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PARLIAMENT OF TASMANIA

REPORT OF THE AUDITOR-GENERAL

GOVERNMENT DEPARTMENTS AND PUBLIC BODIES 2001-2002

PART B - VOLUME TWO
Government Businesses

No. 2 of 2002 - November 2002

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TABLE OF CONTENTS

VOLUME TWO

GOVERNMENT BUSINESSES

Government Businesses are entities that are established under specific legislation that defines the purpose for which they are established and their general functions.

The State Government owns a diverse portfolio of businesses, comprising 14 Government Business Enterprises and 9 State Owned Companies operating in many commercial markets including various primary industries, port operations, transport, financial services, construction, forestry and public utilities.

These businesses have over $3.6bn in net assets, generate $2.0bn in operating revenues, employ over 3 500 full time employees and are of fundamental importance to the Tasmanian economy.

The following sections of this chapter provide commentary on groups of Government Businesses as follows:

- Government business enterprises;
- State owned corporations; and
- Port corporations.

For each Government Businesses there is a five-year comparative analysis of financial information for the entity with appropriate commentary. Where necessary amounts have been reclassified in order to maintain consistency.

In the case of Port Corporations tables of current year information have been included for comparative purposes.

TAXATION EQUIVALENTS

The taxation equivalents regime provides for the payment of income tax equivalents and capital gains tax equivalents to the Consolidated Fund.

Income tax equivalents, are calculated, determined and paid to the Treasurer as if the Commonwealth income tax laws had applied. Capital gains tax (CGT) equivalents form part of the income tax equivalents regime.

From 1 July 2001 a National Taxation Equivalent Regime (NTER) has been established with the primary objective of promoting competitive neutrality, through the uniform application of income tax laws across NTER entities and their privately owned counterparts. The Australian Taxation Office has been contracted by the Treasurer to administer the NTER from 1 July 2001.

The major change for Tasmanian entities entering the NTER has been the allowance of a deduction for superannuation contributions paid to superannuation funds rather than the previous practice of allowing a deduction for movements in superannuation fund provisions for the emerging cost of unfunded schemes.

For many government businesses this change resulted in the recording of a Future Income Tax Benefits (FITB) for that part of the Superannuation provision for which no tax deduction had been claimed, and the disclosure of income tax revenue in the same amount. It should be noted that there was no additional tax paid in relation to this transaction as it arises from the timing difference between providing for the expense and actually paying the superannuation fund on an emerging cost basis in later years.

The Department of Treasury and Finance have advised Government businesses that agreement has been reached with the Australian Taxation Office that there will be no adjustments for any deductions previously claimed for superannuation under the Tasmanian taxation equivalents regime. The intention of this decision is to avoid administratively complex adjustments for little benefit.

Government businesses were advised by the Department of Treasury and Finance that the amount of income tax revenue recorded as income from these transactions should not be included in the calculation of dividends payable to the Government.

Under the NTER the Tasmanian government is also the taxing authority and has forgone future income tax collections in the same amount. Details of the more significant benefits claimed by government businesses are as follows:

Government Business	**$'000s**
Aurora Energy Pty Ltd	6 637
Forestry Tasmania	15 316
Hydro Electric Corporation	57 705
MAIB	308
Southern Regional Cemetery Trust	353
Tasmanian Grain Elevators Board	364
The Public Trustee	1 193
Transend Networks Pty Ltd	2 150
Total	**84 026**

From a whole of Government perspective the additions to equity recorded by Government business as a result of the changed treatment of superannuation under the NTER are exactly offset by the loss of future income tax revenue $84.026m by the Government.

Collectively Government businesses recorded additional revenue of $84.026m as a consequence of entry to the NTER and the decision to exclude this revenue from calculation of dividend payments has potentially deprived the Government of $42.013m in dividend payments.

