comprises six non-executive directors since the resignation of Jayne Wilson on 26 February 2014 and Geoffrey Willis on 30 June 2014. The names and particulars of the directors who held office during the 2013-14 financial year are listed as follows:



Dr Daniel Norton AO (Chairman and Director)
Appointed 4 February 2014

Appointed Chairman of the Network Integration Transition Board in May 2013. He is also Chairman of the Tasmanian Ports Corporation Pty Ltd and Deputy Chairman of Tasmanian Water and Sewerage Corporation Pty Ltd. His former positions include Chairman of Menzies Research Institute Tasmania; Chairman of the National Electricity Market Management Company; Deputy Chairman of Aurora Energy Pty Ltd; Managing Director and CEO of both Aurora Energy Pty Ltd and the Hydro Electric Corporation; and Secretary of the Department of Premier and Cabinet. Dan is a fellow of the Australian Institute of Company Directors (AICD).



Donald Challen AM
Appointed 4 February 2014

Appointed a director of the Network Integration Transition board in June 2013; Chairman of Transend Networks Pty Ltd; Chairman of the Tasmanian Public Finance Corporation and of the Motor Accidents Insurance Board; a trustee of the Retirement Benefits Fund; a director of Tasmanian Symphony Orchestra; former Secretary of the Department of Treasury and Finance. Don is a fellow of the AICD, CPA Australia, the Institute of Chartered Accountants Australia and New Zealand, and of the Institute of Public Administration Australia.



Kevin Murray
Appointed 4 February 2014

Appointed a director of the Network Integration Transition board in June 2013 and appointed chair of TasNetworks' Remuneration Committee; Director of Transend Networks Pty Ltd; former director of the Energy Industries Superannuation Scheme in NSW; former Chief Executive Officer of TransGrid; a former director of Essential Energy. Kevin is a fellow of the AICD.



Mervyn Davies
Appointed 4 February 2014

Appointed a director of the Network Integration Transition board in June 2013; Director of Aurora Energy Pty Ltd; a director of Electricity Networks Corporation (Western Power), New World Energy Ltd, Energex and Power and Water Corporation; previously held senior management roles with Energy Australia and has been principal and managing director of Girna Engineering Management Services since 2003, specialising in the engineering and economics of the electricity distribution industry.

Jayne Wilson
Appointed 4 February 2014, resigned 26 February 2014

Appointed a director of the Network Integration Transition board in June 2013; Director of Transend Networks Pty Ltd; a director of TT-Line Company Pty Ltd; a former director of the National Electricity Code Administrator, the forerunner to the Australian Energy Market Commission; fellow of CPA Australia; fellow of the AICD.

Geoffrey Willis
Appointed 4 February 2014, resigned 30 June 2014

Appointed a director of the Network Integration Transition board in June 2013; Chairman of Aurora Energy Pty Ltd, Chairman of Colorpak Ltd, trustee of the Tasmanian Museum and Art Gallery and a member of the Australian Major Performing Arts Board. His former positions include: managing director of the Amcor Paper Group; CEO and board member of Hydro Tasmania; Chairman of Tasmania's water and sewerage corporations, and Chairman of the Tasmanian Symphony Orchestra. He holds a Bachelor of Commerce degree and a Master of Business Administration.

Legislative compliance

Right to Information Act

TasNetworks is subject to the *Right to Information Act 2009*. No requests were made during 2013-14.

Public Interest Disclosures Act

TasNetworks is subject to the *Public Interest Disclosures Act 2002* (PID). No reports under the PID regime were made during 2013-14.

Personal Information Protection Act

TasNetworks is subject to the *Personal Information Protection Act 2004* (PIP). TasNetworks received no applications under the PIP Act during 2013-14.

Executive management team

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

Lance Balcombe BCom, FCPA, FCA
Chief Executive Officer

Phillippa Bartlett BA, LLB
Company Secretary and General Counsel

Wayne Tucker GradDipEngMaint, AssDipElectEng, MBA, GAICD
General Manager Strategic Asset Management

Bess Clark BCom, GradDipUrbRegPlan, GAICD
General Manager Strategy and Stakeholder Relations

