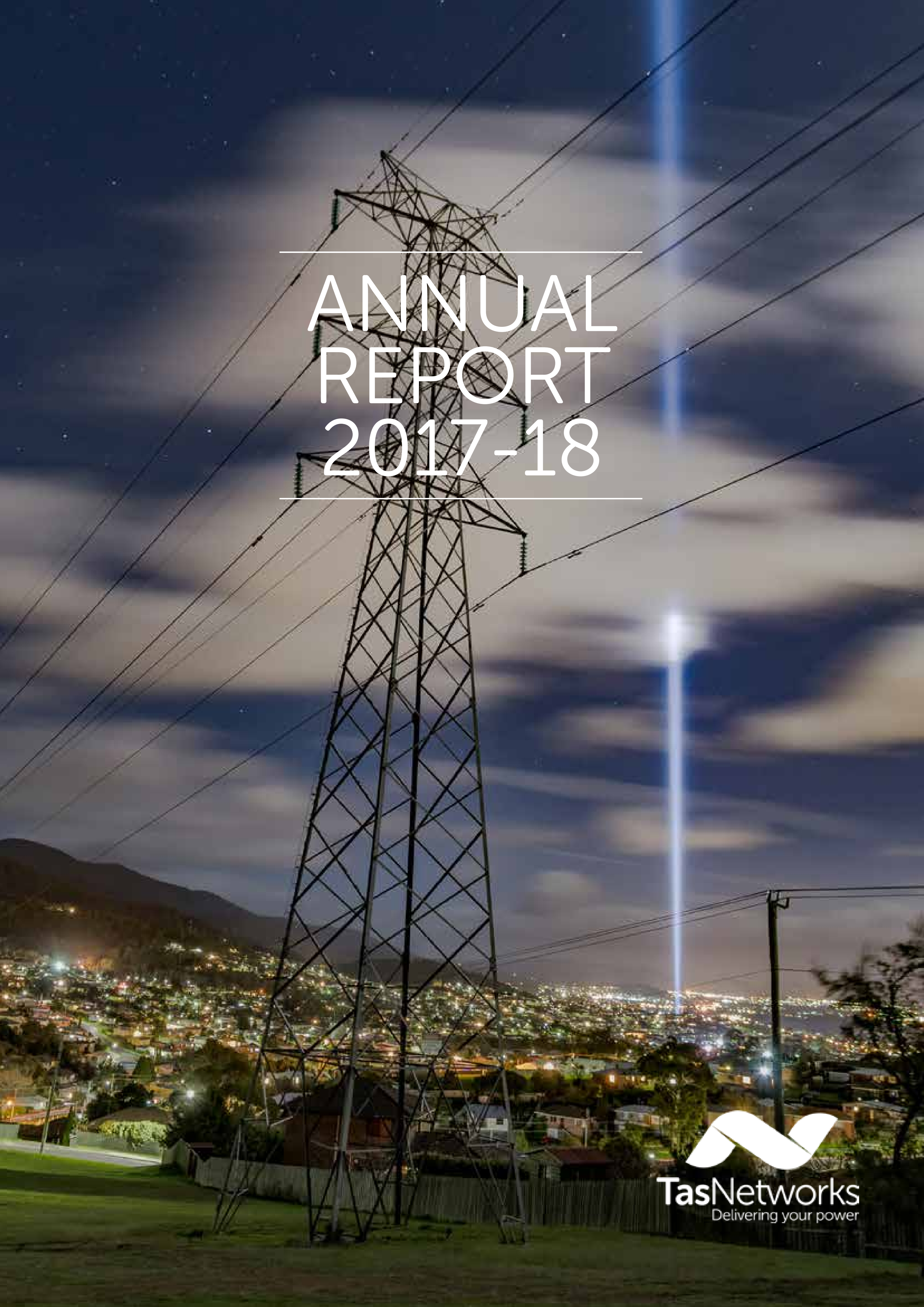
ANNUAL REPORT 2017-18



TasNetworks
Delivering your power

Tasmanian Networks Pty Ltd
ABN 24 167 357 299

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1-7 Maria Street, Lenah Valley, Tasmania 7008

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The cover image, captured by TasNetworks team member Greg Gibson, shows our transmission and distribution assets delivering power to homes and businesses in Hobart's northern Suburbs, including MONA's tower of light installation 'Spectra'

THE YEAR AT A GLANCE - 2017-18

We continue to demonstrate our commitment to lowering network prices. In 2017-18, we passed on a substantial 20% price decrease in network tariffs to our distribution customers

We recognise Tasmanians are concerned about the cost of electricity services and have delivered an additional 2% decrease in 2018-19. Over the long-term, our recently submitted 2019-2024 Regulatory Proposal locks-in efficiency gains and allows us to maintain a safe, reliable supply of electricity to our customers

Our field crews worked determinedly, alongside Tasmania's emergency management services, to restore our customer's power safely and quickly during the autumn storm events in Southern and North-western Tasmania

Our financial performance in 2017-18 met our shareholders expectations, with a profit after tax result of $59.2m

Our level of capital expenditure relates to an uplift in our programs of work to maintain the safety and reliability of our network and higher than anticipated customer initiated connections

Growth in the number of customer initiated connections in 2017-18 is a reflection of the strong economic conditions in Tasmania

TasNetworks commenced Project Marinus in December 2017. Project Marinus is a feasibility study into a second electricity link between Tasmania and Victoria (Marinus Link)

TasNetworks is supporting investment in large-scale renewable energy projects. Tasmania's proposed Battery of the Nation project and the Wild Cattle Hill and Granville Harbor wind farms, are indicative of the exciting new opportunities for Tasmanians, with potential job creation and the promotion of economic development in our regional areas

TasNetworks completed major technology projects in 2017-18. Strategically, investing in technology helps to further improve our operating efficiency as we make our customer's experience easier and enable the network of the future.

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

CONTENTS

ABOUT TASNETWORKS - WHAT WE DO

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:** To safely deliver electricity and telecommunications network services and complementary services, creating value for our customers, our owners and our community

One of our major industrial customers, Nyrstar, by night. Nyrstar requires 'always on' electricity to keep its operations running 24 hours a day

What we do

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

We deliver a safe, cost-effective and reliable electricity supply to more than 285,000 residential, commercial and industrial customers. We also facilitate the transfer of electricity to Victorian customers via Basslink. Our responsibilities include:

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

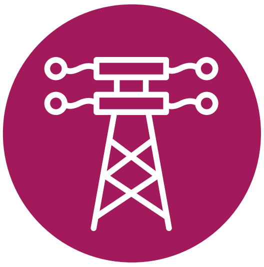
Our Shareholders have directed us to perform some non-commercial activities; primarily funding the 'grandfathered' solar feed-in-tariff payment to eligible customers until 31 December 2018, meeting the non-commercial costs of electricity infrastructure to supply 1MW of additional capacity in the Waterhouse region, inspecting private poles on behalf of the State until a longer-term solution is implemented, and supporting the rollout of the National Broadband Network on the West Coast of Tasmania. Any profits made 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 TasNetworks Holdings Pty Ltd, Fortytwo24 Pty Ltd (formerly Auroracom Pty Ltd) and Ezikey Group Pty Ltd for the 2017-18 financial year.

WHAT IT TAKES TO DELIVER YOUR POWER

TRANSMISSION



3,500
circuit kilometres of transmission lines

7,700
transmission line support structures

11,000
hectares of easement

49
Substations

DISTRIBUTION

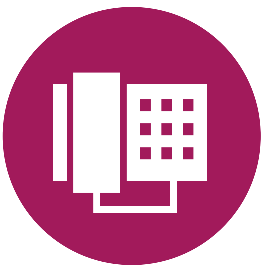
15,000
kilometres of high voltage powerlines

5,000
kilometres of low voltage powerlines

2,000
kilometres of high and low voltage underground cables

230,000
poles

TELECOMMUNICATIONS



1,675
kilometres of fibre optic cable

2
data centres

CHAIRMAN'S REPORT

In 2017-18, the transformation of Australia's energy market gathered pace. Customers are embracing new technologies as they take control of their energy use and support action on climate change. By 2022, Tasmania aims to transition to 100 per cent self-sufficiency in renewable energy generation.

If the future pans out as forecast, 20% to 50% of electricity could be generated by our customers, who have chosen to invest in distributed energy resources (**DER**) such as solar panels and batteries. While we are preparing for this sweeping transformation of the electricity market, changes to our transmission network are already underway.

Over the last 12-18 months, we have witnessed unprecedented growth in renewable energy. As Australia seeks to reduce the emissions intensity of our electricity sector and aging coal-fired power plants are retired, renewables are stepping-up to fill the void. For Tasmania, an opportunity to develop pumped hydro energy storage along with new complementary wind resources and further interconnection to mainland Australia, could see us become a significant provider of clean, dispatchable energy into the National Energy Market (**NEM**).

New investment in renewable energy is an exciting proposition for all Tasmanians. Renewable energy projects will stimulate economic development in our regional areas, particularly during the construction stage of these large infrastructure projects. As new generation is commissioned, it is likely to place downward pressure on wholesale energy prices, potentially lowering the cost of electricity for Tasmanian customers.

Connecting more renewables in a way that benefits all Tasmanians and the NEM is likely to require additional investment in our networks. Upgrading our transmission network is essential so our power system can remain secure and stable in the presence of more renewable energy, while facilitating the timely, reliable dispatch of energy into the NEM. Connecting renewables in an orderly, coordinated way, which maintains network security and reliability while minimising price rises for our customers is essential.

TasNetworks has been tasked with undertaking the feasibility and business case assessment of a possible second interconnector across Bass Strait. A joint initiative between the Commonwealth and Tasmanian Governments, the work being undertaken by Project Marinus builds on the findings in the Tamblyn Review and the recommendations made in Dr Alan Finkel's Independent Review into the Future of the NEM. We welcome the financial support of the Australian Renewable Energy Agency (**ARENA**) for the project.

There are numerous benefits which could stem from a Marinus Link, including more diversity of supply across the NEM, support for Victorian and Tasmanian renewables and the provision of network security services using new technology. While

Trialling our new Helicopter Elevated Line Maintenance (**HELM**) system. Photo courtesy of TasNetworks Team-member Mark Wright

community and political support is growing, ultimately, a Marinus Link can only proceed where the value is demonstrated. The project team is working hard to identify the benefits and the required technical arrangements and project costs. We will be releasing the Initial Feasibility Report in December 2018.

In January 2018, TasNetworks submitted our Regulatory Proposal for 2019-24. Our proposal locks-in a pathway towards more predictable and sustainable pricing, while allowing us to invest in our network so we can maintain expected levels of safety and reliability.

We are comfortable that the submission achieves the right balance between network reliability and customer outcomes and prices.

Further, it is pleasing to see that TasNetworks' customer engagement in support of the submission has been recognised by the Australian Energy Regulator (**AER**).

TasNetworks is operating in a market which is on the cusp of a significant transformation. Accordingly, charting the future direction can be difficult to predict. However, our customers can be confident that the TasNetworks strategy is adaptable to the varied scenarios that may confront our business.

I would like to recognise the contribution of my fellow Directors, particularly outgoing Director Kevin Murray for his service to TasNetworks and its predecessor business Transend Networks. Following Kevin's retirement, we welcomed Roger Gill to the Board. Roger has significant experience in the Tasmanian electricity market and renewable energy development.

I commend the commitment and dedication of the TasNetworks Leadership Team and TasNetworks team members for their achievements throughout the year. It has been a year of significant achievement which provides robust foundations for the business going forward.

Dr. Daniel Norton AO
Chairman

CEO'S REPORT

As we close TasNetworks' fourth year as an integrated business, we can be justifiably proud of our achievements during 2017-18. It was an extremely busy year, with significant milestones achieved right across the business including;

- the completion of our Ajilis Business Transformation Project (the implementation of an SAP software platform and supporting processes) on time and to budget
- our first combined Regulatory Proposal for transmission and distribution delivering sustainable customer outcomes
- our Market Systems Upgrade as a requirement of the Australian Energy Market Commission's (**AEMC**) Power of Choice market reforms, again delivered on time and to budget
- the completion of our new Outage Restoration Management System and;
- at the request of the Federal and Tasmanian Governments, we commenced Project Marinus to undertake the feasibility and business case assessment of a second electricity interconnector across Bass Strait.

While delivery against our strategy was significant, our safety performance in 2017-18 did not meet our expected high standards. Our number one business priority is is to do no harm to our people and the public, while minimising our impact on the environment. While some areas, such as community safety performance have

improved, other measures were below our desired targets for 2017-18 and out of step with our positive safety trend since TasNetworks was formed.

Achieving long-lasting cultural change requires strong leadership and an unwavering effort right across our business. We are all safety leaders, not only responsible for our own safety but responsible for the safety of our work mates and colleagues. All of us must intervene where we see a risk to safety or unsafe behaviours.

Unfortunately, we have seen a spike in the deaths of threatened species on our network. During 2017-18, we reported thirty one deaths of threatened bird species, twenty nine of which were Tasmanian Wedge-tailed Eagles, with one Grey Goshawk and one White-bellied Sea Eagle. The challenge is that the behaviour of these iconic species is difficult to predict and we are working to better understand their breeding locations and habitat by;

- engaging with leading scientists to develop an Eagle Risk Strike Model using evidence–based best practice. This model will enable us to better understand threatened species' behaviours and geographic locations and to proactively install mitigation measures, such as bird flappers or modifications to network design, in high-risk areas
- developing a targeted, reactive response to threatened species deaths which is to reduce the risk of further bird strikes, by immediately fitting mitigation devices to the network in proximity of the strike, and
- supporting these measures with a significant increase in funding, used to facilitate research at the University of Tasmania and partnerships to build aviaries and specialised veterinary facilities for the rehabilitation of injured birds.

In good news for our customers, we are delivering on our commitment to lower network prices. At the beginning of 2017-18, we implemented a 20% decrease in network prices for our distribution customers. Lower network prices are a direct result of our people's efforts to improve efficiency and reduce costs. They are also a reflection of persistent low interest rates and favourable market conditions which flow through to prices. We are demonstrating our ongoing commitment to relieving cost of living pressures by passing through an additional 2% price decrease in 2018-19.

In addition, the AER's annual Benchmarking Report examines the relative efficiency of the distribution and transmission electricity network service providers across Australia. This report demonstrated that TasNetworks continues to be the most efficient transmission network service provider in the NEM and the fourth most efficient distribution network service provider for operating expenditure efficiency.

Going forward, the successful implementation of our SAP software platform means we can better leverage technology to create further efficiency dividends. While the long-term benefits of our integrated way of working may not be immediately apparent, more streamlined business processes and more reliable, timely and accurate information will invariably set us up for future success.

We also continued to progress an unprecedented number of connection applications from proponents of large-scale wind and solar generators around the State. In addition, construction of the Wild Cattle Hill Wind Farm recently commenced and the development of Granville Harbour Wind Farm on the West Coast is slated to commence before the end of 2018.

While new investment in renewables is an exciting proposition for economic development and jobs in regional Tasmania, ensuring new generators can connect safely and securely to our network is of critical importance for keeping the lights on in Tasmania. TasNetworks is endeavouring to work constructively and efficiently with project proponents to ensure the necessary connection standards are met within the required timeframes, and on mutually rewarding commercial terms.

High-voltage distribution conductors with installed bird strike mitigation devices

North-western and southern Tasmania were seriously impacted by several major storm events in late autumn. The response of our people was outstanding – they toiled, day and night, through rain and hail, to restore power to our affected customers, and did this safely. I acknowledge the effort and dedication of our front-line, operational and customer teams, who collaborated effectively with Tasmanian emergency services, to ensure our people and customers remained safe while these events unfolded.

Financially, it was a successful year for our business. We delivered a profit after tax of $59.2m, which was above our Shareholders expectations. This is good news, not only for our owners but also for our customers as additional revenue we received for the year will be passed back to them as lower prices.

As a business we have achieved much in our first four years of operation, and arguably our organisational structure was stable and delivering. However, I identified the opportunity to refresh our operating structure to better set us up for the future. In March 2018, the Board approved a revised operating structure which was focused on aligning our customer service, network operations and field operating teams, driving commercial and growth opportunities in our business and creating greater visibility of the program of work across the business, all while delivering further efficiencies in the business and improved customer outcomes.