GUARANTEE FEES

Guarantee fees are based on the amount of financial accommodation utilised by the entity and all its subsidiaries at the end of the preceding year. For example, an explicit government guarantee is provided to businesses borrowing through the Tasmanian Public Finance Corporation. The Treasurer determines guarantee fees (subject to a maximum prescribed percentage of 1%).

At the present time government businesses are categorised as risk group A or risk group A-, with rates set at 0.33% and 0.43% respectively for the 2001-2002 financial year.

DIVIDENDS

Consistent with commercial practice, the Board of a business recommends to the portfolio or shareholding ministers whether a dividend should be paid in respect of the previous financial year and the amount of that dividend. The ministers will subsequently determine the dividend payable.

As a general rule a dividend can only be paid out of profits earned, and Guidelines for Tasmanian GBEs require a distribution of 50% of after-tax profits as a minimum standard benchmark across all GBEs. As a secondary reference benchmark, dividends plus tax equivalent payments should equal at least 70 per cent of pre-tax profit. This reinforces the requirement for a minimum 50 per cent after tax distribution.

PROVISION FOR DIVIDENDS

Accounting Standard AASB 1041 “Provisions, Contingent Liabilities and Contingent Assets” applicable from 1 July 2002 will change the disclosure requirements for dividends. Dividends declared, determined or publicly recommended on or before the reporting date must be recognised as a liability for the entire amount that remained undistributed at that date, regardless of the extent to which they are expected to be paid in cash. Dividends declared by the time of completion of the financial report but not on or before the reporting date must not be recognised as a liability as at the reporting date, but must be disclosed (in aggregate) in the financial report.

An entity's constitution or enabling legislation may empower the governing body to declare dividends, that is, make a binding decision. In addition, in the public sector, a Minister or the owner may determine a dividend. Alternatively, a governing body may have the power to recommend a dividend and final approval of that recommendation rests with another group, such as shareholders. Even in the case where final approval is required for a recommended dividend the public announcement of that recommendation gives rise to a valid expectation in those affected.

The general practice in past financial periods has been for entities to provide for a dividend that is to be recommended by the directors to shareholders for approval.

Under the requirements of the revised accounting standard to apply from 1 July 2002 this practice would not be allowed. A number of government businesses have early adopted the requirements of this accounting standard and not provided for a dividend in the financial statements for the year ended 30 June 2002.

SHAREHOLDER VALUE ADDED

A pilot study of Shareholder Value Added (SVA) methodology was undertaken in a number of government businesses during 2000 and the Government subsequently approved the introduction of SVA reporting in selected businesses during 2000-2001. Implementation of SVA was extended to the remaining businesses during 2001-02.

SVA represents the economic profits generated by the business in excess of the return required to the capital providers. GBEs and SOCs are required to report SVA results and in particular, focus on analysing the trend of SVA over time for each business.

The methodology recognises that equity and debt financiers need to be compensated for bearing investment risk. SVA provides an insight into the investment performance of the business by contrasting the opportunity cost of capital with the return generated by the business.

The cost of capital is an opportunity cost and is calculated by reference to the return expected from other like assets that have a similar risk profile. The weighted average cost of capital (WACC) represents the minimum return required by capital providers from their investment in the business, having regard to the opportunity cost of debt and equity finance.

Cost of debt is calculated as the weighted average cost of borrowings plus any applicable guarantee fees.

The cost of equity capital is typically determined using the Capital Asset Pricing Model (CAPM), where the cost of equity capital equals the prevailing 10 year Commonwealth bond rate (presently about 6%) plus a risk premium (Treasury recommend the use of 6.5%) adjusted for the relative risk of the investment when compared to the market as a whole.

Typically the cost of equity capital would range between 10% and 12.5% before tax for government businesses depending on the relative risk beta of the particular business compared to the market as a whole. Assuming a taxation rate of 30%, after tax returns of government business enterprises and state owned companies should be of the order of 7% to 8.5% (nominal post-tax).

1 GOVERNMENT BUSINESS ENTERPRISES

BACKGROUND

Statutory authorities that are subject to provisions of their enabling legislation, and also subject to the provisions of the *Government Business Enterprises Act 1995* (GBE Act), are referred to as Government Business Enterprises (GBEs).