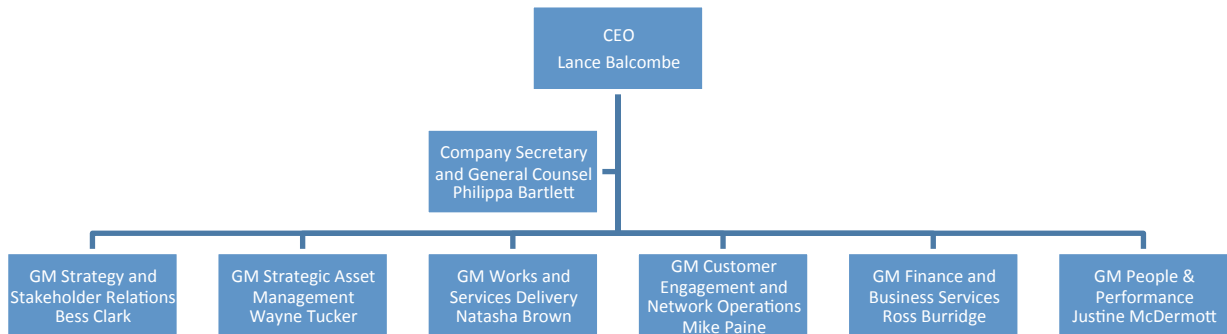
Natasha Brown BCom
General Manager Works and Services Delivery

Mike Paine BEng, GradDipEng, FIE Aust, GAICD
General Manager Customer Engagement and Network Operations

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

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

Organisational structure



Company Secretary and General Counsel

The Company Secretary and General Counsel has responsibility for Board management and legal services.

Strategy and Stakeholder Relations

This division 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

This division 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.



Independent Auditor's Report

To the Members of Tasmanian Networks Pty Ltd

Financial Report for the Year Ended 30 June 2014

Report on the Financial Report

I have audited the accompanying financial report of Tasmanian Networks Pty Ltd (the Company), which comprises the statement of financial position as at 30 June 2014 and the statements of profit or loss, 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.

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 financial position as at 30 June 2014 and its financial performance for the year ended on that date
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*

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.

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.

...1 of 2

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

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

Independence

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

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

I confirm that the independence declaration required by the *Corporations Act 2001*, provided to the Directors dated 7 August 2014 and included in the Directors' Report, would be unchanged if provided to the Directors as at the date of this auditor's report.

Tasmanian Audit Office



H M Blake
Auditor-General

Hobart
14 August 2014

...2 of 2

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Tasmanian Networks Pty Ltd

ACN: 167 357 299

Special purpose financial report

for the financial period ended 30 June 2014

Directors' Report

The directors of Tasmanian Networks Pty Ltd submit herewith the special purpose financial report of the company for the financial period ended 30 June 2014. In order to comply with the provisions of the *Corporations Act 2001*, the directors report as follows:

The names of the directors of the company during the period and up to the date of this report are:

Name

- Dr Daniel Norton AO (Chairman and Director) (appointed 4 February 2014)
- Geoffrey Willis (appointed 4 February 2014, resigned 30 June 2014)
- Donald Challen AM (appointed 4 February 2014)
- Jayne Wilson (appointed 4 February 2014, resigned 26 February 2014)
- Kevin Murray (appointed 4 February 2014)
- Mervyn Davies (appointed 4 February 2014)
- Peter Lowe (appointed 1 July 2014)
- Dr Jane Sargison (appointed 1 July 2014)

Board Meetings attended by the Directors for the financial period ended 30 June 2014

Director	Board Meetings held during term as Director*	Board Meetings Attended
Dr Daniel Norton	13	13
Geoffrey Willis	13	12
Donald Challen	13	13
Jayne Wilson	9	6
Kevin Murray	13	13
Mervyn Davies	13	12

*This includes meetings of the Transitional Board prior to the incorporation of Tasmanian Networks Pty Ltd.

Former partners of the audit firm

No officer of the company has been a partner in an audit firm, or a director of an audit company that is an auditor of the company during the period or was such a partner or director at a time when the Auditor-General undertook an audit of the company.

Principal activities

The principal activity of Tasmanian Networks Pty Ltd is to build, own and operate the transmission, communication and distribution networks of the Tasmanian electricity network.

The company meets the definition of a small proprietary company under the *Corporations Act 2001* and as such there is no requirement to prepare financial statements. However, financial statements have been prepared for the 2013-14 period for the purpose of providing information to the shareholders.

Review of operations

All Director and Executive labour costs for Tasmanian Networks Pty Ltd are recoverable from Aurora Energy Pty Ltd and Transend Networks Pty Ltd resulting in nil profit or loss for the reporting period.