Unfortunately, as a result of the refresh, Tash Brown chose to exit the business. I would like to take this opportunity to thank Tash for her service and commitment to TasNetworks and wish her well for the future. The refresh created the opportunity to introduce new talent to the TasNetworks Leadership Team. Pleasingly, two internal candidates, Michael Ash and Michael Westenberg, were successful in being appointed to two new roles.

We can be exceptionally proud of the many significant strategic achievements that our people have delivered over the last twelve months. However, we must remain cognisant of the need to lift our safety performance and reduce our impact on threatened species. We have a strong foundation for the future and I am confident that our people will continue to rise to the many challenges that we face.

I'd like to thank our Board for their continued strategic guidance, their constructive challenge and the ongoing support they provide to our leadership team and business.

Lance Balcombe
Chief Executive Officer

THE YEAR IN REVIEW

Ruby, the star of our new public safety campaign 'When did we forget about electricity?' showing-off one of our CablePI devices

CONTINUING OUR ZERO HARM FOCUS

Zero Harm is our number one business priority and we aim to do no harm to our people and the public, while minimising our impact on the environment.

Our public safety campaign – 'When did we forget about electricity?'

'When did we forget about electricity?' was the tag line for our new public safety campaign launched at the end of 2017.

In a series of TV commercials, as well as other media channels including digital video, online display, press, social media and in-location posters, TasNetworks reversed roles with a child educating adults about facets of electrical safety both in and around the home. This loveable little girl, who seems to be wise beyond her years, has become the face of our safety related communications. A child who uses the language and mannerisms of grown-ups and isn't afraid to bring electrical safety to their attention. But always with a smile - and a little cheeky humour.

The overall campaign was designed to reflect five key safety concerns: safety in the home, CablePI, safe growing, overhead powerlines and fallen powerlines – each of these represented across various platforms in order to best reach our broad audience with key messaging.

The launch of the campaign resulted in a large increase in customer requests for our free in-home safety device - CablePI. Our CablePI device detects potentially life-threatening electrical faults such as broken neutrals.

Benefits since our public safety campaign was launched:

27% reduction in shocks

85% reduction in stolen earths

201% increase in requests for CablePI

66% reduction in public significant incidents

DELIVERING LOWER NETWORK PRICES

In 2017-18, TasNetworks engaged extensively with our customers to gain a deeper insight into their views and perspectives. We recognise that TasNetworks' success is anchored to the prosperity and wellbeing of our customers and their feedback helps us to respond proactively when developing our plans for the future. In our recent Customer Engagement Survey, our customers told us that lower prices was their number one concern. Further, their willingness to accept price increases to improve overall network reliability declined.

72% of our customers said they preferred lower network prices over improved reliability

78% of our customers indicated that lower network prices are the best way to improve customer satisfaction

At TasNetworks, we are listening to our customers. We delivered a 20% decrease in prices to our customers in 2017-18 and we'll deliver an additional 2% reduction in 2018-19.

Our Regulatory Proposal for 2019-2024

After an extensive business-wide effort, we submitted our first ever combined transmission and distribution Regulatory Proposal as an integrated network business. Our Regulatory Proposal lays out our expenditure plans, incentive arrangements, revenue requirements and indicative prices for shared network services over the 2019-24 period. Our proposal:

- Locks-in efficiency gains and illustrates a clear pathway towards more predictable and sustainable network pricing.
- Enables us to replace aging assets which represent a potential community safety and/or bushfire risk.
- Continues our investment in new technology, allowing us to operate the network effectively and efficiently and enable customer choice and control.

KEEPING THE LIGHTS ON

In April and May, Tasmania experienced several major rain and wind events, leaving customers without power for extended periods. Our engineers, field crews and service centre teams worked tirelessly, alongside Tasmania's emergency management services, to restore our customer's power quickly and safely.

The efforts of our people in challenging conditions was widely acknowledged by our customers. In a separate incident, TasNetworks Network Operations and Network Planning teams ensured power supply to Hobart's CBD remained uninterrupted following serious damage to a major 110kV transmission supply circuit in North Hobart.

CUSTOMER COMMENTS FROM SOCIAL MEDIA:

"Thank you to the hard working crew who worked through the night and in terrible conditions to restore our power. If it wasnt for these people working tirelessly a lot more people would be without power. Let's hope this work is recognised."

"Our power just came back on. Yay! Thanks TasNetworks for a stellar job in really difficult circumstances."

"Thank you to all your staff for working through this terrible weather, stay safe."

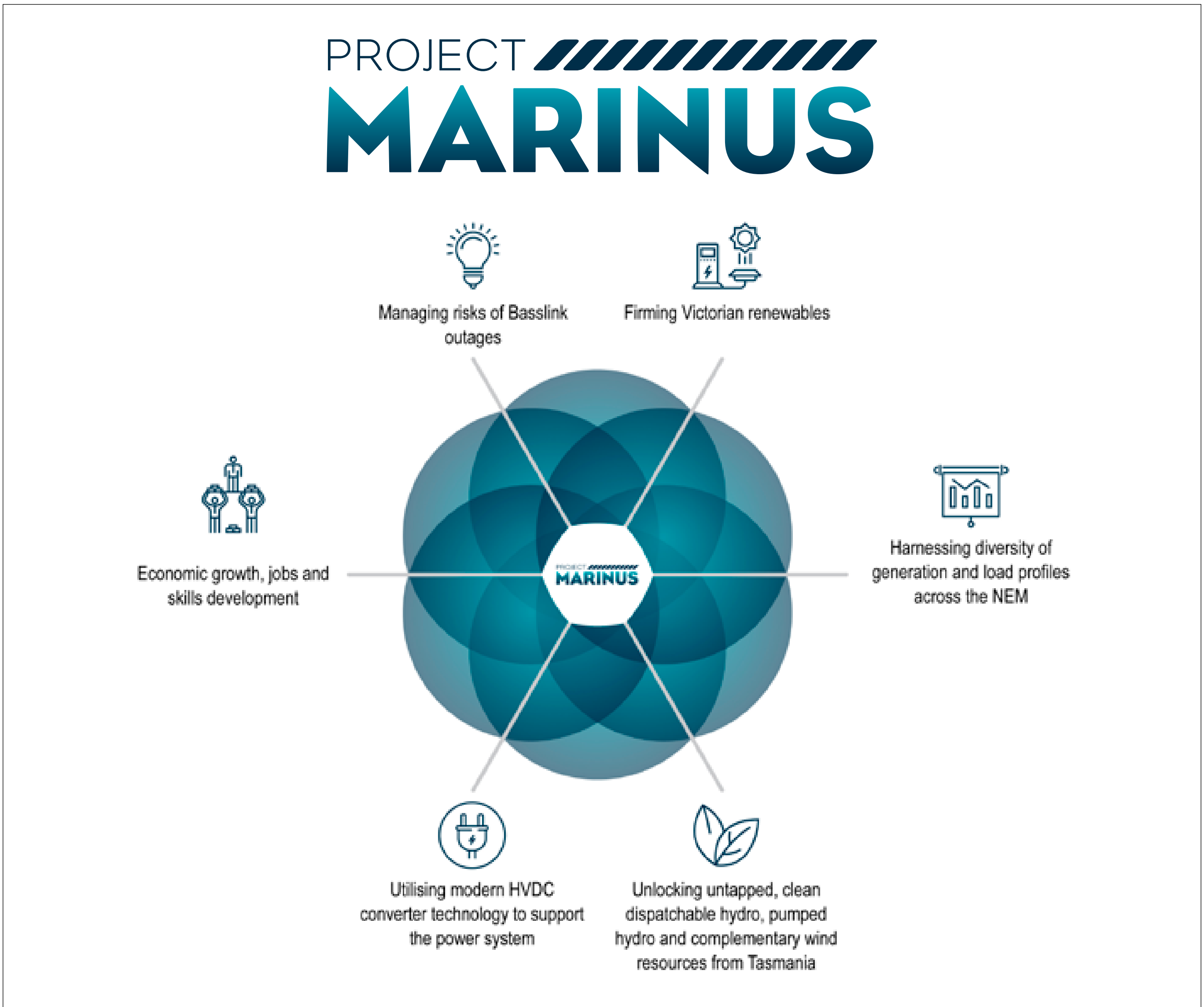
"Thanks to each and every one of you!"

INVESTIGATING THE CASE FOR FURTHER INTERCONNECTION BETWEEN VICTORIA AND TASMANIA - PROJECT MARINUS

Project Marinus involves a feasibility study into a second Tasmanian and Victorian Bass Strait Interconnector. During this two year project, TasNetworks will determine the feasibility and business case assessment for the construction of a new undersea high voltage direct current (**HVDC**) marine cable, or interconnector, linking the Tasmanian and Victorian electricity transmission systems.

This second interconnector, known as Marinus Link, would be in addition to the existing Basslink interconnector. Listed as a priority initiative by Infrastructure Australia in early 2018, Marinus Link is expected to proceed if the value to energy consumers and the broader community is found to outweigh its costs, and the project has a viable business case.

Further interconnection within the NEM could support Australia's transition towards a clean energy future by unlocking investment in dispatchable, reliable, renewable energy through Tasmania's hydro and potential pumped hydro, and complementary wind resources. Project Marinus is jointly funded by The Tasmanian State Government, through TasNetworks, and ARENA.



INVESTING IN NEW TECHNOLOGY AND THE NETWORK

Enabling a customer-led transition – The Bruny Island Battery Trial

In 2017-18, our ground-breaking Bruny Island Battery Trial continued gathering momentum. Trial participants have now installed their solar panel and battery systems, equipped with a smart controller provided by Reposit Power. These 'smart' battery systems store electricity when the sun is shining, then sell it back to the network when the value is highest, meaning customers can maximise the return on their investment.

Optimising customer owned solar and battery systems to help manage on-island demand allows TasNetworks to avoid using an expensive diesel generator, as well as potentially deferring a costly upgrade of the sub-sea cable to Bruny Island. Ultimately, harnessing generation from customer owned smart solar panel and battery systems will assist us in spending less on the network, helping to lower prices for Tasmanian electricity customers.

In 2017-18, the project won the Energy Project of the Year, awarded by the Electric Energy Society of Australia. The award recognises a project within the energy sector that has delivered significant benefits to stakeholders and the wider community. TasNetworks also received the Best Customer Innovation award at the 2018 Digital Utilities Awards. The Bruny Island Battery Trial was one of the projects included in the winning submission.

Bruny Island Battery Trial participants, Jenny Chester and John Kobylec with their 'smart' solar and battery system

Ajilis – using technology to transform our business

In March 2018, the final stage of our Ajilis Business Transformation project was successfully implemented. The implementation of the SAP software platform means simplified, streamlined processes, which empower our people to get on and deliver lean, responsive services to our customers as well as improving the accuracy and timeliness of our asset management practices. Going forward, technology is central to our Transformation Roadmap 2025 and we will continue leveraging innovative technologies and our new ways of working to further improve business efficiency and decision making.

Outage Restoration Management – keeping our customers informed

Our customers are telling us that they would like to see enhanced communication and better follow-up during and after network outages. Our new Outage Restoration Management system helps us keep customers informed during and after an outage, and enables our people to identify the exact location of faults sooner. The system also facilitates the development of more modern customer focussed communication platforms.

Market systems upgrade – supporting advanced meter roll-out

A major overhaul of our market systems was required as part of wider changes to metering in the NEM. The upgrade means we are compliant with new metering contestability rules and allows electricity retailers to roll-out advanced meter technology to customers in Tasmania.

The project was delivered on time and within budget, and received external recognition with the project team winning the Best Project/ Program Management category at the 2018 TasICT Awards on 1 June 2018.

Keeping our network safe and reliable

In 2017-18, our people again delivered a large field works program to ensure the network stays safe and reliable into the future. Key field work programs in 2017-18 included;

- the replacement of condemned poles;
- wooden cross-arm replacement on our low-voltage network;
- the installation of vibration dampers (bushfire mitigation); and
- the replacement of overhead copper conductors.

We are careful to only replace assets that are in poor condition to minimise expenditure and get the best customer value for the funds we invest.

SUPPORTING SECURE, RELIABLE INVESTMENT IN LARGE-SCALE RENEWABLES

In the past 12 months, TasNetworks has had an influx of proposed, new large-scale renewable energy projects expressing interest in connecting to our network. New investment in large-scale renewables will build on Tasmania's inherent advantage in clean, reliable energy – creating jobs and promoting economic development in regional areas.

Following final connection approval, construction of the Wild Cattle Hill Wind Farm has commenced and construction of Granville Harbor Wind Farm is likely to commence before the end of 2018. These projects will add approximately 250MW of additional generation capacity to our network.

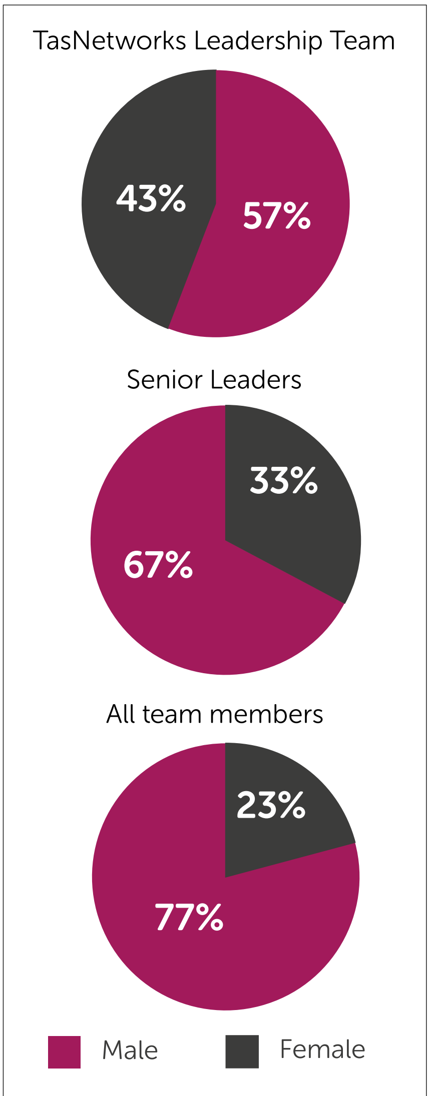
We have worked, and will continue to work constructively with project proponents to ensure appropriate connection standards for new renewable energy are implemented in a timely and cost-effective manner.

As more renewable energy connects to our network, it is critical that we can maintain network security for all of our customers.

OUR PEOPLE

Diversity

We value workplace diversity and inclusion because it strengthens our business. We are particularly proud of the gender diversity within the leadership levels of our business. Diversity and inclusion training was conducted in December with a range of team members from across the business. This training was received with openness and acceptance from our people.



TasNetworks diversity statistics as at 30 June 2018

The TasNetworks Graduates - left to right: Hugh Morris, Drew Vancsa, Neha Maharesh, Bernd Brinkmann, Paul Cartwright, Gerard Hord, Daniel Fracalossi, Peter Bovo, Shannon Culic, Branden Papalia, Farshad Charmchi.

TasNetworks as an employer of choice

TasNetworks recognises that employers who care about their people and build well-managed, inspiring workplaces are better able to foster constructive cultures and build trusting relationships amongst their people. Team members who feel valued are more productive and provide better services to our customers.

The Tasmanian Employer of Choice program is widely regarded as recognising Tasmania's best practitioners in creating a work culture that attracts, retains and develops the best people by actively promoting and catering for positive work-life balance.

TasNetworks was formally recognised as an employer of choice by the Tasmanian State Government in June 2018. In particular, TasNetworks was commended for our constructive culture, Zero Harm focus, emphasis on work-life balance and commitment to building the skills and capabilities of our people.

OUR PARTNERSHIPS

We seek to create partnerships and provide support to a diverse range of Tasmanian based community organisations. Listed below are some of the organisations we supported in the 2017-18 program year.