Tasmania's GBEs collectively have net assets valued in excess of $2.7bn, employ over 1 550 people, and generate more than $1.1bn in operating revenue annually, and are of fundamental significance to the Tasmanian economy.

The GBE Act made provision for a consistent framework for more accountable, responsive and commercially focussed GBEs. The GBE Act commenced on 1 July 1995 and repealed the *State Authorities Financial Management Act 1990.*

The GBE Act was consistent with the national competition reform agenda and formed part of legislative reform package that also included reform of the electricity supply industry and the establishment of the Government Prices Oversight Commission. The reforms introduced by the GBE Act included:

- A clearer commercial focus for GBEs;
- Greater accountability for financial performance;
- Increased return on investment from each GBE;
- Payment of financial returns to the State; and
- Improved services to clients and consumers.

The GBE Act provides for the payment of guarantee fees, taxation equivalents and dividends by the majority of GBEs.

The following four GBEs make up over 98% of the net assets controlled by all GBEs, earn almost 95% of GBE operating revenue and employ 80% of staff employed in GBEs:

- Forestry Tasmania
- Hydro-Electric Corporation
- Motor Accidents Insurance Board
- Tasmanian Public Finance Corporation.

1.1 CIVIL CONSTRUCTION SERVICES CORPORATION

INTRODUCTION

The Corporation was established under the *Civil Construction Services Corporation Act 1994*. The principal function of the Corporation is to carry on a civil construction and maintenance business.

At 30 June 2002 the Responsible Minister was the Minister for Infrastructure, Energy and Resources. Subsequent to 9 August 2002, the Responsible Minister became the Minister for Justice and Industrial Relations.

AUDIT OF THE 2001-02 FINANCIAL STATEMENTS

Financial statements were signed on 28 August 2002 and received by the Tasmanian Audit Office on 29 August 2002. An unqualified opinion was given on 3 September 2002.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	**1998-99**	**1999-00**	**2000-01**	**2001-02**
	$'000s	$'000s	$'000s	$'000s	$'000s
Operating revenue	22 461	20 488	19 529	26 527	27 108
Non-operating revenue	435	166	899	219	469
Total Revenue	**22 896**	**20 654**	**20 428**	**26 746**	**27 577**
Borrowing costs	0	0	15	96	208
Depreciation	789	579	642	873	1 025
Other operating expenses	23 099	19 896	19 176	27 580	25 774
Non-operating expenses	508	132	428	123	1 178
Total Expenses	**24 396**	**20 608**	**20 261**	**28 672**	**28 185**
Result from ordinary activities	**(1 500)**	**46**	**167**	**(1 926)**	**(608)**
Income tax expense	539	18	(26)	569	(145)
Result after taxation	**(961)**	**28**	**193**	**(1 357)**	**(753)**

Comment

The loss of $1.500m before taxation that occurred in 1997-98 was the result of a redundancy program costing $2.482m following significant staff reductions during that year. The reduced level of operating activity is reflected in reduced operating revenue in 1998-99 and 1999-00.

The increase in operating revenue in 2000-01 of $6.998m was due mainly to new contracts in Victoria and South Australia, $3.187m, and increased construction activity in Tasmania, $2.731m. This expansion in activity resulted in an increase of $8.396 in other operating expenses. As a result of low margins and losses incurred as a result of the South Australian contracts, a loss of $1.926m before taxation was incurred in that year.