Dividends

No dividends have been paid or declared since the start of the financial period.

Subsequent events

The *Electricity Reform Act 2012 (Tas)*, which was enacted in December 2012, facilitates the implementation of reforms to the electricity supply industry in Tasmania. The Act has enabled the merger of the electricity network businesses owned by Aurora Energy Pty Ltd (Aurora) and Transend Networks Pty Ltd (Transend). Tasmanian Networks Pty Ltd was created to manage the transmission and distribution of electricity of both companies. On 1 July 2014 the assets and liabilities of Transend and the electricity distribution network owned by Aurora were transferred to Tasmanian Networks Pty Ltd.

At its May 2014 meeting the Board approved the adoption of Regulatory Asset Base (RAB) as the asset valuation methodology to be adopted by Tasmanian Networks Pty Ltd from 1 July 2014.

Transend has historically valued its assets using Depreciated Optimised Replacement Cost (DORC) methodology; this approach is based on the costs to replace the current depreciated assets with a modern day equivalent with a similar life. The 2013-14 annual statutory accounts for Transend will report its assets using the DORC valuation, which is consistent with its historic valuation methodology. The 30 June 2014 DORC value is the value that assets will transfer to Tasmanian Networks Pty Ltd, as per the transfer notice. Upon transfer of the transmission assets Tasmanian Networks Pty Ltd will change their valuation methodology from DORC to RAB which will require an adjustment resulting in a reduction in transmission asset value and a corresponding reduction to the asset valuation reserve in the Tasmanian Networks Pty Ltd financial statements effective from 1 July 2014. The actual reduction in asset value will be finalised in October 2014 when Transend finalises its Regulatory Accounting Statements. It is estimated that the reduction will be approximately \$0.22 billion.

At 30 June 2014 Transend's assets, liabilities and equity were \$1.75 billion, \$0.95 billion and \$0.80 billion respectively. After adopting the revised asset valuation methodology as discussed above, the value of assets, liabilities and equity will be \$1.53 billion, \$0.95 billion and \$0.58 billion respectively.

It is estimated that at 30 June 2014 Aurora's distribution assets, liabilities and equity will be approximately \$1.64 billion, \$1.11 billion and \$0.53 billion respectively. Actual amounts will only be known after completion and apportionment of Aurora's 2013-14 financial statements in August 2014.

Indemnification of officers and auditors

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 person had applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company or all or any part of those proceedings.

Auditor's independence declaration

The auditor's independence declaration is included after this report.



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7 August 2014

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

Dear Board Members

Auditor's Independence Declaration

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

As the auditor of the financial report of Tasmania Networks Pty Ltd for the financial year ended 30 June 2014, 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

A handwritten signature in black ink, appearing to read "H M Blake", with a long horizontal stroke extending to the right.

H M Blake
Auditor-General

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Directors' declaration

As detailed in Note 2 to the financial statements, the company is not a reporting entity because in the opinion of the directors, there are unlikely to exist users of the financial report who are unable to command preparation of reports tailored so as to satisfy specifically all of their information needs. Accordingly, this 'special purpose financial report' has been prepared to satisfy the directors' reporting requirements under the *Corporations Act 2001*.

In the opinion of the directors of Tasmanian Networks Pty Ltd:

- a) the special purpose financial report and notes of the company are in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the results for the period ended 30 June 2014 and the financial position as at 30 June 2014 of the Company;
 - ii. complying with the Australian Accounting Standards and Interpretations; and
- b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:



Dr Dan Norton AO
Chairman
13 August 2014



Don Challen AM
Director
13 August 2014

Statement of profit or loss and comprehensive income for the financial period ended 30 June 2014

	2014
	\$'000
Continuing operations	
Revenue	966
Staff Costs	(966)
Other expenses	-
Profit/(loss) before income tax equivalence expense	-
Income tax (expense)/benefit on profits	-
Profit/(loss) for the period	-
Other comprehensive income, net of income tax	
Other comprehensive income for the year, net of income tax	-
Total comprehensive income for the year	-