Other community support was provided to:

Hobart PCYC Gymnastics Team

Bowen Road Primary School Association

Hobart United Football Club

Southern Touch Football Association

Hobart Phoenix Basketball Club

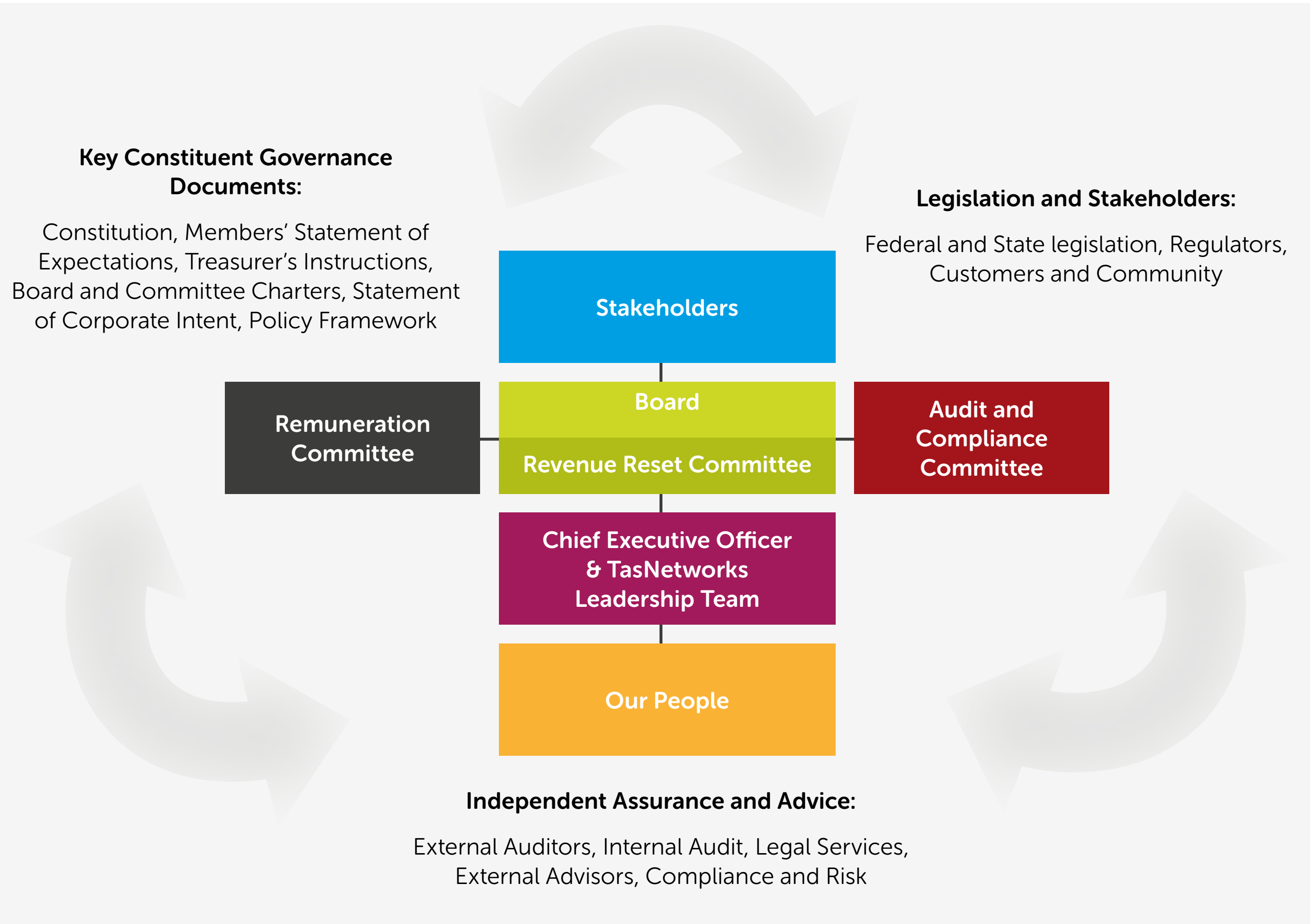
Risdon Brook Radio Yacht Club

Hobart Athletic Club

Lenah Valley RSL

CORPORATE GOVERNANCE

OUR GOVERNANCE STRUCTURE



TasNetworks Board of Directors from left to right: Dr. Jane Sargison, Peter McIntyre, Joanne Doyle, Dr. Daniel Norton AO and Roger Gill.

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 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

During the 2017-18 financial year, the TasNetworks Board comprised five Non-Executive Directors, who brought a variety of skills, knowledge and experience to the company.

At the Annual General Meeting on 27 November 2017, Roger Gill was appointed to the Board as a Non-Executive Director, and Kevin Murray completed his tenure as a Non-Executive Director of TasNetworks.

Dr Daniel Norton AO (Chairman)

BAgric (Hons), MEc, PhD, Hon LLD, FAICD

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

Current term expires November 2018

Dr Daniel Norton AO is also Chairman of WINconnect, a Board Member of Infrastructure Australia, a Senior Advisor at Dandolo Partners international and a Director of his consulting company Trinitas.

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

Dr Jane Sargison

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

Appointed 1 July 2014; Re-appointed 27 November 2017

Current term expires November 2020

Jane is also the Managing Director of JSA Consulting Engineers and a Non-Executive Director of the Ian Harrington Group. 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.

Joanne Doyle

BCom, FCA, RCA, MAICD

Appointed 1 July 2016

Current term expires November 2018

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

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

Peter McIntyre

BSc, BE (Hons.), MBA, FIEAust, CPEng, EngExec, NER, FAIE, FAICD

Appointed 1 November 2016

Current term expires November 2019

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

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

Roger Gill

BE, GAICD

Appointed 27 November 2017

Current term expires November 2020

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

Roger is also Vice President of the International Hydropower Association (UK), and a Non-

Executive Director of Pacific Hydro (Aust.) and Tinguiririca Energy (Chile).

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

Kevin Murray

BEng, Dip Bus Studies, FAICD

Appointed 4 February 2014 (and the Network Integration Transition Board from June 2013) – 27 November 2017

Kevin was Chair of TasNetworks' Remuneration Committee during his directorship.

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.

TasNetworks has complied with the Guidelines for Tasmanian Government Businesses – Director and Executive Remuneration.

Remuneration details for the Board and Senior Executive can be found on page 98.

Board Committees

The Board has three standing committees:

- the Remuneration Committee (comprised of two Non-Executive Directors)
- the Audit and Compliance Committee (comprised of three Non-Executive Directors)
- the Revenue Reset Committee (comprised of all Directors).

Remuneration Committee	Audit and Compliance Committee	Revenue Reset Committee
Dr Jane Sargison (Chair)	Joanne Doyle (Chair)	All Directors
Dr Daniel Norton AO[1]	Peter McIntyre	
Kevin Murray (Chair during directorship)[2]	Roger Gill[3]	
	Dr Daniel Norton AO[1]	

1 Dr Daniel Norton AO was a member of the Audit and Compliance Committee until January 2018, when membership was updated and he joined the Remuneration Committee.

2 Kevin Murray completed directorship duties in November 2017.

3 Roger Gill joined the Audit and Compliance Committee after his commencement in November 2017.

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

The Audit and Compliance Committee met seven times during the 2017-18 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 2017-18 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 2017-18 financial year and provided the board with minutes from each meeting.

SUBSIDIARY COMPANIES

TasNetworks has three wholly-owned subsidiary companies:

- **TasNetworks Holdings Pty Ltd**, which is a non-trading subsidiary created to oversee the subsidiary companies of TasNetworks. The company was incorporated on 24 May 2018.

  The Directors of TasNetworks Holdings Pty Ltd are Dr Daniel Norton AO (TasNetworks Chairman) and Lance Balcombe (TasNetworks CEO), and the Company Secretary is Phillippa Bartlett (TasNetworks' Company Secretary and General Counsel).

- **Fortytwo24 Pty Ltd** (formerly Auroracom Pty Ltd), holds a telecommunications carrier licence and has in place a Nominated Carrier Declaration with TasNetworks. This subsidiary was renamed during the year and will operate telecommunications and information technology services in 2018-19.

The Directors of Fortytwo24 Pty Ltd are Lance Balcombe (TasNetworks CEO), Wayne Tucker (TasNetworks General Manager Regulation, Policy and Strategic Asset Management – appointed on 24 May 2018) and the Company Secretary is Phillippa Bartlett (TasNetworks' Company Secretary and General Counsel). Ross Burridge resigned as a Director on 24 May 2018 and Maryanne Young resigned as a Company Secretary on 24 May 2018.

- **Ezikey Group Pty Ltd** (Notice of deregistration was published in June 2018 and the company was deregistered on 8 August 2018), was a non-trading subsidiary originally established for the commercialisation of the CablePI device.

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
- 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
- leading the implementation of the Workplace Diversity Strategy.

LEGISLATIVE COMPLIANCE

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

- active and visible engagement in compliance by the Board, CEO and 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. It was reviewed and amended in 2017.

During the 2017-18 financial year, one formal application for Assessed Disclosure was received. The information sought by the applicant in that case was provided in part. TasNetworks has embraced the objectives of the RTI Act by routinely publishing information that it considers to be of interest to the public, which is significant, appropriate, accurate and not otherwise exempt. TasNetworks' preferred method of disclosure of information is proactive disclosure via its website and Customer Service Centre.

Public Interest Disclosures

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

TasNetworks' Public Interest Disclosure Policy was updated and approved by the Board in May 2016. TasNetworks received and investigated one PID Act Disclosure during this financial year. Following investigation, the matter disclosed was not substantiated as improper conduct as defined under the PID Act.

Personal Information Protection

TasNetworks is subject to the *Privacy Act 1988* (Cth), the Australian Privacy Principles and the *Personal Information Protection Act 2004* (Tas). TasNetworks' Privacy Policy, which was originally approved by the CEO in June 2014 and last updated in May 2018, sets out how it collects, uses, discloses and otherwise manages personal information it holds.

During the 2017-18 financial year TasNetworks received several general enquiries pursuant to governing legislation. All enquiries have been determined or resolved.

TasNetworks has been impacted by the PageUp data security incident of June 2018 and continues to assess the level and nature of the breach and subsequent risks. TasNetworks used PageUp until February 2018 but was not an active client at the time of the breach. The breach was brought to TasNetworks' attention on 6 June 2018. Immediate steps were taken as soon as TasNetworks became aware that there was a risk to the security of personal information it held with PageUp. These included immediately requesting the suspension of the PageUp system, security assessments of our other IT systems and ongoing business wide communications and public notices. TasNetworks continues to liaise with PageUp regarding the breach and will take further actions to minimise the risk to employees' personal information as required.

CORPORATE GOVERNANCE PRINCIPLES

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

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

Principle 1: Lay solid foundations for management and oversight
During the 2017-18 Financial Year, the TasNetworks Board was made up of five independent, Non-Executive Directors. The Board's responsibilities are summarised at page 23 of this report. The responsibilities of individual Directors and the company's expectations of them are set out in their letters of appointment and communicated to them at their induction. The role statements and contracts of employment for the positions of Chief Executive Officer, Company Secretary and other TasNetworks Leadership Team members set out the terms of their appointment. The Company Secretary is accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board. The Board performance evaluation process is detailed below in Principle 2: Structure the Board to add value. The Executive performance evaluation process is detailed at page 102 of this report.
Principle 2: Structure the Board to add value
All TasNetworks Directors are independent of management; no Directors hold shares in the company. More information about individual Directors and their length of service is set out at page 24 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. The Remuneration Committee advises and assists the Board with reviewing the performance of the CEO and setting key performance indicators for the CEO. TasNetworks has a process for annually evaluating the performance of the Board, its committees and individual Directors. Evaluations have been conducted for the 2017-2018 financial year internally, with the Board undertaking a number of questionnaires to assess and provide feedback on the performance of individual Directors, Committees and the Board. Identified opportunities for development from the process are implemented with oversight by the Remuneration Committee.

Principle 3: Act ethically and responsibly

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

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

1. work safely and in accordance with the law;
2. treat customers, the public and fellow workers with honesty, courtesy and respect;
3. perform our duties with professionalism, integrity and efficiency;
4. ensure our personal business and financial interests do not conflict with our duty to TasNetworks;
5. ensure the security and privacy of all confidential information received in the course of our work;
6. ensure we do not misuse our position;
7. ensure that TasNetworks' assets and resources are only used for proper business purposes;
8. recognise, value and effectively utilise the diversity among our people; and
9. demonstrate our care for the environment in the way we work.

TasNetworks also has a number of more specific policies that relate to our commitment to comply with our legal obligations and act ethically and responsibly. These include the Directors' Travel and Expense Policy, Directors' Conflict of Interest Protocol, Compliance Policy, Fraud and Corruption Policy, 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 25 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 26.

Principle 6: Respect the rights of shareholders

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

Principle 7: Recognise and manage risk

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

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. During 2017-18 the Remuneration Committee considered the performance and remuneration reviews of the TasNetworks' Leadership Team undertaken by the CEO and referenced against the Mercer Tasmanian General Market median, for subsequent Board approval.

TasNetworks Leadership Team from 1 July 2018 from left to right: Lance Balcombe, Bess Clark, Michael Ash, Ross Burridge, Michael Westenberg*, Phillippa Bartlett, Justine McDermott, Wayne Tucker and Mike Paine.

TASNETWORKS LEADERSHIP TEAM

TasNetworks' executive management team comprises a Chief Executive Officer and seven Executive Managers. During 2017-18, the executive management team comprised of the following:

Lance Balcombe
BCom, FCA
Chief Executive Officer

Bess Clark
BCom, Grad Dip Urb Reg Plan, GAICD
General Manager Strategy and Stakeholder Relations (until November 2017) / General Manager Project Marinus (from November 2017)

Michael Ash (from 10 April 2018)
Acting General Manager Works and Services Delivery

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

Phillippa Bartlett
BA, LLB
Company Secretary and General Counsel

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

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

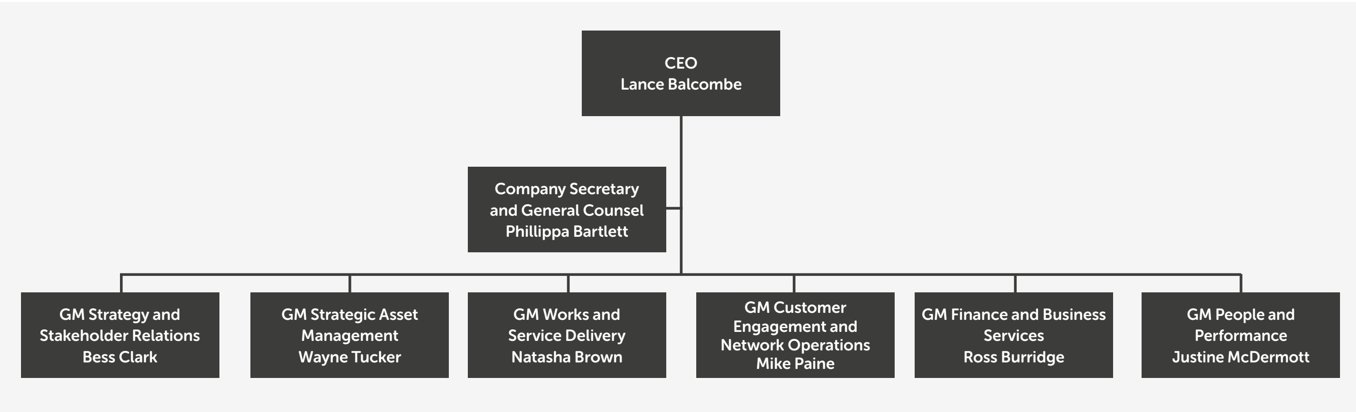
Mike Paine
BEng, Grad Dip Eng, FIE Aust, GAICD
General Manager Customer Engagement and Network Operations

Natasha Brown
BCom (resigned in April 2018)
General Manager Works and Services Delivery

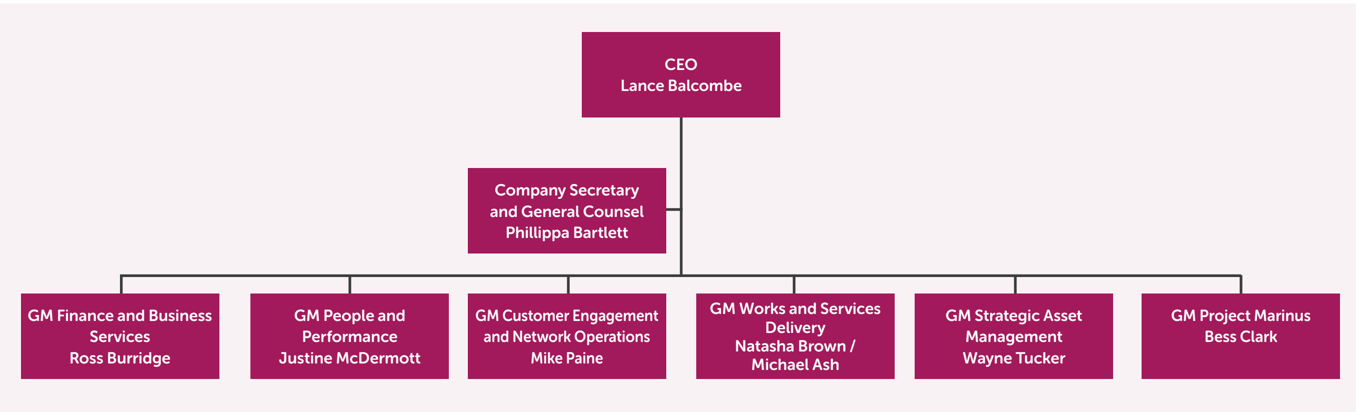
* Michael Westenberg is the GM of the Technology and Performance group, under TasNetworks new organisational structure effective as of 1 July 2018.