The reduction in Other operating expenses in 1998-99 was a result of reduced operating activities mentioned above. The reduction in other operating expenses of $1.806m in 2001-02 was the result of savings following the exit from South Australia and a general effort to contain costs. These savings were partly offset by property write-downs of $0.800m included as non-operating expenses. Had this write-down not occurred, a small profit would have been achieved.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	5 467	4 939	2 396	0	1 393
Receivables	788	1 034	876	3 052	2 507
Inventories	130	132	166	78	72
Other	1 811	1 226	1 007	1 275	1 251
Total Current Assets	**8 196**	**7 331**	**4 445**	**4 405**	**5 223**
Property, plant & equipment	6 306	5 811	6 627	7 787	8 212
Other	1 005	833	913	1 102	1 037
Total Non-Current Assets	**7 311**	**6 644**	**7 540**	**8 889**	**9 249**
Payables	2 980	1 761	1 347	2 239	2 183
Borrowings	0	0	102	903	481
Provisions	903	654	855	1 001	1 107
Other	0	91	69	214	642
Total Current Liabilities	**3 883**	**2 506**	**2 373**	**4 357**	**4 413**
Borrowings	0	0	459	1 179	3 015
Provisions	1 509	1 340	928	889	929
Total Non-Current Liabilities	**1 509**	**1 340**	**1 387**	**2 069**	**3 944**
Net Assets	**10 115**	**10 129**	**8 225**	**6 868**	**6 115**
Capital	10 031	10 031	8 031	8 031	8 031
Retained profits	84	98	194	(1 163)	(1 916)
Total Equity	**10 115**	**10 129**	**8 225**	**6 868**	**6 115**

Comment

The increase in receivables in 2000-01 was due to an increase in the number of contracts, with some larger contracts having payments due well after the end of the financial year. The reduction in 2001-02 is due to increased concentration on recovery action and a change in the timing of the contract payments around year-end.

Payables were significantly higher in 1997-98 due to accrued redundancy payments, while the increase in 2000-01 was due mainly to increased work in progress accruals, $0.686m, incurred on some major projects in line with comments above.

Property plant and equipment increased in 1999-00 and 2000-01 due to the hire purchase of some major plant vehicles used in civil construction operations. The increase in 2001-02 is primarily the result of the purchase of the heavy plant fleet from Forestry Tasmania for $2.394m. This increase was offset by asset sales of $0.769m for surplus plant, and a write-down of $0.800 in land and buildings following a revaluation. The use of hire purchase agreements has resulted in increased borrowings from 1999-00 to 2001-02.

The decrease in capital in 1999-00 was due to an equity reduction of $2.000m paid to Treasury.

CASH POSITION

	1997-98	**1998-99**	**1999-00**	**2000-01**	**2001-02**
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	22 803	20 188	19 904	26 618	27 704
Payments to suppliers and employees	(21 936)	(20 835)	(19 708)	(28 755)	(25 419)
Interest received	278	169	191	27	36
Borrowing costs	0	0	0	(96)	(150)
Taxation expense	(298)	0	0	0	0
Cash from operations	**847**	**(478)**	**387**	**(2 206)**	**2 171**
Payments for P, P & Equipment	(1 540)	(217)	(1 769)	(649)	(2 982)
Proceeds from sale of P, P & E	753	166	899	219	469
Cash used in investing activities	**(787)**	**(51)**	**(870)**	**(430)**	**(2 513)**
Repayment of borrowings	0	0	(45)	(245)	(222)
Dividends paid	(537)	0	(2 015)	(96)	0
Proceeds from borrowings	0	0	0	0	2 537
Cash from financing activities	**(537)**	**0**	**(2 060)**	**(341)**	**2 315**
Net increase in cash	**(477)**	**(529)**	**(2 543)**	**(2 977)**	**1 973**
Cash at the beginning of the period	5 945	5 468	4 939	2 396	(581)
Cash at end of the period	**5 468**	**4 939**	**2 396**	**(581)**	**1 392**

Comment

The variability in both receipts from customers and payments to suppliers and employees is in line with previous comments with respect to the change in civil construction operations.

The significant deficit in cash from operations in 2000-01, $2.206m, was a direct result from poor trading, particularly with South Australian contracts, in addition to a reduction in cash received through works in progress, which was evidenced by the increase in receivables for the 2000-01 financial year. The increase in cash from operations in 2001-02 is the result of improved collection of receivables and improved trading during the year.