		2014
		\$'000
	Note	
Current assets		
Cash and cash equivalents	9(a)	-
Receivables	3	1,083
Total current assets		<u>1,083</u>
Total assets		<u>1,083</u>
Current liabilities		
Accruals		69
Payables	4	1
Provisions	5	697
Other current liabilities		235
Total current liabilities		<u>1,002</u>
Non-current liabilities		
Provisions	5	81
Total non-current liabilities		<u>81</u>
Total liabilities		<u>1,083</u>
Net assets		<u>-</u>
Equity		
Issued capital	6	-
Retained earnings	7	-
Total equity		<u>-</u>

**Statement of changes in equity as at
30 June 2014**

	Share Capital	Retained Earnings	Total
	2014 \$'000	2014 \$'000	2014 \$'000
Loss for the period	-	-	-
Balance as at 30 June 2014	-	-	-

**Statement of cash flows
for the financial period ended
30 June 2014**

	Note	<u>2014 \$'000</u>
Cash flows from operating activities		
Payments to employees		-
Net cash provided by/(used in) operating activities	9(c)	-
Cash flows from investing activities		
Net cash (used in)/provided by investing activities		-
Cash flows from financing activities		
Proceeds from borrowings		-
Net cash used in financing activities	9(b)	-
Net increase in cash and cash equivalents		-
Cash and cash equivalents at the beginning of the financial year		-
Cash and cash equivalents at the end of the financial year	9(a)	-

The financing of all transactions for Tasmanian Networks Pty Ltd for the period ended 30 June 2014 was paid from the bank accounts of Transend Networks Pty Ltd and Aurora Energy Pty Ltd

Notes to the financial statements

1. General information

Tasmanian Networks Pty Ltd (the company) is a proprietary company, incorporated in Australia and operating in Australia. It was incorporated on 4 February 2014. The company's registered office and its principal place of business is as follows:

Registered office and principal place of business

1-7 Maria Street, Lenah Valley
Hobart, TAS, 7008

The company's principal activities are to build, own and operate the transmission, communication and distribution networks of the Tasmanian electricity network.

2. Significant accounting policies

Financial reporting framework

The company is not a reporting entity because in the opinion of the directors there are unlikely to exist users of the financial report who are unable to command the preparation of reports tailored so as to satisfy specifically all of their information needs. Accordingly, this 'special purpose financial report' has been prepared for the purpose satisfying the directors' reporting requirements under the *Corporations Act 2001* and to provide information to the shareholders.

For the purpose of preparing the financial statements, the Company is a for-profit entity.

Statement of compliance

The financial report has been prepared in accordance with the *Corporations Act 2001*, the recognition and measurement requirements specified by all Australian Accounting Standards and Interpretations, and the disclosure requirements of Accounting Standards AASB 101 'Presentation of Financial Statements', AASB 107 'Cash Flow Statements', AASB 108 'Accounting Policies, Changes in Accounting Estimates and Errors' and AASB 1054 'Australian Additional Disclosures'.

Basis of preparation

The financial statements are prepared on an accruals basis and are based on historical costs unless otherwise stated in the notes. The accounting policies that have been adopted in the preparation of these financial statements are stated below.

The company is a company of the kind referred to in ASIC Class Order 98/0100, dated 4 February 2014, and in accordance with that Class Order amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

All amounts are presented in Australian dollars, unless otherwise noted.

Going concern

The financial report has been prepared on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business (refer previous comments in the directors' report in the subsequent events section).

Adoption of new and revised Accounting Standards

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability thereby ensuring that the substance of the underlying transactions or other events is reported.

This is the first period of operation of Tasmanian Networks Pty Ltd. Tasmanian Networks Pty Ltd has adopted all new and amended Australian Accounting Standards and AASB interpretations that are applicable to the 30 June 2014 period end.

Future pronouncements

The pronouncements that may impact Tasmanian Networks Pty Ltd reporting in future periods are:

- AASB 2010-7 'Amendments to Australian Accounting Standards arising from AASB 9' (applies to annual reporting periods beginning on or after 1 January 2017). These amendments affect classification and measurement of

financial liabilities. The amendments, which become mandatory for the company's 30 June 2018 financial statements, are not expected to have a significant impact on the financial statements.