ORGANISATIONAL STRUCTURE DURING 2017-18

To November 2017:



In November 2017, the TasNetworks Leadership Team structure changed to create a new group, Project Marinus, with Bess Clark as General Manager. Bess' group, the Strategy and Stakeholder Relations Group, was incorporated into other existing groups from that time.



The post-November 2017 groups are described below:

Company Secretary and General Counsel

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

Strategic Asset Management

Strategic Asset Management is responsible for: asset strategy and planning; network analysis and planning; operational and power system technology; smart networks; demand-side and other new technologies and economic regulation, pricing strategy and frameworks; market reform activities.

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; telecommunications asset, network and customer management and external and internal communications; brand strategy; government and shareholder relations; and stakeholder engagement.

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; corporate strategy; business performance; strategic risk and information management.

People and Performance

This division is responsible for: Human Resources (**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.

Project Marinus

Project Marinus is responsible for: conducting the feasibility assessment of a second electricity link between Tasmania and Victoria including developing the preferred route and optimum capacity of the interconnector; technical specifications and supply arrangements for the interconnector; environmental considerations; cost estimates for the second interconnector; and regulatory revenue investment testing.

Note: From 1 July 2018, TasNetworks commenced operations under a new organisational structure.

TASMANIAN GOVERNMENT REPORTING REQUIREMENTS

Table 1 Purchases from Tasmanian businesses

Purchases from Tasmanian Businesses	
% of purchases from Tasmanian businesses	74.9%
Value of purchases from Tasmanian businesses	$189,599,172

Table 2 Consultancies valued at more than $50,000 (ex GST)

Name of Consultant	Location	Description	Period of engagement	Amount ($)
L.E.K Consulting Australia Pty	Melbourne	Provide assistance to review TasNetworks operating model with consideration of significant changes affecting the industry and the Governments strong focus on electricity pricing.	July 2017 to June 2018	333,511
HWL Ebsworth	Hobart	External legal advisory services - litigation	November 2017 to June 2018	195,816
Ms Carly Sluiter	Hobart	External legal advisory services - litigation	November 2017 to June 2018	193,344
Mr Bruce McTaggart	Hobart	External legal advisory services - litigation	November 2017 to June 2018	181,694
Deloitte Touche Tohmatsu	Hobart	Consulting services to review fault and emergency service delivery model	July 2017 to December 2017	160,839
Clarendon Lawyers	Melbourne	Provision of legal services for the establishment of Fortytwo24 Pty Ltd	March 2018 to July 2018	152,905
Sandstone Services Pty Ltd	Melbourne	Provide expert advice in establishing TasNetworks ERP Business Transformation Project (Ajilis)	July 2017 to March 2018	64,969
Page Seager Lawyers	Hobart	External legal advisory services - miscellaneous	July 2017 to June 2018	57,835
Herbert Smith Freehills	Melbourne	External legal advisory services for Project Marinus	June 2018 with payment made in July 2018	54,754
Holding Redlich.	Sydney	Provision of legal services for the establishment of Fortytwo24 Pty Ltd	March 2018 to July 2018	53,750
Total				**1,449,417**
There were 31 Consultants engaged for $50,000 or less totalling				535,163
Total Payments to Consultants				**1,984,580**

Table 3 Accounts due or paid within each year

Measure	2017-18
Creditor days (average days to pay)	27.5
Number of accounts due for payment	34,012
Number of accounts paid on time	28,521
Amount due for payment	$288,214,543
Amount paid on time	$230,612,358
Number of payments for interest on overdue accounts	-
Interest payable on overdue accounts	-

PERFORMANCE AGAINST OUR STATEMENT OF CORPORATE INTENT

Our Statement of Corporate Intent (**SCI**) is our annual performance agreement with our Shareholders. Our performance measures and productivity targets have been set with a focus on improvement – except for network reliability where we aim to maintain current overall network service performance whilst bringing poorly performing communities up to regulated performance standards. We recognise that it may not always be appropriate to improve performance above target if there is not sufficient benefit to our customers. This section reviews our performance against our agreed SCI targets for the 2017–18 year.

	Performance measure	2017-18 target	2017-18 result	
Zero Harm	LifeSafe observations[4]	≥ 2,000	2,475	✓
	Significant incidents[5]	≤ 8	9	×
	Reportable incidents[6]	≤ 12	40	×
	Leadership Zero Harm interactions	100%	85%	×
	Lost time injury frequency rate	0	4.5	×
Our customers	Customer net promoter score	+10	0	×
	Customer complaints	< 2,500	2,974	×
	Call answering – combined fault/ service centre (%)	Out-perform service incentive scheme targets	82.9	✓
Our people	Culture improvement	Improvement in all constructive styles to 25th percentile with all oppositional and aggressive styles to come under 50th percentile	Three out of four constructive styles improved with five of the eight aggressive and oppositional styles on target	×
	Employee engagement improvement (%)	56	53	×
Our business	Network service			
	Outcomes under Service Target Performance Incentive Schemes (STPIS) - Transmission	Earn service performance incentive bonus	Bonus earned	✓
	Outcomes under Service Target Performance Incentive Schemes (STPIS) - Distribution	Earn service performance incentive bonus	Bonus earned	✓
	Sustained cost efficiency			
	Operating expenditure ($m)[7]	< 152.6	154.0	×
	Capital expenditure ($m)	< 206.3	229.9	×
	Field works program			
	Delivery of field works program	> 95% of scope delivered	100%	✓

	Performance measure	2017-18 target	2017-18 result	
Our owners	Total revenue ($m)	> 471.1	490.1	✓
	Earnings before interest, tax, depreciation and amortisation ($m)	≥ 305.3	325.8	✓
	Profit after tax ($m)	≥ 39.7	59.2	✓
	Return on assets (%)	≥ 4.3	5.1	✓
	Return on equity (%)	≥ 4.3	6.3	✓
	Regulated services return consistent with AER decision	Yes	Yes	✓
	Gearing ratio (%)	≤ 66.9	66.4	✓
	Dividends ($m)	≥ 74.9	77.6	✓
	Government guarantee fee ($m)	≥ 7.9	7.7	×
	Unregulated network services[8]			
	Revenue ($m)	≥ 10.5	11.1	✓
	EBITDA ($m)	≥ 1.9	-1.5	×
	Complementary services[9]			
	Revenue ($m)	≥ 20.3	19.8	×
	EBITDA ($m)	≥ 12.7	12.7	✓

4 LifeSafe is one of the important safety initiatives under TasNetworks Zero Harm program and forms part of our commitment to prevent incidents before they happen

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

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

7 Operating expenditure excludes the cost of the 'grandfathered' solar feed-in tariff

8 Unregulated network services include unregulated transmission connection and maintenance services, unregulated metering services, and providing potential services to new metering co-ordinator(s).

9 Complementary services include providing wholesale telecommunication services, data centre services and IT services to business and government customers.

PERFORMANCE COMMENTARY

Zero Harm

- Our lost time injury frequency rate (**LTIFR**) increased, as a result of 11 separate incidents where our employees or contractors were unable to return to work the following day. We have thoroughly investigated these incidents and where appropriate, implemented processes to ensure they are not repeated in the future.
- Our reportable incidents were substantially off-target in 2017-18. Of the 40 incidents reported, 31 related to the deaths of threatened bird species (29 Tasmanian Wedge-tailed Eagles, one Grey Goshawk and one White-bellied Sea Eagle). Three reportable incidents related to the wrongful disconnection of registered life support customers.
- TasNetworks had nine significant incidents in 2017-18, consisting of three significant employee safety incidents, two significant public safety incidents and four significant contractor safety incidents.
- The transition to our new SAP system was a contributing factor to our off-target result for our Leadership Zero Harm interactions in 2017-18.

Our customers

- Customer complaints were above target for 2017-18, with a rise in complaints about voltage and meter reading. However, over the last four years our customer complaints are trending downwards.
- Our net promoter score was below target, with meter reading and access issues the highest customer dissatisfaction categories.

Our people

- Improvement in our culture was mixed, but remains on track. Three out of four constructive styles improved with five of the eight aggressive and oppositional styles on target.
- We improved our employee engagement result to 53% and remain above the Industry benchmark, but did not achieve our 2017-18 target of 56%

Our business

- Our operating expenditure was above budget due to expenses related to Project Marinus, actions associated with our organisation restructure and additional costs associated with severe storm events in autumn (above budget Guaranteed Service Level (**GSL**) payments to customers).
- Above target capital expenditure related to accelerated programs of work where there was an identified safety risk to our people or the community. These programs include the replacement of condemned poles and cross-arms, the installation of vibration dampers (bushfire-risk mitigation) and copper conductor replacement. The number and cost of new customer initiated connections on our distribution network was also higher than anticipated, reflecting continued growth in the Tasmanian economy.

Our owners

- Despite ongoing uncertainty and complexity in the electricity sector, TasNetworks generated sound financial returns for our owners. Our profit after tax result was $59.2m. Dividends were above target and we achieved a return on equity of 6.3%. Our profit result was primarily due to higher than forecast distribution revenue as a result of an overall increase in energy consumption across the state.
- Our end of year guarantee fee result was slightly below target due to the timing and level of debt versus our forecast
- Below target earnings before interest, tax, depreciation and amortisation for unregulated network services can be partially attributed to the costs of conducting private asset inspections (as directed by our Shareholders), which is only partially recovered from customers. Unbudgeted costs for Project Marinus were also allocated to unregulated network services in 2017-18.
- Complementary services revenue was slightly below target as a result of less than expected commercial telecommunications work. Going forward, we are confident we can develop new sources of revenue through our recently established complementary services business, 42-24.

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 2018.

Director	Appointment	Re-Appointment	Term Expiration	Length of Office
Dr Daniel Norton AO (Chairman and Director)	4 February 2014		November 2018	4 years and 4 months
Dr Jane Sargison	11 July 2014	27 November 2017	November 2020	4 years
Joanne Doyle	1 July 2016		November 2018	2 years
Peter McIntyre	1 November 2016		November 2019	1 year and 7 months
Roger Gill	27 November 2017		November 2020	7 months
Kevin Murray	4 February 2014		27 November 2017	3 years and 9 months

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 $59.2 million for the year ended 30 June 2018 and the company invested $229.9 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.

Changes in state of affairs

During the financial year, TasNetworks received shareholder approval for a restructure of its corporate group. The effect of the restructure was:

- the incorporation of TasNetworks Holdings Pty Ltd;
- deregistration of existing subsidiary EziKey Group Pty Ltd; and
- effective 1 July 2018, existing subsidiary Auroracom Pty Ltd (renamed as Fortytwo24 Pty Ltd) has been repurposed to provide telecommunications services and Infrastructure as a Service.

Environmental regulation

TasNetworks' operations are subject to many environmental regulatory requirements including the *Environmental Management and Pollution Control Act 1994*. There were 35 reportable environmental incidents during the financial year. Two oil spill events were reported to the Environmental Protection Authority Tasmania. There were also 31 threatened bird deaths and two threatened bird disturbances reported to Department of Primary Industries, Parks, Water, and Environment.

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

Matters arising since end of financial year

As noted above, since 1 July 2018, subsidiary Fortytwo24 Pty Ltd has commenced providing telecommunications services and Infrastructure as a Service.

There have been no other matters or circumstances arising since 30 June 2018 that have significantly affected, or may significantly affect, TasNetworks' future operations.

Likely developments and future results

In the 2018/2019 financial year, TasNetworks anticipates adding further subsidiaries to its corporate group to accommodate work on the feasibility study into Marinus Link, and increases in TasNetworks' ownership of unregulated transmission assets.

Dividends

TasNetworks paid to its shareholders a dividend of $77.560 million on 31 December 2017 from after-tax profits for the financial year ended 30 June 2018.

In respect of the financial year ended 30 June 2018 TasNetworks' intention is to pay a dividend based upon 90 per cent of Adjusted Net Profit after Tax.

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 and forms part of this Director's Report.

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 financial year ended 30 June 2018:

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[1]	13	13	5	4	2	2	4	4
Dr Jane Sargison	13	13	-	1	4	4	4	4
Kevin Murray	6	6	-	1	2	2	3	3
Joanne Doyle	13	12	7	7	-	-	4	4
Peter McIntyre	13	12	7	7	-	-	4	4
Roger Gill	7	6	2	2	-	-	1	0

Signed in accordance with a resolution of the directors.

Dr D T Norton AO
Chairman

Date: 9/8/18

[1] Until January 2018, Dr Norton was a member of the Audit and Compliance Committee. From February 2018, Dr Norton became a member of the Remuneration Committee.

AUDITORS INDEPENDENCE DECLARATION

Tasmanian Audit Office

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

9 August 2018

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 2018, 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

Rod Whitehead
Auditor-General

...1 of 1

To provide independent assurance to the Parliament and Community on the performance and accountability of the Tasmanian Public sector.
Professionalism | Respect | Camaraderie | Continuous Improvement | Customer Focus

Strive | Lead | Excel | To Make a Difference

INDEPENDENT AUDITOR'S REPORT

Tasmanian Audit Office

Independent Auditor's Report

To the Members of Tasmanian Networks Pty Ltd

Report on the Audit of the Consolidated Financial Report

Opinion

I have audited the financial report of the Tasmanian Networks Pty Ltd (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies and the directors' declaration.

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

(a) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

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

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

INDEPENDENT AUDITOR'S REPORT

I confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of the Group on 9 August 2018 and included in the Directors' Report, would be in the same terms if provided to the directors at the time of this auditor's report.

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

Key Audit Matters

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

Why this matter is considered to be one of the most significant matters in the audit	**Audit procedures to address the matter included**
Network Assets *Refer to note B2*	
The Group's network assets, which included transmission assets valued at $1.24bn and distribution assets valued at $1.57bn, were valued in accordance with the Australian Energy Regulator Regulated Asset Base methodology. The Group had a substantial capital expenditure programme in the year (property plant and equipment additions of $192.18m and intangible additions of $37.74m) and incurred significant expenditure in relation to the development and maintenance of both infrastructure and non-infrastructure assets. Expenditure to increase the capacity of, or refurbish or enhance, the electricity transmission and distribution network assets is capitalised. Capital projects contain a combination of enhancement and maintenance activity which are not distinct and therefore the allocation of costs between capital and operating expenditure is inherently judgemental. In addition, the determination of the useful lives of networks assets had a significant impact on the annual depreciation expense. Significant judgement was used in the selection of the depreciation method and estimation of the useful lives of assets.	• Assessing the Group's capitalisation policy to determine compliance with relevant accounting standards. • Testing, on a sample basis, the allocation of costs between capital and operating expenditure based on the Group's capitalisation policy. • Assessing, a selection of capital projects, the application of the capitalisation policy to the costs incurred by agreement to third party documentation and obtaining explanations and further support for any significant changes in capital expenditure from budget. • Testing a selection of additions throughout the year. • Evaluating management's assessment of useful lives of network assets. • Assessing depreciation expenses for each class of asset. • Evaluating inputs used in the Australian Energy Regulator Regulated Asset Base valuation methodology. • Assessing the adequacy of relevant disclosures in the financial report.

INDEPENDENT AUDITOR'S REPORT

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Company's Directors' Report for the year ended 30 June 2018, but does not include the financial report and my auditor's report thereon.