The increase in payments for property, plant and equipment in the past three financial years is consistent with the increases noted in the Statement of Financial Position reported above.

Proceeds from borrowings in 2001-02 include a loan of $2.494m for the purchase of the heavy plant fleet from Forestry Tasmania.

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01	2001-02
Financial Performance						
Result from operations ($'000s)		(1 427)	13	(303)	(2 022)	101
EBIT ($'000s)		(1 500)	46	182	(1 830)	(400)
Operating margin	>1.0	0.94	1.00	0.98	0.93	1.00
Return on assets		-9.6%	0.3%	1.4%	-14.5%	-2.9%
Return on equity		-9.1%	0.3%	2.1%	-18.0%	-11.6%
Financial Management						
Debt to equity		0.0%	0.0%	6.8%	30.3%	57.2%
Debt to total assets		0.0%	0.0%	4.7%	15.7%	24.2%
Interest cover	>3	-	-	12	-19	-2
Current ratio	>1	2.11	2.93	1.87	1.01	1.18
Cost of debt	7.5%	-	-	5.35%	7.26%	7.46%
Debt collection	30 days	11	17	15	41	34
Creditor turnover	30 days	8	8	13	11	9
Returns to Government						
Dividends paid or payable ($'000s)		0	2 015	96	0	0
Dividend payout ratio	50%	0.0%	7145.4%	49.7%	0.0%	0.0%
Dividend to equity ratio	6%	0.0%	19.9%	1.0%	0.0%	0.0%
Income tax paid or payable ($'000s)		0	0	0	0	0
Effective tax rate	30%	-	-	-	-	-
Total return to the State ($'000s)		0	2 015	96	0	0
Total return to equity ratio		0.0%	19.9%	1.0%	0.0%	0.0%
Other information						
Staff numbers FTEs		135.0	87.2	99.5	129.8	130.1
Average staff costs ($'000s)		53	45	49	48	53

Comment

The Corporation has recorded total operating losses of $3.638m over the past five-year period and is only marginally profitable in the good years. This performance reflects intense competition in the construction industry.

The debt to equity ratio has had significant increases in 2000-01 and 2001-02 due to lower equity following a special dividend of $2.000m in 1998-99, combined with an increase in hire purchase agreements and other borrowings taken out to fund asset purchases.

The current ratio, although still above one, has also decreased significantly in recent years and reflects reduced cash holdings following a net investment of $4.651m in

Property, plant and equipment over the last five years, coupled with dividend payments of $2.648m over the same period, offset by net borrowings of $2.025m.

The debt collection result for 2000-01 and 2001-02 is in line with previous comments made about current receivables.

Apart from the special dividend of $2.000m in 1998-99 there has been little return to the Government by way of dividends and income tax equivalents.

OVERALL COMMENT

The audit of the accounts for the 2001-02 year was completed with satisfactory results.

1.2 EGG MARKETING BOARD

INTRODUCTION

The Egg Marketing Board is governed by the *Egg Industry Act 1988* and is a business entity under the *Government Business Enterprises Act 1995*.

The Board had the role of ensuring that producers have an adequate supply of eggs to meet demand all year round. Major functions associated with this objective included egg production control through a hen quota scheme, receipts of surplus eggs for processing into egg products for sale to the bakery/catering market, obtaining eggs for producers in short supply, product promotion and quality assurance.

The Board ceased commercial operations on 30 April 2001. Pure Foods Eggs Pty Ltd entered into a purchase arrangement from 1 May 2001 and from that date took over the Board's responsibility to receive and process surplus eggs. All plant, packaging stock and egg product stocks have been sold to Pure Foods Eggs Pty Ltd for $0.265m. The sale was completed on 31 October 2001.

The *Egg Industry Bill 2002* passed both Houses of Parliament in June 2002, but has not yet been enacted. The members of the Board resigned effective 31 July 2002.

The Responsible Minister is the Minister for Primary Industries, Water and Environment.