2. Significant accounting policies (cont.)

- AASB 2009-11 'Amendments to Australian Accounting Standards arising from AASB 9' (applies to annual reporting periods beginning on or after 1 January 2017). These amendments introduce new requirements for classifying and measuring financial assets. The amendments, which become mandatory for the company's 30 June 2018 financial statements, are not expected to have a significant impact on the financial statements.
- AASB 1031 - 'Materiality'. This is an interim standard that cross references to other standards that contain guidance on materiality.
- AASB 2013-3 'Amendments to Australian Accounting Standards – Recoverable Amount Disclosure for Non-Financial Assets'. Amendments to AASB 136 to address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the company. These Standards and Interpretations will be first applied in the financial report of the company that relates to the annual reporting period beginning after the effective date of each pronouncement.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Employee benefits

Employee entitlement provisions

Contributions to these provisions are charged directly to cost centres as part of employment costs. The company adopts the present value measurement basis prescribed under Australian Accounting Standard AASB 119 Employee Benefits. 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.

(b) Taxation

Income Tax Equivalent

Under the *Government Business Enterprises Act 1995* the Company is required to calculate, and pay to the State of Tasmania, an income tax equivalent as if it were a company under Commonwealth income tax laws. As a result the Company applies tax effect accounting principles prescribed in *AASB 112 Income Taxes*.

Current tax assets and liabilities are measured at the amount expected to be recovered. The tax rates used to compute the amount are those that are enacted or substantively enacted at balance date.

Deferred tax assets and liabilities are recognised for all temporary differences at balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilised.

(c) Payables

Trade payables and other accounts payable are recognised when the company becomes obliged to make future payments resulting from the purchase of goods and services.

(d) Receivables

Receivables represent monies owed to the company by Aurora Energy Pty Ltd and Transend Networks Pty Ltd. These amounts will not be separately collected but will be offset once assets and liabilities are transferred to the Company on 1 July 2014.

(e) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

2. Significant accounting policies (cont'd)

(f) Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that the company 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 (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

The provision for superannuation for key management personnel who are a member of the Retirement Benefits Fund Defined Benefit Scheme has been included in the accounts of Transend Networks Pty Ltd. No allowance has been made for in the accounts of Tasmanian Networks Pty Ltd as it was only registered with the Retirement Benefits Fund from 1 July 2014. As at 30 June 2014 the net defined benefit liability for these employees was recorded in Transend, with \$1.4m of this being recoverable from Hydro Tasmania. This liability will transfer with all other assets and liabilities to Tasmanian Networks Pty Ltd on 1 July 2014.

(g) Revenue recognition

Revenue is recognised when the amount of the revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company, control over any goods and the associated risks and rewards of ownership have flowed to the buyer and any costs associated with the transaction can be reliably measured.

3. Receivables

	2014 \$'000
Aurora Energy Pty Ltd	562
Transend Networks Pty Ltd	521
Total	<u>1,083</u>

4. Payables

	2014 \$'000
Other	1

5. Provisions

	2014 \$'000
Current:	
Annual leave	309
Long service leave	361
Provision for superannuation (refer note 2(f))	27
Total	<u>697</u>
Non-Current:	
Long service leave	81
Total	<u>81</u>

6. Issued capital

	2014
	\$
Issued and paid up capital	<u>2</u>

Tasmanian Networks Pty Ltd 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.

Tasmanian Networks Pty Ltd will receive capital via the transfer notice discussed in the Directors' Report. The company will be expected to continue to provide the State with \$20m for the next financial year in continuation of the capital reduction scheme arranged with Transend Networks Pty Ltd. In addition it is expected there will be \$30m equity transfer to Forestry Tasmania in the 2015/16 financial year.

7. Retained earnings

	2014
	\$'000
Balance at beginning of period	-
Loss for the period	-
Balance at end of financial period	<u>-</u>

8. Commitments for expenditure

There was no capital or operational commitments for expenditure as at 30 June 2014.

9. Notes to the cash flow statement

(a) Reconciliation of cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial period as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:

Cash and cash equivalents	<u>-</u>
	<u>-</u>

(b) Financing facilities

All financing is via Transend Network Pty Ltd and Aurora Energy Pty Ltd. At 30 June 2014 Tasmanian Networks Pty Ltd held an overdraft facility with a limit of \$1m, no amounts have been drawn down on this facility.