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

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

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

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

Rod Whitehead
Auditor-General

Tasmanian Audit Office

13 August 2018
Hobart

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Profit or Loss
For the financial year ended 30 June 2018

	Note	2018 $'000	2017* $'000
Revenue	*A1*	490,083	552,212
Total revenue		**490,083**	**552,212**
Operating expenses	*A2(a)*	(164,235)	(179,221)
Depreciation and amortisation expenses	*A2(b)*	(155,562)	(155,124)
Finance costs	*A3*	(83,550)	(85,548)
Impairment expense	*B3*	(2,122)	-
Total expenses		**(405,469)**	**(419,893)**
Profit before income tax equivalent		**84,614**	**132,319**
Income tax equivalent expense on profit	*A4(a)*	(25,384)	(39,629)
Net profit for the year		**59,230**	**92,690**

*See Note 1(e) for details regarding the restatement as a result of a prior period correction.

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 2018

	Note	2018 $'000	2017* $'000
Net profit for the year		**59,230**	**92,690**
Items that will not be reclassified subsequently through profit or loss:			
Net fair value movements on property, plant and equipment	*D3*	39,257	39,152
Superannuation actuarial gains/(losses)	*F2*	1,875	33,107
Income tax equivalent expense on items that will not be reclassified subsequently through profit or loss	*A4*	(12,338)	(21,678)
		28,794	**50,581**
Items that may be reclassified subsequently through profit or loss:			
Hedge reserve			
- Gain/(loss) taken to equity	*D3*	(717)	712
- Transferred to profit for the year	*D3*	3,201	2,854
Income tax equivalent expense on items that may be reclassified subsequently through profit or loss	*D3, A4*	(745)	(1,070)
		1,739	**2,496**
Total comprehensive income for the year		**89,763**	**145,767**

*See Note 1(e) for details regarding the restatement as a result of a prior period correction.

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 2018

	Note	2018 $'000	2017* $'000
Current assets			
Cash and cash equivalents	C5(a)	2,732	2,017
Trade and other receivables	E1	79,501	98,850
Inventories	E2	22,040	17,849
Current tax asset	A4(c)	4,757	-
Other current assets	E3	5,082	4,523
Total current assets		114,112	123,239
Non-current assets			
Intangible assets	B1	108,897	86,272
Property, plant and equipment	B2	3,141,248	3,054,004
Other non-current assets	E3	829	-
Total non-current assets		3,250,974	3,140,276
Total assets		3,365,086	3,263,515
Current liabilities			
Trade and other payables	E5	78,159	80,572
Borrowings	C1	152,300	142,462
Lease liabilities	C2	77	74
Employee benefits	F1	31,897	29,682
Provisions	E4	582	1,816
Current tax liabilities	A4(c)	-	5,537
Other current liabilities	E6	11,505	10,336
Total current liabilities		274,520	270,479
Non-current liabilities			
Borrowings	C1	1,733,300	1,643,300
Lease liabilities	C2	2,456	2,533
Net deferred tax equivalent liabilities	A4(d)	224,282	225,487
Employee benefits	F1	160,108	159,337
Provisions	E4	571	1,650
Other non-current liabilities	E6	16,448	19,531
Total non-current liabilities		2,137,165	2,051,838
Total liabilities		2,411,685	2,322,317
Net assets		**953,401**	**941,198**
Equity			
Retained earnings	D1	160,312	177,329
Contributed equity	D2	62,724	62,724
Reserves	D3	730,365	701,145
Total equity		**953,401**	**941,198**

*See Note 1(e) for details regarding the restatement as a result of a prior period correction.

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 2018

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

	Note	Contributed Equity $'000	Asset Revaluation Reserve $'000	Hedge Reserve $'000	Retained Earnings $'000	Total $'000
Opening balance at 1 July 2016		**112,724**	**675,592**	**(6,190)**	**137,566**	**919,692**
Adjustment for prior period corrections*	*1(e)*	-	1,841	-	(3,474)	(1,633)
Balance at 1 July 2016 (restated)		**112,724**	**677,433**	**(6,190)**	**134,092**	**918,059**
Profit for the year		-	-	-	92,690	92,690
Other comprehensive income:						
Net fair value movements on property, plant and equipment	*D3*	-	39,152	-	-	39,152
Superannuation actuarial gains/(losses)	*F2*	-	-	-	33,107	33,107
Hedge reserve	*D3*	-	-	3,566	-	3,566
Income tax relating to components of other comprehensive income	*A4(b)*	-	(11,746)	(1,070)	(9,932)	(22,748)
Total comprehensive income for the year		-	27,406	2,496	115,865	145,767
Transactions with owners in their capacity as owners:						
Distribution to owners	*D2*	(50,000)	-	-	-	(50,000)
Dividends paid	*D1*	-	-	-	(72,628)	(72,628)
As at 30 June 2017		**62,724**	**704,839**	**(3,694)**	**177,329**	**941,198**

*See Note 1(e) for details regarding the restatement as a result of a prior period correction.

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 2018

	Note	2018 $'000	2017 $'000
Cash flows from operating activities:			
Receipts from customers		560,048	619,841
Interest received		43	455
Payment to suppliers and employees		(230,674)	(222,444)
Interest paid		(67,897)	(71,093)
Guarantee fee paid		(7,666)	(6,956)
Income tax equivalents paid		(49,967)	(46,596)
Net cash provided by operating activities	*C5(b)*	**203,887**	**273,207**
Cash flows from investing activities:			
Proceeds from sale of property, plant and equipment		4,585	572
Payment for property, plant and equipment		(192,175)	(164,674)
Payment for intangible assets		(37,740)	(41,021)
Net cash used in investing activities		**(225,330)**	**(205,123)**
Cash flows from financing activities:			
Proceeds from borrowings		699,092	343,784
Repayment of borrowings		(599,254)	(357,324)
Payment of finance leases		(120)	(118)
Dividends paid	*D1*	(77,560)	(72,628)
Net cash used in financing activities	*C3*	**22,158**	**(86,286)**
Net increase/(decrease) in cash and cash equivalents		715	(18,202)
Cash and cash equivalents at the beginning of the financial year		2,017	20,219
Cash and cash equivalents at the end of the financial year	*C5(a)*	**2,732**	**2,017**

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 2018

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

1. Statement of compliance and basis of preparation

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

TasNetworks' working capital other than short term maturities is $8.108m deficit (2017: $5.310m deficit). Short term maturities of $152.300m (2017: $142.462m) will be refinanced in line with TasNetworks' Treasury Risk Management Policy and within the TASCORP Master Loan Facility Agreement limits and covenants (see note C1).

The financial statements were authorised for issue by the Directors on 9 August 2018.

(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 Fortytwo24 Pty Ltd (formally AuroraCom Pty Ltd). Full provision to accommodate AASB 10 *Consolidated Financial Statements* has not been applied due to immateriality of controlled entities. Details of controlled entities are provided in note H3 and results for the parent entity are provided in note H4.

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

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

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

(b) Goods and services tax (GST)

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

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

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

(c) Judgements, estimates and assumptions

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

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2018

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.

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

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

(d) Notes to the financial statements

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

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

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

These sections comprise:

A TasNetworks' performance

B TasNetworks' assets

C Financing TasNetworks' business

D TasNetworks' equity

E Other assets and liabilities

F TasNetworks' people

G Commitments

H Other information

The accounting policies as set out in these notes, have been applied in preparing the financial statements for the financial year ended 30 June 2018 and the comparative information presented in these financial statements for the period ended 30 June 2017. The changes made to these accounting policies for the financial year ended 30 June 2018 are detailed in note H5.

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2018

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

(e) Correction of prior period amounts

During the year two separate issues were identified and have resulted in prior period corrections, see below for details.

Finance Lease

TasNetworks undertook a review of its leasing arrangements which identified that TasNetworks pays for exclusive use of a fibre optic telecommunication network. This arrangement had been incorrectly designated as an operating lease rather than a finance lease under AASB 117 Leases. This arrangement had been in place prior to the inception of TasNetworks and as such a full adjustment back to 1 July 2014 was required. See Note C2 for more information about the lease. A full assessment has been completed as to the financial impact of the error which has resulted in the following entries being adjusted in the comparative year in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors.*

Asset Disposal

TasNetworks is working with the councils to install energy efficient LED lighting across six Southern Tasmanian council areas. As a result of a review it was identified that street lighting assets disposed of in the 2014-15 and 2016-17 financial years had not been disposed of from the asset register. This prior period adjustment has been reflected as an opening balance sheet adjustment to retained earnings and a reversal of the asset revaluation reserve balance for these assets. A full assessment has been completed as to the financial impact of the error which has resulted in the following entries being adjusted in the comparative year in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors.*

Impact on 2015-16 financial statements:

Statement of financial position (extract)	Note	Original Balance 30 June 2016 $'000	Correction Due to Finance Lease Adjustment $'000	Correction for Asset Disposal Adjustment $'000	Restated Balance 30 June 2016 $'000
Provision for Deferred Tax	*A4(f)*	(218,039)	44	656	(217,339)
Property, plant and equipment		2,996,400	2,530	(2,185)	2,996,745
Lease Liability - Current		-	(71)	-	(71)
Lease Liability - Non Current		-	(2,607)	-	(2,607)
Net assets		**919,692**	**(104)**	**(1,529)**	**918,059**
Asset reserve		675,592	-	1,841	677,433
Hedge reserve		(6,190)	-	-	(6,190)
Total reserves		**669,402**	**-**	**1,841**	**671,243**
Retained Earnings	*D1*	137,566	(104)	(3,370)	134,092
Net equity		**919,692**	**(104)**	**(1,529)**	**918,059**

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2018

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

(e) Correction of prior period amounts (continued)

Impact on 2016-17 financial statements:

Statement of financial position (extract)	Note	Original Balance 30 June 2017 $'000	Correction Due to Finance Lease Adjustment $'000	Correction for Asset Disposal Adjustment $'000	Restated Balance 30 June 2017 $'000
Current tax liabilities		(6,069)	21	511	(5,537)
Provision for Deferred Tax	*A4(f)*	(226,196)	44	665	(225,487)
Property, plant and equipment		3,055,527	2,389	(3,912)	3,054,004
Lease Liability - Current		-	(74)	-	(74)
Lease Liability - Non Current		-	(2,533)	-	(2,533)
Net assets		**944,087**	**(153)**	**(2,736)**	**941,198**
Asset reserves		703,016	-	1,823	704,839
Hedge reserve		(3,694)	-	-	(3,694)
Total reserves		**699,322**	**-**	**1,823**	**701,145**
Retained Earnings	*D1*	182,040	(153)	(4,558)	177,329
Net equity		**944,087**	**(153)**	**(2,736)**	**941,198**

Statement of profit or loss and other comprehensive income (extract)	Note	Original Balance 30 June 2017 $'000	Correction Due to Finance Lease Adjustment $'000	Correction for Asset Disposal Adjustment $'000	Restated Balance 30 June 2017 $'000
Operating expenses		(176,936)	177	(2,462)	(179,221)
Depreciation and amortisation expenses		(155,747)	(141)	764	(155,124)
Finance costs		(85,442)	(106)	-	(85,548)
Profit before income tax equivalent		134,087	(70)	(1,698)	132,319
Income tax equivalent expense		(40,160)	21	510	(39,629)
Net profit for the year		**93,927**	**(49)**	**(1,188)**	**92,690**
Net fair value movements on PPE		39,184	-	(32)	39,152
Income tax equivalent expense		(21,687)	-	9	(21,678)
Total comprehensive income for the year		**147,027**	**(49)**	**(1,211)**	**145,767**

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2018

TasNetworks' performance

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

A1. Revenue

	2018 $'000	2017 $'000
Provision of regulated distribution services*	260,517	325,816
Provision of regulated transmission services	183,429	178,742
Provision of non-regulated telecommunication services	18,527	18,604
Provision of other non-regulated services	7,754	10,470
Customer contributions	14,372	12,114
Rent and lease income	1,670	995
Interest received	43	455
Other revenue	3,771	5,016
	490,083	**552,212**

*On 1 July 2017 TasNetworks commenced a new distribution regulatory period which was approved by the Australian Energy Regulator (AER) which resulted in a lower distribution revenue allowance. The lower allowance is in part due to a lower regulated rate of return as well as lower expenditure forecasts achieved through cost reductions and efficiency improvements.

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 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.

A1. 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.

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 at the effective yield on the financial asset.

Other revenue

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

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 2018

A2. Expenses

		Note	2018[4] $'000	2017 $'000
(a)	**Operating Expenses**			
	Employee benefits	*A2(c)*	108,958	103,007
	Services[1]		52,780	53,080
	Information Technology and Communications		13,203	14,284
	Feed-in-tariff[2]		10,261	11,675
	Property costs		5,926	6,164
	Materials		4,929	8,323
	Licence fees		6,167	6,454
	Insurance		2,540	2,371
	Distribution claims and payments		3,398	3,260
	(Gain)/loss on disposal of property, plant and equipment		(2,969)	2,026
	Other		11,579	8,717
	Capitalised indirect costs[3]		(52,537)	(40,140)
			164,235	179,221

1. Services expenditure comprises 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. The legacy feed-in-tariff expires on 1 January 2019.
3. Capitalised indirect costs includes the portion of overheads and indirect costs that have been capitalised to the statement of financial position in accordance with TasNetworks' Australian Energy Regulator (AER) approved cost allocation methodology. The increase in 2018 reflects a higher capital works program.
4. The 2018 operating expenses include $2.383m for Project Marinus, the second interconnector feasibility study.

		Note	2018 $'000	2017 $'000
(b)	**Depreciation and amortisation expenses**			
	Depreciation of property, plant and equipment	*B2*	140,447	143,627
	Amortisation of intangible assets	*B1*	15,115	11,497
			155,562	155,124
(c)	**Employee benefits expenses**			
	Post employment benefits:			
	Defined benefit plan	*F2*	9,328	10,064
	Superannuation Guarantee Contributions		9,798	8,534
			19,126	18,598
	Termination benefits		3,332	1,168
	Other employee benefits (salary and wages)		93,340	89,817
	Total employee benefit expenses		115,798	109,583
	Net Interest cost on defined benefit plan	*F2*	(6,840)	(6,576)
	Employee benefits expenses in profit or loss	*A2(a)*	108,958	103,007

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2018

A3. Finance costs

		Note	2018 $'000	2017 $'000
	Finance costs incurred during the financial year		69,418	68,675
	Government guarantee fee		7,189	10,191
	Net interest costs on defined benefit plan	*F2*	6,840	6,576
	Interest on finance leases		103	106
	Total finance costs		83,550	85,548

A4. Income tax equivalents

		Note	2018 $'000	2017 $'000
(a)	**Recognised in profit or loss**			
	Income tax equivalent (expense)/income comprises:			
	Current income tax expense		(40,647)	(54,275)
	Net increase/(decrease) in deferred tax equivalent liability		14,320	14,723
	Prior year under/over provision		943	(77)
	Total income tax equivalent (expense)/income		(25,384)	(39,629)
	Numerical reconciliation between income tax equivalent expense and pre-tax net profit			
	Profit before income tax equivalent		84,614	132,319
	Income tax equivalent calculated at 30%		(25,384)	(39,696)
	Increase in income tax equivalent expense due to:			
	Non-deductible expenses		(4)	67
	Other changes		4	-
	Total income tax equivalent (expense)/income		(25,384)	(39,629)
(b)	**Recognised in other comprehensive income**			
	Items that will not be reclassified subsequently through profit or loss:			
	Income tax equivalent on fair value movements		(11,776)	(11,746)
	Income tax equivalent on superannuation actuarial (gains)/losses		(562)	(9,932)
	Total recognised in other comprehensive income		(12,338)	(21,678)
	Items that may be reclassified subsequently through profit or loss:			
	Income tax equivalent on hedge reserve		(745)	(1,070)
	Total recognised in other comprehensive income		(745)	(1,070)
	Total income tax equivalent recognised in other comprehensive income		(13,083)	(22,748)
(c)	**Current tax equivalent assets and liabilities**			
	Current tax equivalent payable/(receivable)		(4,757)	5,537

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2018

A4. Income tax equivalents (continued)

(d)	Deferred tax equivalent balances	Note	2018 $'000	2017 $'000
	Deferred tax equivalent assets comprise:			
	Temporary differences		59,604	59,721
	Deferred tax equivalent liabilities comprise:			
	Temporary differences		283,886	285,208
	Net deferred tax equivalent liabilities		224,282	225,487

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

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

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

	Balance 1-Jul-16 $'000	Recognised in income $'000	Recognised in equity $'000	Prior year unders/ overs $'000	Balance 30-Jun-17 $'000
Deferred tax equivalent liabilities:					
Property, plant and equipment	(286,568)	13,229	(11,746)	(123)	(285,208)
	(286,568)	13,229	(11,746)	(123)	(285,208)
Deferred tax equivalent assets:					
Employee benefits	64,424	2,194	(9,932)	-	56,686
Provisions	1,813	(255)	-	-	1,558
Derivatives	2,616	29	(1,070)	-	1,575
Other items	376	(474)	-	-	(98)
	69,229	1,494	(11,002)	-	59,721
Net deferred tax equivalent liabilities	(217,339)	14,723	(22,748)	(123)	(225,487)

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2018

A4. 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 prevailing tax rates at the balance date.