(c) Reconciliation of profit for the period to net cash flows from operating activities

	2014
	\$'000
Profit /(loss) for the period	-
(Increase)/decrease in trade receivables	(1,083)
Increase/(decrease) in trade creditors	70
Increase/(decrease) in employee entitlement provisions	1,013
Net cash used in operating activities	<u>-</u>

10. Auditor's remuneration

Amounts received, or due and receivable by the Auditor-General for services provided to Tasmanian Networks Pty Ltd:
Audit of the financial report

2014 \$'000
5
5

11. Key management personnel compensation

The key management personnel of Tasmanian Networks Pty Ltd during the period were:

- Dr Dan Norton AO (Chairman and Director)
- Geoffrey Willis (Director)
- Donald Challen AM (Director)
- Jayne Wilson (Director) to 26 February 2014
- Kevin Murray (Director)
- Mervyn Davies (Director)
- Lance Balcombe (Chief Executive Officer)
- Bess Clark (General Manager Strategy and Stakeholder)
- Wayne Tucker (General Manager Strategic Asset Management)
- Natasha Brown (General Manager Works and Service Delivery)
- Mike Paine (General Manager Customer Engagement and Network Operations)
- Ross Burrige (General Manager Finance and Business Services)
- Justine McDermott (General Manager People and Performance)
- Phillippa Bartlett (Company Secretary and General Counsel)

Apart from the details disclosed in this note, no director or executive has entered into a material contract with the company.

Director remuneration arrangements

No director's fees were paid during the period.

Executive remuneration for the financial period

Band	Number of Employees	Total base Salaries	Bonuses	Short Term Incentives ¹	Superannuation ²	Vehicles ³	Other Benefits ⁴	Total
<\$150,000	7	492,945	-	9,927	51,831	8,314	60,356	623,373
\$150,000-\$300,000	1	288,561	-	-	17,717	6,878	16,390	329,546

¹ Short term incentives payments are non-recurrent payments which depend on achieving specified performance goals within specified timeframes.

² Superannuation liabilities are held by Transend Networks Pty Ltd. Superannuation liabilities will transfer to Tasmanian Networks Pty Ltd via the transfer notice on 1 July 2014.

³ Includes the total cost of providing and maintaining vehicles provided for private use, including registration, insurance, fuel and other consumables.

⁴ Other benefits included annual and long service leave movements.

⁵ Salary in band \$150,000-\$300,000 was paid by Transend.

Executive remuneration principles

Remuneration levels for Executive staff (including the Chief Executive Officer [CEO]) of Tasmanian Networks Pty Ltd are competitively set to attract and retain appropriately qualified and experienced Executives. Tasmanian Networks Pty Ltd Board obtains independent advice on the appropriateness of remuneration packages of all Executive positions to take into account trends in comparative entities both locally and interstate and the objectives of Tasmanian Networks Pty Ltd remuneration policy. Remuneration levels are set in accordance with the Director and Executive Remuneration Guidelines, dated March 2014. Under these guidelines, remuneration bands for CEOs are determined by the Government Business Executive

Remuneration Panel and reflect the principles outlined in the Guidelines and broadly align with State Service Heads of Agency.

The remuneration structures take into account:

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

Executive remuneration arrangements

The employment terms and conditions of Executive staff are contained in individual employment contracts which prescribe total remuneration, superannuation, annual and long service leave, allowances and salary sacrifice provisions. Tasmanian Networks Pty Ltd Executive remuneration structure is comprised of fixed total remuneration which is reviewed at least annually by the CEO with approval from the Board. Short-term incentive or performance payments must be approved by the Board where appropriate. The performance of each senior executive, including the CEO, is reviewed annually which includes a review of the remuneration package.

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

Statement of Compliance

Tasmanian Networks Pty Ltd has complied with the requirements of the Treasurer's Director and Executive Remuneration Guidelines for the period ended 30 June 2014.

12. Overseas travel

There was no overseas travel undertaken during the period by the Chairman, other Directors, Chief Executive or staff for Tasmanian Networks Pty Ltd.

13. Related parties

Donald Challen AM is the Chairman and Director and Kevin Murray is also a Director of Transend Networks Pty Ltd; Geoffrey Willis was the Chairman and Director and Mervyn Davies was also a Director of Aurora Energy Pty Ltd during the period. As discussed in note 2 Transend Networks Pty Ltd and Aurora Energy Pty Ltd were responsible for the payment of expenses relating to Tasmanian Networks Pty Ltd up until the transfers of assets and liabilities on 1 July 2014.

The terms and conditions of transactions between Tasmanian Networks Pty Ltd and Aurora Energy Pty Ltd were no more favourable than those available, or which might reasonably be expected to be available on similar transactions to non-director related entities on an arm's length basis.

14. Subsequent events

For details on subsequent events refer to the subsequent events section of the directors' report.

Statement of Corporate Intent

1. Company overview

Tasmanian Networks Pty Ltd (TasNetworks) has been established as an incorporated, State Government-owned fully integrated electricity network business, with complementary activities in telecommunications and energy-related technologies. TasNetworks' two Shareholders are the Minister for Energy and the Treasurer. TasNetworks owns and maintains the transmission and distribution assets that deliver electricity to Tasmanians.

2. Market outlook

TasNetworks faces a number of challenges as it balances the delivery of safe, reliable and efficient network services against customer expectations in regard to electricity prices.

The condition of the network assets has benefited from an extensive renewal program over the past decade, and security of the system has improved in many areas across the state. TasNetworks will inherit a three billion dollar asset base providing network capacity and security, and a customer base that cannot afford sustained increases in electricity prices.

A large portion of network prices for distribution customers have traditionally been based on energy usage, and usage has fallen in recent times. However, there are still requirements for network expenditure to renew assets and securely meet forecast peak demand, and to safely operate the network.

TasNetworks will operate within a subdued economic environment in Tasmania. Our latest forecasts (May 2014) show that annual electricity consumption is expected to return to growth, but at a modest annual average rate of 0.76%, which is much lower than other states. We will need to better position the business to respond to the changed role of an electricity network that may deliver less electricity but must still provide safe and reliable services and capacity to meet peak demand.

Traditional pricing and revenue models are unlikely to support sustainable network services or predictable price paths for customers. Consistent with the Government's Objective, an important goal in our Corporate Plan is to establish a sustainable and predictable price path for our customers.

The four largest energy users account for more than half the energy consumed in Tasmania. TasNetworks therefore remains vulnerable to the loss of a major customer and a key focus will be to work with these customers to understand how we can support the sustainability of their operations.

3. Strategic direction

TasNetworks has been established to achieve different outcomes, principally to deliver lowest sustainable process to customers, safely and reliably.

TasNetworks' vision is to be 'trusted by our customers to deliver today and create a better tomorrow'.

TasNetworks' purpose is to 'deliver electricity and telecommunications network services, creating value for our customers, our owners and our community'.

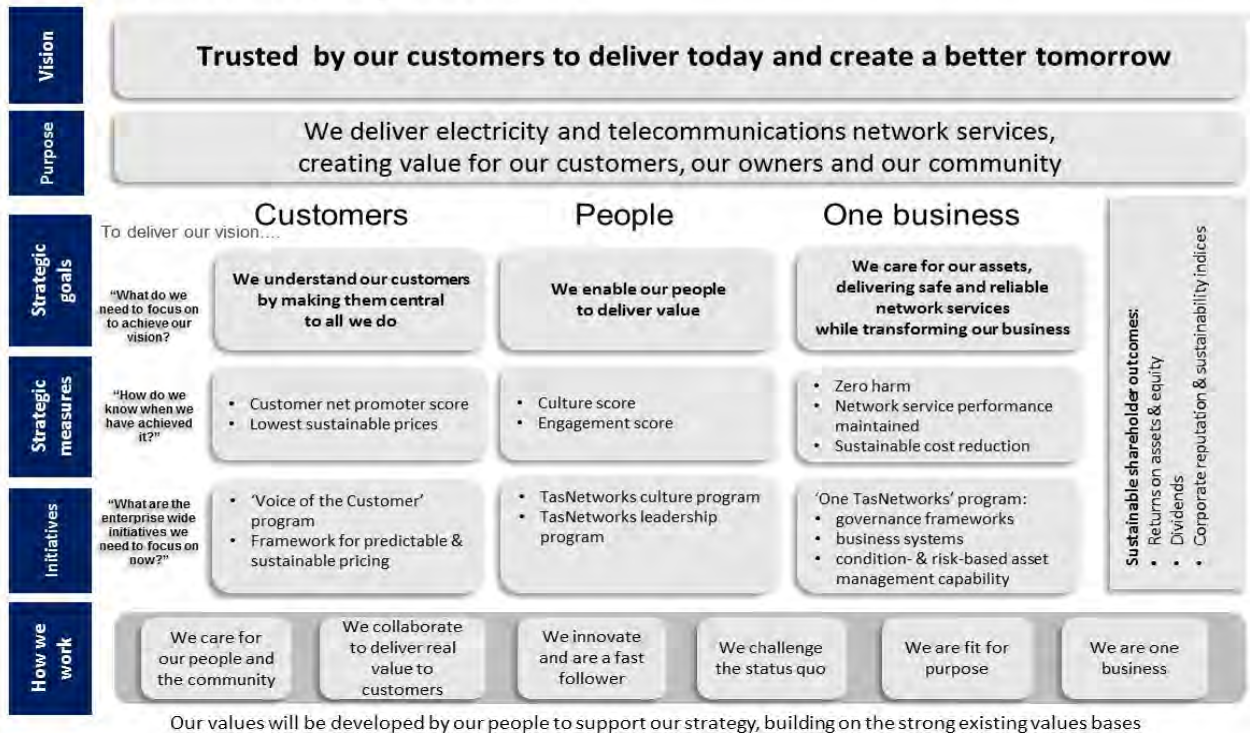
Underpinning the purpose are three strategic pillars or objectives that focus on TasNetworks' customers, people and the concept of 'one business' to deliver sustainable returns to shareholders.