Current income tax

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

Deferred tax liabilities and assets

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

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

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

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

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

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2018

TasNetworks' assets

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

B1. Intangible assets

	Note	2018 $'000	2017 $'000
Intangible assets - at cost			
Gross carrying value			
Opening balance		213,567	163,513
Transferred between asset classes*		-	7,820
Transferred from WIP		56,869	42,234
Closing balance		270,436	213,567
Accumulated amortisation			
Opening balance		(149,061)	(129,986)
Transferred between asset classes*		-	(7,578)
Amortisation expense	*A2(b)*	(15,115)	(11,497)
Closing balance		(164,176)	(149,061)
Capital works in progress - at cost			
Opening balance		21,766	22,979
Expenditure for the year		37,740	41,021
Transferred to assets		(56,869)	(42,234)
Closing balance		2,637	21,766
Carrying amount - at cost		108,897	86,272

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.

Additions during the 2017-18 year include the capitalisation of the second release of TasNetworks' enterprise resource planning (ERP) system SAP and market system changes associated with national Power of Choice metering reform.

Amortisation expense is included in the line item of 'depreciation and amortisation expenses' in the statement of profit or loss. Upon implementation of the second release of TasNetworks' ERP the effective lives of the asset management and other impacted systems were reviewed. This resulted in accelerated depreciation of $0.430m against the remaining asset value of these systems.

* The class allocation of certain assets was realigned during the transition of asset data to the ERP during 2016-17.

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2018

B2. Property, plant and equipment

	2018 $'000	2017 $'000
Network assets - Transmission		
Network assets – at fair value	2,021,652	1,956,337
Accumulated depreciation	(786,236)	(711,505)
Carrying amount	1,235,416	1,244,832
Network assets - Distribution		
Network assets – at fair value	3,427,316	3,243,670
Accumulated depreciation	(1,861,735)	(1,772,578)
Carrying amount	1,565,581	1,471,092
Communication assets		
Communication assets – at fair value	62,521	56,885
Accumulated depreciation	(32,084)	(27,740)
Carrying amount	30,437	29,145
Easements		
Easements – at fair value	78,737	77,269
Accumulated impairment	(47)	(47)
Carrying amount	78,690	77,222
Land		
Land – at fair value	37,443	36,365
Buildings		
Buildings – at fair value	98,926	93,937
Accumulated depreciation	(30,463)	(27,363)
Carrying amount	68,463	66,574
Leased assets		
Leased assets - at cost	2,811	2,811
Accumulated depreciation	(563)	(422)
Carrying amount	2,248	2,389
Other plant and equipment		
Other plant and equipment – at cost	166,599	158,136
Accumulated depreciation	(119,541)	(112,326)
Carrying amount	47,058	45,810
Capital works in progress – at cost	75,912	80,575
Total property, plant and equipment	3,141,248	3,054,004

B2. Property, plant and equipment (continued)

Recognition and measurement

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

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

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

Regulated Network assets

Regulated Network assets are categorised as Transmission 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 after being stepped down to lower voltages for safe use by customers).

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

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

The AER makes a determination of asset values and the applicable weighted average cost of capital (WACC) (currently 6.28% for transmission and 6.02% for distribution 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 opening asset values to be escalated annually based on the CPI movement for the year.

Easements

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

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

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2018

B2. Property, plant and equipment (continued)

Land

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

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

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

The fair value measurement of land has been categorised as level 2 in the fair value hierarchy as its value is derived from observable inputs.

Buildings

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

TasNetworks' primary operational buildings are valued in accordance with an independent valuation conducted by Opteon in February 2016. The valuation is based on a notional lease at current market rates, and are level 3 inputs in the fair value hierarchy and their key significant unobservable inputs are detailed below.

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

Leased assets

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

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 recognised in the statement of comprehensive income.

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2018

B2. Property, plant and equipment (continued)

Revaluations of non-current assets

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

Useful lives and depreciation

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

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

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

Transmission Network assets:		
	Transmission lines	45-60 yrs
	Underground cables	45 yrs
	Substation establishment	60 yrs
	Transmission substation switch bays	45 yrs
	Transmission capacitors	45 yrs
	Transmission transformers	45 yrs
	Control and protection schemes	15 yrs
Distribution Network assets:		
	Distribution overhead lines	35 yrs
	Underground cables	60 yrs
	Distribution substations	40 yrs
	Zone substations	40 yrs
	Meters	30 yrs
	Service connections	35 yrs
Communication assets:		
	Communication equipment	10-40 yrs
Other plant and equipment:		
	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 2018

B2. Property, plant and equipment (continued)

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

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2018

B2. Property, plant and equipment (continued)

	2017									
Gross value	Transmission network at fair value $'000	Distribution network at fair value $'000	Communication assets at fair value $'000	Easements at fair value $'000	Land at fair value $'000	Buildings at fair value $'000	Leased assets at cost $'000	Other plant & equipment at cost $'000	Capital works in progress at cost $'000	Total $'000
At beginning of financial year	1,922,281	3,084,850	49,219	76,674	35,099	76,691	2,811	172,339	49,023	5,468,987
Transfer between classes*	(8,641)	(1,662)	199	(546)	1,266	16,316	-	(15,660)	1,017	(7,711)
Expenditure during the year	-	-	-	-	-	-	-	-	164,321	164,321
Disposals	-	(2,100)	-	-	-	-	-	(1,790)	-	(3,890)
Transfers of WIP to non-current assets	13,992	108,891	6,726	-	-	930	-	3,247	(133,786)	-
Net revaluation increments/ (decrements)	28,705	53,691	741	1,141	-	-	-	-	-	84,278
Balance at end of financial year	1,956,337	3,243,670	56,885	77,269	36,365	93,937	2,811	158,136	80,575	5,705,985
Accumulated depreciation and impairment losses										
At beginning of financial year	(642,733)	(1,678,318)	(22,763)	(47)	-	(12,733)	(281)	(115,367)	-	(2,472,242)
Transfer between classes*	4,501	1,665	(134)	-	-	(11,897)	-	13,335	-	7,470
Disposals	-	-	-	-	-	-	-	1,544	-	1,544
Net revaluation increments/ (decrements)	(9,573)	(35,210)	(343)	-	-	-	-	-	-	(45,126)
Depreciation charge for the year	(63,700)	(60,715)	(4,500)	-	-	(2,733)	(141)	(11,838)	-	(143,627)
Balance at end of financial year	(711,505)	(1,772,578)	(27,740)	(47)	-	(27,363)	(422)	(112,326)	-	(2,651,981)
Carrying amount at 30 June 2017	1,244,832	1,471,092	29,145	77,222	36,365	66,574	2,389	45,810	80,575	3,054,004
Carrying amount of assets had they been recognised at cost										
Balance at 30 June 2017	1,195,692	1,422,723	28,209	73,690	33,841	59,658	2,389	45,810	80,575	2,942,587

* The class allocation of certain assets was realigned during the transition of asset data to the ERP during 2016-17.

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2018

B2. Property, plant and equipment (continued)

Assets measured at fair value

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

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

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

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

Level 3 significant valuation inputs and relationship to fair value

Asset	Fair Value as at 30 June 2018 $'000	Fair Value as at 30 June 2017 $'000	Significant inputs	Range of inputs	Relationship of inputs to fair value
RAB assets (including Network assets, Communication assets and Easements)	2,910,124	2,822,291	CPI	+/- 1%	A 1% increase in CPI increases the fair value of assets by $29m
			AER Determination	N/A	AER determination of the asset values via regulatory revenue reset process
Buildings - Office buildings	68,463	66,574	Notional lease for 10 years at a current market rent	+/- expected rental growth and occupancy rates	The higher the expected rental growth and occupancy rates the greater the fair value
Buildings - Other			Notional lease for 5 years at a current market rent	+/- expected rental growth and occupancy rates	The higher the expected rental growth and occupancy rates the greater the fair value

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2018

B3. Impairment of assets

	2018 $'000	2017 $'000
Impairment expense - distribution network assets	2,122	-
	2,122	-

Recognition and measurement

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

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

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

Significant events

During the year TasNetworks identified one significant asset impairment event. Since 2015 TasNetworks has been working with the councils to install energy efficient LED lighting across six Southern Tasmanian council areas.
The ownership of the LED lights has transferred to the councils upon installation. The sale transaction in 2017 has highlighted a difference between the carrying value of the assets in the financial asset register and the sale price of the streetlight assets, the amounts relating to prior years was adjusted as a prior period correction (note 1(e)) with the value of the remaining streetlight assets have been written down to fair value, being the estimated sale price of the remaining assets, resulting in an impairment during the current year.

C1. Borrowings

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

	2018 $'000	2017 $'000
Current:		
Overnight borrowings	32,300	6,449
Borrowings	120,000	136,013
	152,300	142,462
Non-current:		
Borrowings	1,733,300	1,643,300
	1,733,300	1,643,300
Total Borrowings	1,885,600	1,785,762

TasNetworks' Treasury Risk Management Policy is to benchmark the debt portfolio to the Australian Energy Regulator's benchmark used in determining the revenue allowance, which is to have 1/10th of the portfolio repricing each year from year 1 to 10. The current borrowings of $120.000m (2017: $136.013m) that are classified as current will be refinanced in line with this policy. See below for details of the borrowing facilities. In 2015-16, in recognition of the low interest rate environment, the Board resolved to exclude the $100.000m of 30 year long term debt to 2046 from the benchmark debt portfolio.

Unused borrowing facilities at balance date

	Limit 2018 $'000	Drawn 2018 $'000	Undrawn 2018 $'000	Limit 2017 $'000	Drawn 2017 $'000	Undrawn 2017 $'000
Unsecured bank overdraft facility	1,005	-	1,005	1,005	-	1,005
Corporate MasterCard	3,500	243	3,257	3,500	255	3,245
Guarantee facility	10,000	-	10,000	10,000	25	9,975
TASCORP Master Loan Facility	1,955,000	1,885,600	69,400	1,900,000	1,785,762	114,238

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.

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2018

C2. Finance Leases

Lease of equipment not in the legal form of a lease

TasNetworks has an arrangement where it has exclusive use to the fibre optic telecommunications network owned by the State Government (note 1(e)). As TasNetworks control a 'more than insignificant amount of output or other utility of the asset' and as TasNetworks is responsible for the repair, upgrades and maintenance of the asset and has the ability to restrict others access to it, other than those entities specified in the agreement it is deemed that the arrangement contains a lease.

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

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Future minimum lease payments		Interest		Present Value of future minimum lease payments	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Less than one year	77	74	100	103	75	73
Between one and five years	250	240	281	291	302	291
More than five years	2,206	2,293	857	947	1,241	1,266
	2,533	2,607	1,238	1,341	1,618	1,630
Included in the consolidated financial statements as:						
Current lease liability	77	74				
Non-current lease liability	2,456	2,533				
	2,533	2,607				

Recognition and measurement

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

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2018

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

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

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

(a) Non-cash financing activities

There was an increase in debt of $50.000m in 2017 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. There have been no non-cash financing activities in 2018.

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2018

C4. Financial instruments

(a) Classification and fair value measurement of financial instruments

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

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

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2018

C4. Financial instruments (continued)

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

		Carrying Amount			Fair Value		
	Note	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	*C5(a)*	-	2,017	-	n/a	n/a	n/a
Trade and other receivables	*E1*	-	98,850	-	n/a	n/a	n/a
Total financial assets		-	100,867	-	-	-	-
Financial liabilities measured at fair value:							
Interest rate swaps	*E6*	5,251	-	-	-	5,251	-
Financial liabilities not measured at fair value:							
Trade and other payables	*E5*	-	-	80,572	n/a	n/a	n/a
Finance leases	*C2*	-	-	2,607	n/a	n/a	n/a
Borrowings - fixed rate		-	1,659,313	-	-	1,714,164	97,151
Borrowings - floating rate		-	126,449	-	-	128,346	-
Total financial liabilities		5,251	1,785,762	83,179	-	1,847,761	97,151

C4. Financial instruments (continued)

Fair values of financial instruments

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

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

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

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

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

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

Recognition and measurement

Derivative financial instruments

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

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

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

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

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

Foreign currency transactions

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

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2018

C4. 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.

Debt to total capital ratio	Note	2018	2017
		$'000	$'000
Debt (borrowings)	*C1*	1,885,600	1,785,762
Cash and cash equivalents	*C5(a)*	2,732	2,017
Net debt		1,882,868	1,783,745
Total capital (net debt + total equity)		2,836,269	2,727,832
Debt to total capital ratio		66.4%	65.4%

Risk management

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

Credit risk

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

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

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

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

C4. Financial instruments (continued)

Liquidity risk

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

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

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

Market risk

Foreign exchange risk

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

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

TasNetworks entered into three forward foreign exchange contracts during the year ended 30 June 2018 (nil in 2017). One forward foreign exchange contract remained at 30 June 2018 with a fair value of $0.024m.

Interest rate risk

The objective of TasNetworks' interest rate risk management 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 portfolio aligned to the regulatory regime within which TasNetworks operates. The AER uses a benchmark portfolio to determine the revenue allowance for the return on debt. The benchmark portfolio has 1/10th of the portfolio face value repricing each financial year from year 1 to 10 and therefore has a weighted average term to repricing (WATR) of 5 years.

Master loan facility agreement

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

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2018

C4. Financial instruments (continued)

Interest rate exposures and liquidity for the current financial year

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

	Note	Weighted average effective interest rate	0 to 1 year $'000	1 to 2 years $'000	2 to 5 years $'000	5+ years $'000	Non-interest bearing $'000	Total $'000
Financial assets:								
Cash and cash equivalents	*C5(a)*	2.00%	2,732	-	-	-	-	2,732
Trade and other receivables	*E1*	n/a	-	-	-	-	79,501	79,501
Total financial assets			2,732	-	-	-	79,501	82,233
Financial liabilities:								
Trade and other payables	*E5*	n/a	-	-	-	-	78,159	78,159
Borrowings - fixed rate		3.76%	155,161	211,789	643,346	1,204,964	-	2,215,260
Borrowings - floating rate		2.42%	32,967	66,189	25,622	-	-	124,778
Interest rate swaps		4.19%	2,635	413	239	-	-	3,287
Finance leases	*C2*	4.01%	177	177	354	3,063	-	3,771
Total financial liabilities			190,940	278,568	669,561	1,208,027	78,159	2,425,255
Net financial assets/ (liabilities)			(188,208)	(278,568)	(669,561)	(1,208,027)	1,342	(2,343,022)

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

C4. Financial instruments (continued)

Interest rate exposures and liquidity for the previous financial year

TasNetworks' exposure to interest rate risk on financial instruments and contractual maturity of financial liabilities and expected maturity for financial assets as at 30 June 2017 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	*C5(a)*	2.00%	2,017	-	-	-	-	2,017
Trade and other receivables	*E1*	n/a	-	-	-	-	98,850	98,850
Total financial assets			2,017	-	-	-	98,850	100,867
Financial liabilities:								
Trade and other payables	*E5*	n/a	-	-	-	-	80,572	80,572
Borrowings - fixed rate		3.75%	197,792	147,416	607,000	1,174,467	-	2,126,675
Borrowings - floating rate		2.36%	2,816	32,760	92,039	-	-	127,615
Interest rate swaps		4.08%	3,201	2,843	428	-	-	6,472
Finance leases	*C2*	4.01%	177	177	354	3,240	-	3,948
Total financial liabilities			203,986	183,196	699,821	1,177,707	80,572	2,345,282
Net financial assets/ (liabilities)			(201,969)	(183,196)	(699,821)	(1,177,707)	18,278	(2,244,415)

Interest rate sensitivity analysis

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

	Profit before tax		Equity after tax	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
1% increase in interest rates	323	-	900	2,575
1% decrease in interest rates	(323)	-	(920)	(2,655)

*There was no floating interest rate exposure in 2017 due to the effectiveness of the hedges in place.

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2018

C4. 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.

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

Outstanding floating for fixed contracts	Average contracted fixed interest rate 2018 %	Average contracted fixed interest rate 2017 %	Notional principal amount 2018 $'000	Notional principal amount 2017 $'000	Fair value 2018 $'000	Fair value 2017 $'000
Less than one year	5.00	4.73	75,000	30,000	(2,075)	(60)
One to two years	2.77	5.00	20,000	75,000	(244)	(4,290)
Three to five years	2.92	2.85	25,000	45,000	(498)	(901)
			120,000	150,000	(2,817)	(5,251)

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 2018

C5. Notes to the consolidated statement of cash flows

(a) Reconciliation of cash and cash equivalents

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

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

	Note	2018 $'000	2017 $'000
Cash at bank		2,706	1,772
Cash investment		26	245
		2,732	2,017

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

Net profit for the year		59,230	92,690
Depreciation and amortisation of non-current assets	*A2(b)*	155,562	155,124
(Gain)/loss on sale of property, plant and equipment	*A2(a)*	(2,969)	2,026
Impairment expense	*B3*	2,122	-
Increase/(decrease) in tax equivalent liabilities		(23,788)	16,161
(Increase)/decrease in trade and other receivables		19,349	4,436
(Increase)/decrease in inventories		(4,191)	(3,279)
(Increase)/decrease in other assets		(1,388)	80
Increase/(decrease) in trade and other payables		(2,413)	3,195
Increase/(decrease) in provisions		(2,313)	1,115
Increase/(decrease) in employee benefits		4,861	4,613
Increase/(decrease) in other liabilities		(175)	(2,954)
Net cash provided by operating activities		203,887	273,207

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 2018

TasNetworks' equity

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

D1. Retained earnings

	Note	2018 $'000	2017 $'000
Balance at beginning of financial year		177,329	134,092
Net profit for the year		59,230	92,690
Actuarial gains/(losses)	*F2*	1,875	33,107
Deferred tax effect on actuarial movement	*A4(b)*	(562)	(9,932)
Dividends paid during the year		(77,560)	(72,628)
Balance at end of financial year		160,312	177,329

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

D2. Contributed equity

	2018 $'000	2017 $'000
Balance at beginning of financial year	62,724	112,724
Distribution to owners	-	(50,000)
Balance at end of financial year	62,724	62,724

TasNetworks reduced its contributed equity in 2017 by $50.000m 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 of the *Government Business Enterprises Act 1995.*

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2018

D3. Reserves

	Note	2018 $'000	2017 $'000
Reserves comprise:			
Asset revaluation reserve		732,320	704,839
Hedge reserve		(1,955)	(3,694)
		730,365	701,145
Asset revaluation reserve			
Balance at beginning of financial year		704,839	677,433
Revaluation of assets during the year		39,257	39,152
Deferred tax liability arising on revaluation	*A4(b)*	(11,776)	(11,746)
Balance at end of financial year		732,320	704,839
Revaluation of assets during the year			
Revaluation of gross carrying value	*B2*	86,971	84,278
Revaluation of gross accumulated depreciation	*B2*	(47,714)	(45,126)
Net fair value movements on property, plant and equipment		39,257	39,152

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		(3,694)	(6,190)
Gain/(loss) recognised in equity		(717)	712
Transferred to profit or loss		3,201	2,854
Deferred tax arising on hedges	*A4(b)*	(745)	(1,070)
Balance at end of financial year		(1,955)	(3,694)

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

D4. Issued capital

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

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2018

Other assets and liabilities

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

E1. Trade and other receivables

	2018 $'000	2017 $'000
Current:		
Trade receivables	10,028	15,141
Accrued income	34,926	42,134
Unbilled use of system (UoS)	34,930	41,878
Allowance for impairment	(383)	(303)
	79,501	98,850
Movement in the allowance for impairment of debts		
Balance at beginning of financial year	(303)	(374)
Impairment gain/(loss) recognised on receivables	(360)	(121)
Amounts written off as uncollectable	284	193
Previously written off amounts recovered	(4)	(1)
Balance at the end of the year	(383)	(303)
Ageing of trade receivables that were past due but not impaired		
Less than 30 days overdue	3,108	2,311
Between 31 and 60 days overdue	470	171
Between 61 and 90 days overdue	122	904
Greater than 90 days overdue	1,543	2,265
	5,243	5,651

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 A1 Key Estimate).

Analysis of aging and collectability

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

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

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2018

E2. Inventories

	2018 $'000	2017 $'000
Inventory	22,295	18,384
Allowance for impairment on inventory	(255)	(535)
	22,040	17,849

During the financial year ended 30 June 2018 $1.960m (2017: $2.138m) of inventory was expensed in the statement of profit or loss including inventory issued to non-regulated services.

Movement in the allowance for impairment of inventory		
Balance at beginning of financial year	(535)	(553)
Impairment gain/(loss) provided for	208	(38)
Inventory written off during the year	72	56
Balance at the end of the year	(255)	(535)

Recognition and measurement

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

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

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

E3. Other assets

	Note	2018 $'000	2017 $'000
Current:			
Prepayments		4,065	4,508
FX forward agreements	*C4*	24	-
Other		993	15
		5,082	4,523
Non-Current:			
Prepayments		829	-
		829	-
		5,911	4,523

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2018

E4. Provisions

Provisions for the current financial year

	Workers Compensation $'000	Onerous Contracts $'000	Total $'000
Balance at 1 July 2017	1,090	2,376	3,466
Provision increase/(decrease) during the year	382	(1,038)	(656)
Provision used during the year	(1,245)	(412)	(1,657)
Balance at 30 June 2018	227	926	1,153
Current provisions	201	381	582
Non-current provisions	26	545	571
	227	926	1,153

Provisions for the previous financial year

	Workers Compensation $'000	Onerous Contracts $'000	Total $'000
Balance at 1 July 2016	1,155	3,053	4,208
Provision increase/(decrease) during the year	433	-	433
Provision used during the year	(498)	(677)	(1,175)
Balance at 30 June 2017	1,090	2,376	3,466
Current provisions	1,052	764	1,816
Non-current provisions	38	1,612	1,650
	1,090	2,376	3,466

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.

E4. Provisions (continued)

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.

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

Onerous contracts

In 2010 Aurora Energy entered into a 10 year lease for its office premises 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. The provision was decreased during the year to reflect the expansion of the existing tenant resulting in higher expected sublease income to be received.

E5. Trade and other payables

	2018 $'000	2017 $'000
Current:		
Trade payables	15,263	15,081
Accrued payables	25,760	31,944
Accrued expenses	8,314	5,277
GST payable	1,659	2,122
Accrued interest	27,163	26,148
	78,159	80,572

Recognition and measurement

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

E6. Other liabilities

	Note	2018 $'000	2017 $'000
Current:			
Income received in advance		9,244	7,850
Derivative contracts		2,261	2,486
		11,505	10,336
Non-current:			
Income received in advance		15,892	16,766
Derivative contracts		556	2,765
		16,448	19,531
Total:			
Income received in advance		25,136	24,616
Derivative contracts	*C4(a)*	2,817	5,251
		27,953	29,867

E6. Other liabilities (continued)

Recognition and measurement

Income received in advance

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

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

Derivative contracts

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

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

Derivative contracts in 2017 included a capital loss of $0.019m that was being amortised over a 10 year period, this was completed during the 2018 year.

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2018

TasNetworks' people

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

F1. Employee benefits

	Note	2018 $'000	2017 $'000
Current:			
Annual leave		10,099	9,590
Long service leave		12,264	12,097
Defined benefits superannuation	*F2*	5,888	4,450
Other employee benefits		3,646	3,545
		31,897	29,682
Non-current:			
Long service leave		3,640	3,312
Defined benefits superannuation	*F2*	155,900	155,508
Other employee benefits		568	517
		160,108	159,337
		192,005	189,019

Recognition and measurement

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

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

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

Salaries, annual and long service leave

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

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

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2018

F1. Employee benefits (continued)

Key Estimates
Long service leave
The long service leave provision requires management judgement of the key assumptions including:
- future increases in salaries and wages;
- future on-cost rates;
- experience of employee departures and periods of service; and
- application of an appropriate discount rate where liabilities are more than 12 months due.

Termination payments

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

Workers compensation

TasNetworks is insured by an external insurance provider 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.

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

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

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2018

F2. Defined benefit superannuation plan

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

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

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

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

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

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

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

Defined benefit superannuation risks

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

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

Significant events

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

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2018

F2. Defined benefit superannuation plan (continued)

Key Assumptions
Defined benefit superannuation plan
The actuarial assessment and key assumptions that have been used in determining this are as per the State Actuary's (Mercer) report, dated 13 July 2018 and are set out below:

Assumptions to determine defined benefit cost and start of year defined benefit obligation	**2018**	**2017**
	%	**%**
Discount rate (active members)	4.35	3.55
Discount rate (pensioners)	4.35	3.55
Expected salary increase rate	3.00	3.00
Expected rate of increase of compulsory preserved amounts	3.00	4.50
Expected pension increase rate	2.50	2.50

Assumptions to determine end of year defined benefit obligation	**2018**	**2017**
	%	**%**
Discount rate (active members)	4.30	4.35
Discount rate (pensioners)	4.30	4.35
Expected salary increase rate	3.00	3.00
Expected rate of increase of compulsory preserved amounts	3.00	3.00
Expected pension increase rate	2.50	2.50

Fair value of Scheme assets

	30 June 2018*			
	Total $'000	Quoted prices in active markets for identical assets - Level 1 $'000	Significant observable inputs - Level 2 $'000	Unobservable inputs - Level 3 $'000
Equity Securities	16,347	7,069	9,278	-
Unit Trusts	27,392	14,580	12,812	-
Direct Property	442	-	442	-
Derivative assets	-	-	-	-
TOTAL	44,181	21,649	22,532	-

*Estimated based on assets allocated to TasNetworks as at 30 June 2018 and asset allocation of the RBF Scheme as at 30 June 2017.

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2018

F2. Defined benefit superannuation plan (continued)

Fair value of own financial instruments

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

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

Assets are not held separately for each reporting entity but are held for the Fund as a whole. The fair value of Scheme assets for each reporting entity was estimated by allocating the total Fund assets in proportion to the value of each reporting entity's funded liabilities, calculated using the assumptions outlined in this report, with the exception of the discount rate. For the purposes of allocating assets to each reporting entity, we have used the Government Bond yield of 3.00%, in order to be consistent with the allocation of assets reported to the Department of Treasury and Finance.

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

	Note	2018 $'000	2017 $'000
Present value of defined benefit obligations		205,969	201,442
Total defined benefit obligation		205,969	201,442
RBF contributory scheme assets		(44,181)	(41,484)
Deficit/(surplus)		161,788	159,958
Movements in net liabilities			
Net liabilities at beginning of year		159,958	188,370
Employee benefits expense recognised in profit or loss	*A2(c)*	9,328	10,064
Employee benefits (gain)/loss recognised in other comprehensive income		(1,875)	(33,107)
Actual employer contributions		(5,623)	(5,369)
Net liability/(asset)		161,788	159,958
Current net liability	*F1*	5,888	4,450
Non-current net liability	*F1*	155,900	155,508
		161,788	159,958
Profit or loss amounts			
Employer service cost		2,488	3,488
Net interest cost	*A3*	6,840	6,576
Expense recognised		9,328	10,064
Other comprehensive income amounts			
Recognised actuarial gains/(losses)	*D1*	1,875	33,107
Other comprehensive income recognised		1,875	33,107

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.

F2. Defined benefit superannuation plan (continued)

	2018 $'000	2017 $'000
Fair value of plan assets		
Fair value of plan assets at beginning of financial year	41,484	38,954
Interest Income	1,702	1,357
Actual return on plan assets less interest income	2,147	2,559
Employer contributions	5,623	5,369
Contributions by plan participants	1,005	1,035
Benefits paid	(7,775)	(7,424)
Taxes, premiums and expenses paid	(5)	(366)
Fair value plan assets at year end	44,181	41,484

	2018 $'000	2017 $'000
Defined benefit obligations inclusive of contributions tax for disclosure purposes		
Defined benefit obligation at beginning of year	201,442	227,324
Employer service costs plus operating costs	2,488	3,488
Interest costs	8,542	7,932
Actual participants' contributions	1,005	1,035
Actual benefit paid	(7,775)	(7,424)
Taxes, premiums and expenses paid	(5)	(366)
Expected defined benefit obligation at year end	205,697	231,989
Actuarial (gain)/loss arising from changes in demographic assumptions	-	(3,247)
Actuarial (gain)/loss arising from changes in financial assumptions	1,369	(24,688)
Actuarial (gain)/loss arising from liability experience	(1,097)	(2,612)
Actual total defined benefit obligations at year end	205,969	201,442

F2. Defined benefit superannuation plan (continued)

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 2018 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	4.30% pa	3.30% pa	5.30% pa	4.30% pa	4.30% pa
Pension increase rate	2.50% pa	2.50% pa	2.50% pa	1.50% pa	3.50% pa
Defined benefit obligation ($'000)	205,969	236,798	181,192	186,921	229,105

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

Asset-Liability matching strategies

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

Funding arrangements

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

Expected contributions

TasNetworks expects to pay employer contributions for the year ended 30 June 2019 of $5.888m (2018: $4.450m).

Maturity profile of defined benefit obligation

The weighted average duration of the defined benefit obligation for TasNetworks is 14.0 years.

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2018

F3. Key Management Personnel compensation

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

	Director Remuneration		Executive Remuneration		Consolidated	
	2018	2017	2018	2017	2018	2017
	$'000	$'000	$'000	$'000	$'000	$'000
Short-term employee benefits	331	345	2,351	2,248	2,682	2,593
Post-employment benefits	26	28	222	205	248	233
Other long-term employment benefits	-	-	(113)	6	(113)	6
Termination Benefits	-	-	400	-	400	-
	357	373	2,860	2,459	3,217	2,832

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

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

Remuneration for the Board of Directors

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

2018 Director Remuneration[1]

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

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2018

F3. Key Management Personnel compensation (continued)

2017 Director Remuneration[1]

Name	Position	Period	Director Fees $'000	Committee Fees $'000	Superannuation[2] $'000	Total $'000
Non-Executive Directors						
Dr D Norton AO	Chairperson	Full term	113	-	11	124
Mr D Challen AM	Director	To 3/11/2016	19	-	2	21
Mr K Murray	Director	Full term	52	-	5	57
Mr M Davies	Director	To 3/11/2016	19	-	2	21
Dr J Sargison	Director	Full term	52	-	5	57
Mrs J Doyle[3]	Director	Full term	57	-	-	57
Mr P McIntyre	Director	From 3/11/2016	33	-	3	36
Total			345	-	28	373

Board remuneration notes and statements

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

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

3 Mrs J Doyle's directors fees were paid directly to her employer.

Non-Executive Directors

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

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

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2018

F3. Key Management Personnel compensation (continued)

Executive Remuneration

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

2018 Executive Remuneration

Name	Position	Period	Base Salary[1] $'000	Superannuation[2] $'000	Vehicles[3] $'000	Total Remuneration Package $'000	Termination Benefits[4] $'000	Other Long-term Benefits[5] $'000	Total[6] $'000
Mr L Balcombe	Chief Executive Officer	Full year	461	20	-	**481**	-	20	501
Ms B Clark	General Manager Strategy and Stakeholder Relations and General Manager Project Marinus	Full year	263	25	-	**288**	-	8	296
Mr W Tucker	General Manager Strategic Asset Management	Full year	252	32	7*	**291**	-	(4)	287
Ms N Brown	General Manager Works and Service Delivery	To 06/04/2018	238	29	-	**267**	400	(178)	489
Mr M Paine	General Manager Customer Engagement and Network Operations	Full year	266	25	-	**291**	-	19	310
Mr R Burridge	General Manager Finance and Business Services	Full year	282	36	-	**318**	-	4	322
Ms J McDermott	General Manager People and Performance	Full year	274	26	-	**300**	-	18	318
Mrs P Bartlett	Company Secretary and General Counsel	Full year	242	23	-	**265**	-	(7)	258
Mr M Westenberg	General Manager Technology and Performance	From 04/06/2018	14	1	-	**15**	-	-	15
Mr M Ash	General Manager Network, Commercial and Major Customer	From 04/06/2018	21	2	-	**23**	-	2	25
Sub-total			2,313	219	7	**2,539**	400	(118)	2,821
Acting arrangements									
Mr M Ash	Acting General Manager Works and Service Delivery	14/04/2018 to 03/06/2018	31	3	-	**34**	-	5	39
Sub-total			31	3	-	**34**	-	5	39
Total			2,344	222	7	**2,573**	400	(113)	2,860

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2018

F3. Key Management Personnel compensation (continued)

2017 Executive Remuneration

Name	Position	Period	Base Salary[1] $'000	Superannuation[2] $'000	Vehicles[3] $'000	Total Remuneration Package $'000	Termination Benefits[4] $'000	Other Long-term Benefits[5] $'000	Total[6] $'000
Mr L Balcombe	Chief Executive Officer	Full year	455	20	-	**475**	-	(12)	463
Ms B Clark	General Manager Strategy and Stakeholder Relations	Full year	251	24	-	**275**	-	4	279
Mr W Tucker	General Manager Strategic Asset Management	Full year	235	29	-	**264**	-	2	266
Ms N Brown	General Manager Works and Service Delivery	Full year	284	27	-	**311**	-	39	350
Mr M Paine	General Manager Customer Engagement and Network Operations	Full year	259	25	-	**284**	-	(10)	274
Mr R Burridge	General Manager Finance and Business Services	Full year	271	34	-	**305**	-	11	316
Ms J McDermott	General Manager People and Performance	Full year	268	25	-	**293**	-	(21)	272
Mrs P Bartlett	Company Secretary and General Counsel	Full year	225	21	-	**246**	-	(7)	239
Total			2,248	205	-	**2,453**	-	6	2,459

Executive remuneration notes and statements

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

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

2 Superannuation means the contribution to the superannuation fund of the individual. Superannuation benefits for members of a defined benefit scheme were calculated using a notional cost based on 12.8%

3 Includes total cost of providing and maintaining vehicles provided for private use, including registration, insurance, fuel and other consumables, maintenance cost and parking (including notional value of parking provided at premises that are owned or leased and fringe benefits tax). *This amount is being recovered from the employee.