These objectives will be delivered by:

- making customers central to all that TasNetworks does;
- enabling TasNetworks' employees to deliver value; and
- caring for TasNetworks' assets, and delivering safe and reliable network services while transforming the business.

TasNetworks' strategy for 2014-15 is summarised in the following one-page plan.

TasNetworks strategy on a page



Performance agreement

To monitor progress towards achieving our objectives outlined above, TasNetworks has developed a set of key performance measures. This Performance Agreement sets out a range of financial and non-financial performance measures and targets for 2014-15 and forecasts for a further three years.

Financial returns to government

Performance measure	Target 2014-15	Forecast 2015-16	Forecast 2016-17	Forecast 2017-18
Dividends (\$m)	61.1*	70.3	71.6	91.9
Guarantee fees (\$m)	13.2	13.5	15.6	6.0
Income tax equivalent payments (\$m)	83.4	60.5	49.0	62.2
Equity withdrawal (\$m)	20.0	50.0	-	-
Total (\$m)	177.7	194.3	136.2	160.1

* Subject to capacity to pay

Financial targets

Performance measure	Target 2014-15
Operating profit after tax (\$m)	117.1
Return on assets (%)	8.4%
Return on equity (%)	10.7%
Gearing (%)	55.0%
Pre-tax interest cover	2.96
Operating expenditure (\$m)	166.1
Capital expenditure (\$m)	188.8

Other targets

Performance measure	Target 2014-15
Number of LifeSafe observations	≥ 1,500 observations (10% increase from 2013-14)
Percent LifeSafe participation	≥ 20%
Number of significant safety and environmental incidents	≤ 10 (LEOY 2013-14 = 13)
Number of reportable safety and environmental incidents	≤ 16 (LEOY 2013-14 = 18)
Meet network planning standards	Network planning requirements met
Outcomes under Service Target Performance Incentive Scheme (STPIS)	No net penalties as measured by STPIS
Transmission loss of supply event > 1.0 system minutes	≤ 2 events
Transmission loss of supply event > 0.1 system minutes	≤ 15 events
Average transmission circuit outage rate - lines	≤ 31
Average transmission circuit outage rate - transformers	≤ 12
Distribution system average interruption duration index	≤ 302 minutes*
Distribution system average interruption frequency index	≤ 1.97 events*

* These targets are supported by detailed category reporting to Australian Energy Regulator.

Targets will be developed during 2014-15 for measures relating to customer satisfaction, lowest sustainable prices, business culture, and employee engagement



DIRECTORS STATEMENT OF CORPORATE INTENT AND AGREEMENT OF SHAREHOLDING MINISTERS

The Board of Tasmanian Networks Pty Ltd agrees to provide the Shareholding Ministers with financial and other information as set out in this Statement of Corporate Intent.

In signing this Statement of Corporate Intent the Board of Tasmanian Networks Pty Ltd commits to the targets proposed for the 2014-15 financial year, to the extent that those targets are within TasNetworks' control.

This Statement of Corporate Intent has been agreed between:



Dr Dan Norton AO

Chairman

Tasmanian Networks Pty Ltd

On behalf of the Board

Shareholding Ministers



Hon Peter Gutwein MP

Treasurer

Member



Hon Matthew Groom MP

Minister for Energy

Member



Tasmanian Networks Pty Ltd
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