4 Termination benefits were paid to Ms N Brown upon termintion of her employment which was effective 6 April 2018. This include annual and long service leave entitlements ($169,066), three months salary in lieu of notice ($67,110) and a redundancy payment ($163,571). These payments were in accordance with her employment contract entitlements.

5 Other long-term benefits consists of annual and long service leave movements.

6 Executive remuneration may vary year to year due to the timing of refunds on expired novated vehicle lease contracts.

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

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2018

F3. Key Management Personnel compensation (continued)

Executive Remuneration

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

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

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

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

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

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

Termination benefits

Termination payments during the current year included:

- Ms N Brown ceased employment effective 6 April 2018 and was paid $399,749 representing the balance of her accrued annual, long service leave entitlements ($169,066), plus three months salary in lieu of notice ($67,110) and a redundancy payment of ($163,571) consistent with her employment contract entitlements.

Acting arrangements

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

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

In the current year, Mr M Ash performed the executive duties of the role of General Manager Works and Service Delivery for the period shown following the departure of Ms N Brown until such time the position was made redundant.

Statement of compliance

TasNetworks has complied with the Government's Director and Executive Remuneration Guideline for the year ended 30 June 2018 with the exception of three variations. These are the confidentiality and termination provisions contained in executive contracts and the setting of initial remuneration of the TasNetworks current CEO which pre-date the June 2014 Shareholders Direction to comply with the Guidelines.

F4. Related party disclosures

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

- a subsidiary or joint venture;

- key management personnel or close family members of key management personnel;

- Ministers or close family members of Ministers;

- any entities controlled or jointly controlled by key management personnel or their close family members; and

- any entities controlled or jointly controlled by Ministers or their close family members.

Equity interest in related parties

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

Key management personnel compensation

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

Transactions with key management personnel and related parties

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

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

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

Controlling entity

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

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

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2018

Commitments

This section contains information about the commitments TasNetworks has made.

G1. Operating Leases

Operating leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2018 $'000	2017 $'000
Within one year	1,726	1,469
One year or no later than five years	1,821	3,196
Greater than five years	1,187	783
	4,734	5,448

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 $1.701m (2017: $1.934m) 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	3,017	2,713
One year or no later than five years	8,786	9,455
Greater than five years	18,640	20,763
	30,443	32,931

Recognition and measurement

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

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

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2018

G2. Commitments for expenditure

	2018 $'000	2017 $'000
Capital expenditure commitments+:		
Property, plant and equipment		
Within one year	86,377	63,885
One year or later and no later than five years	51,386	33,126
Greater than five years	358	-
	138,121	97,011
Operating expenditure commitments*:		
Other expenses (excluding leases disclosed in note G1)		
Within one year	37,783	21,071
One year or later and no later than five years	20,260	8,753
Greater than five years	221	655
	58,264	30,479

* Operating expenditure commitments relate predominately to asset maintenance services.

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

G3. Contingent liabilities and contingent assets

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 $0.015m (2017: $0.525m) 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.

TasNetworks is seeking damages against ABB Australia Pty Ltd for supply of defective products between 1996 and 2012. A Supreme Court writ has been issued against the supplier. The full value of the amount recoverable cannot be reliably estimated and as such the Directors have determined that no provision is required.

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2018

Other information

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

H1. Auditor's remuneration

	2018 $	2017 $
Amounts received, or due and receivable by the Auditor-General for services provided to TasNetworks:		
Audit of financial statements	223,760	245,150
Audit of regulatory financial statements	12,870	12,370
Audit of revenue reset Regulatory Information Notice*	321,200	307,000
	557,830	564,520

* 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.

H2. Overseas travel

	2018 No. of trips	2017 No. of trips	2018 $	2017 $
Travel undertaken	6	2	54,647	5,645
Travel paid (not yet taken)	0	1	-	13,534
Travel by CEO	1	1	20,929	1,546
Travel by Board	0	0	-	-
			75,576	20,725

H3. Consolidated entity

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

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

Reference to TasNetworks in these financial statements is referring to the Group except in note H4 when it relates to the parent entity only.

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2018

H3. Consolidated entity (continued)

Name of entity	Country of incorporation	Ownership interest 2018 %	2017 %
Parent entity			
Tasmanian Networks Pty Ltd	Australia		
Subsidiaries			
TasNetworks Holdings Pty Ltd	Australia	100	-
Ezikey Group Pty Ltd*	Australia	-	100
Fortytwo24 Pty Ltd+	Australia	100	100

* During the year the subsidiary Ezikey Group Pty Ltd was wound up and voluntarily deregistered.

\+ Fortytwo24 Pty Ltd was formally known as AuroraCom Pty Ltd, it is now a 100% owned subsidiary of TasNetworks Holdings Pty Ltd.

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2018

H4. Parent entity disclosures

As at, and throughout the financial year ended 30 June 2018, the parent entity of the Group was Tasmanian Networks Pty Ltd.

	Parent	
	2018	2017
	$'000	$'000
Result of parent entity		
Profit for the period	59,230	92,690
Other comprehensive income	30,533	53,077
Total comprehensive income for the period	89,763	145,767
Financial position of parent entity at year end		
Current assets	114,112	124,685
Non current asset	3,250,974	3,140,276
Total assets	3,365,086	3,264,961
Current liabilities	274,520	271,925
Non current liabilities	2,137,165	2,051,838
Total liabilities	2,411,685	2,323,763
Total equity of the parent entity comprising of:		
Contributed equity	62,724	62,724
Reserves	730,365	701,145
Retained earnings	160,312	177,329
Total equity	953,401	941,198
Parent entity contingent liabilities		
Contingent liabilities of the parent entity are set out in note G3, 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	86,377	63,885
One year or later and no later than five years	51,386	33,126
Greater than five years	358	-
	138,121	97,011

H5. Changes in accounting policies

Accounting standards adopted

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

AASB amendment	Affected standard	Nature of change to accounting policy
AASB 2016-1	Amendments to Australian Accounting Standards - Recognition of Deferred Tax Assets for unrealised losses	Amends AASB 112 Income Taxes to clarify: • Unrealised losses on debt instruments give rise to deductible temporary differences regardless of whether the debt holder expects to recover the carrying amount by sale or use. • The carrying amount of an asset does not limit estimated probable future tax profits. • Estimates for future taxable profits exclude deductions resulting from the reversal of deductible temporary differences. • An entity assesses a deferred tax asset in combination with other deferred tax assets. TasNetworks has no unrealised losses to be factored into the deferred taxes calculation for 2017-18.
AASB 2016-2	Amendments to Australian Accounting standards - Disclosure Initiative: Amendments to AASB 107	Amends AASB 107 *Statement of Cash Flows* to require entities preparing general purpose financial statements 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. These additional disclosures have been made in the financial statements as required (see note C3) and will not have a significant impact for TasNetworks.

H5. Changes in accounting policies (continued)

Future pronouncements

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

AASB amendment	Affected standard	Nature of change to accounting policy	Effective date	Application date for TasNetworks
AASB 15 AASB 2014-5 AASB 2016-3	Revenue from contracts with customers Amendments to standards arising from AASB 15 Amendments to Standards - Clarification to AASB 15	New standard replaces AASB 118 Revenue. Requires revenue to be recognised in line with contractual obligations. See below for the expected impact of this standard on TasNetworks financial statements.	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. See below for detailed analysis on the impact of this standard on TasNetworks financial statements.w	1 January 2018	30 June 2019

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2018

H5. 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. TasNetworks has completed an initial assessment of the potential impact on its consolidated financial statements but has not yet completed its detailed assessment. Due to the low number and value of leases Management does not expect a material impact to the financial statements on the introduction of this standard. Please see below for further information on the application of this standard.	1 January 2019	30 June 2020
AASB 1059	Service Concession Arrangements: Grantors	AASB1059 has been issued to provide accounting guidance for public sector entities (grantors) who enter into service concession arrangements with private sector operators. The standard requires grantors to recognise a service connection asset or liability on the balance sheet. This standard will not impact the financial statements as TasNetworks does not have any public or private service concession arrangements in place whereby an operator provides a public service on behalf of TasNetworks.	1 January 2019	30 June 2020

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.

TasNetworks is required to adopt AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers* from 1 July 2018. TasNetworks has assessed the estimated impact that the initial application of these standards will have on its consolidated financial statements. The estimated impact of the adoption of these standards on TasNetworks' equity as at 1 July 2018 is based on assessments undertaken to date and is summarised below. The actual impacts of adopting the standards at 1 July 2018 may change due to:

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

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2018

H5. Changes in accounting policies (continued)

AASB 15 Revenue from contracts with customers

Provision of regulated services

Revenue earned for the use of the distribution system and customers connected to the transmission network is currently recognised at the time of the provision of the electricity to those customers.

Under AASB 15 the performance obligation remains the same and the revenue will continue to be recognised at the time of the provision of electricity to customers.

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 from customers for a long term connection to the electricity system. Currently 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. Under AASB 15 this income received in advance constitutes a significant financing arrangement on which TasNetworks will be required to recognise an interest expense on the financing received from the customer. The rate used to calculate this interest is the borrowing rate at which TasNetworks would have been able to secure for borrowings over the term of the agreement.

Due to the long term nature of these agreements and the annuity effect of applying an interest charge to the amounts received in advance TasNetworks expects to see a reduction in retained earnings of $2.705m on implementation, this reflects the change in revenue recognition from a straight line basis.

Where projects are still progressing or customer contributions for capital works have been received in advance, 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. Under AASB 15 the performance obligation has been identified as being met only when the work has been completed. In these cases the timing of recognising revenue will be deferred. The initial adjustment to reduce retained earnings is expected to be $4.198m reflecting the income recognised as a percentage of stage complete as at 30 June 2018.

Provision of non-regulated telecommunication services

TasNetworks provided fibre telecommunication services to a number of customers until 30 June 2018, at which point these contracts were novated to its subsidiary, Fortytwo24 Pty Ltd. TasNetworks charged an initial connection fee and a monthly ongoing charge. Under AASB 15 a change in revenue recognition has been identified in relation to the initial connection fee paid by customers. This revenue will be recognised from 1 July 2018 over the life of their connection agreement as this is the point at which we meet the performance obligation of the contract.

Transition

TasNetworks plans to adopt AASB 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application being 1 July 2018. As a result, TasNetworks will not apply the requirements of AASB 15 to the comparative period presented.

H5. Changes in accounting policies (continued)

AASB 9 Financial Instruments

Classification of financial assets

AASB 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

The new classification requirements will not have a material impact on TasNetworks as it only has financial assets of cash and trade receivables.

Impairment of financial assets

The incurred loss model will be replaced by a forward looking expected credit loss model under AASB 9. This will require judgement in how changes in economic factors will impact the expected credit losses which will be determined on a probability-weighted basis.

TasNetworks expects that given the nature of its operations and its customers there will not be a significant change in its impairment of trade receivables under AASB 9.

Under AASB 9 customers are grouped based on services provided including electricity retailers, transmission network customer, telecommunications customer and other customers. These groups are then assessed on their expected credit losses which remain very low for electricity customers, and low for telecommunication customers. The other customers which make up a small percentage of revenue are then assigned a weighted average loss rate. This methodology aligns significantly with the existing methodology adopted by TasNetworks and therefore it is not expected that there will be a material difference in the impairment of trade and other receivables.

The cash and cash equivalents are held with bank and financial institution counterparties with credit ratings of AA- to AA+ based on Standard and Poors ratings as at 31 March 2018, and as such TasNetworks considers that its cash and cash equivalents have low credit risk.

Classification of financial liabilities

AASB 9 largely retains the classification requirements of financial liabilities from the previous standard and as such TasNetworks will not be impacted by the any classification changes to its financial liabilities at 1 July 2018.

Hedge accounting

The type of hedge accounting relationships that TasNetworks currently designate (interest rate swaps) meet the requirements of AASB 9 and are aligned with TasNetworks' risk management strategies and objectives.

It is expected that there is no impact to the financial statements of TasNetworks on application of AASB 9 hedge accounting requirements.

Disclosure

AASB 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and expected credit losses. TasNetworks assessment included an analysis to identify data gaps against current processes and is in the process of implementing the system and controls changes that it believes will be necessary to capture the required data.

Transition

Due to the minimal impact of this standard TasNetworks will take advantage of the following exemptions when applying AASB 9 which must be applied retrospectively that will result in no prior period adjustments on the adoption of this standard:

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

Notes to the consolidated financial statements (continued)
For the financial year ended 30 June 2018

H5. Changes in accounting policies (continued)

AASB 16 Leases

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

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

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

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

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

H6. Subsequent events

Expansion of Group

The Australian Energy Regulator (AER) issued a Distribution Ring-fencing Guideline on 1 December 2016. This Guideline requires an electricity distributor to legally separate regulated services from any unregulated (non distribution) services. TasNetworks' unregulated (non distribution) services include telecommunication, data centre and information technology infrastructure services. In response to these Guidelines TasNetworks has established a wholly owned subsidiary company, Fortytwo24 Pty Ltd to provide these "other unregulated services" which commenced operations on 1 July 2018.

Dividends

Subsequent to the end of the financial year, the Board recommended a dividend of $43.104m (2017: $77.560m) in respect to the current financial year. The dividend recommended is in line with the Tasmanian Government Dividend Policy. The financial effect of this dividend has not been bought to account in the financial statements for the year ended 30 June 2018.

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 2018

The directors declare that:

(a) in the directors' opinion, there are reasonable grounds to believe that Tasmanian Networks Pty Ltd will be able to pay its debts as and when they become due and payable;

(b) the financial statements comply with international financial reporting standards as disclosed in these notes to the financial statements;

(c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including being in compliance with Australian Accounting Standards and giving a true and fair view of the financial position and performance of Tasmanian Networks Pty Ltd.

(d) the directors have been provided with declarations from the Chief Executive Officer and the General Manager Strategy, Finance and Business Services for the financial year.

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

On behalf of the directors

Dan Norton

Dr Daniel Norton AO
Chairman
Hobart

9 August 2018

Mrs Joanne Doyle
Director
Hobart

9 August 2018

TasNetworks
Delivering your power