AUDIT OF THE 2001-02 FINANCIAL STATEMENTS

Draft financial statements were received on 17 October 2002. Signed financial statements were received and an unqualified audit report was issued on 5 November 2002.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98 $'000	1998-99 $'000	1999-00 $'000	2000-01 $'000	2001-02 $'000
Operating revenue	338	328	247	211	2
Non-operating revenue	10	5	7	188	12
Total Revenue	**348**	**333**	**254**	**399**	**14**
Depreciation	22	25	24	0	0
Other operating expenses	322	328	309	675	41
Total Expenses	**344**	**353**	**333**	**675**	**41**
Result from ordinary activities	**4**	**(20)**	**(79)**	**(276)**	**(26)**
Income tax expense	(1)	(6)	(25)	0	0
Result after taxation	**5**	**(14)**	**(54)**	**(276)**	**(26)**

Comment

The decline in Operating revenue in 1999-00 was due to an increase in the amount of seconds eggs purchased from producers in line with the Board’s obligation to purchase these products when necessary. The decline in 2000-01 was due to the reduced number of months of trading as a result of the cessation of commercial operations. The only Operating revenue received in 2001-02 was interest.

Non-operating revenue in 2000-01 included the profit on sale of its assets to Pure Foods Eggs Pty Ltd and in 2001-02 included the profit on sale of its remaining assets.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	33	64	30	21	34
Receivables	101	61	143	246	1
Investments	120	100	0	97	0
Inventories	70	74	66	0	0
Total Current Assets	**324**	**299**	**239**	**364**	**35**
Property, plant & equipment	150	142	136	3	0
Other	28	31	85	0	0
Total Non-Current Assets	**178**	**173**	**221**	**3**	**0**
Payables	8	8	11	6	0
Borrowings	0	0	0	300	0
Provisions	78	65	75	0	0
Total Current Liabilities	**86**	**73**	**86**	**306**	**0**
Provisions	11	8	37	0	0
Total Non-Current Liabilities	**11**	**8**	**37**	**0**	**0**
Net Assets	**405**	**391**	**337**	**61**	**35**
Reserves	30	30	30	0	0
Retained profits	375	361	307	61	35
Total Equity	**405**	**391**	**337**	**61**	**35**

Comment

The decrease in Receivables in 1998-99 was due principally to the timing of egg product sales. The increase in 1999-00 was partly due to an increase in Exemption fee debts for some major producers. Receivables for 2000-01 included $0.239m payable by Pure Foods Eggs Pty Ltd under the contract of sale and for 2001-02 consisted of net GST less Withholding Tax, refundable by the Australian Taxation Office.

Cash and Investments decreased in 1999-00 due mainly to the decline in Operating Revenue. In 2001-02 the balance of the Investment was transferred to the bank account.

Borrowings of $0.300m in 2000-01 represented a temporary loan from the Department of Primary Industries, Water and Environment, repaid on 31 October 2001, to allow the Egg Marketing Board to meet its financial commitments pending the receipt of proceeds from the sale of its assets.

Provisions increased in 1999-00 due to an increase in the Provision for deferred income tax and a reduction in leave taken during that year.

CASH POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	753	755	643	733	14
Payments to suppliers and employees	(736)	(735)	(764)	(1 001)	(41)
Interest received	6	6	4	2	2
Cash from operations	**23**	**26**	**(117)**	**(266)**	**(25)**
Payments for P, P & Equipment	(38)	(34)	(29)	0	0
Proceeds from sale of P, P & E	20	19	12	54	241
Cash used in investing activities	**(18)**	**(15)**	**(17)**	**54**	**241**
Proceeds from borrowings	0	0	0	300	0
Repayment of borrowings	0	0	0	0	(300)
Cash from financing activities	**0**	**0**	**0**	**300**	**(300)**
Net increase in cash	**5**	**11**	**(134)**	**88**	**(84)**
Cash at the beginning of the period	148	153	164	30	118
Cash at end of the period	**153**	**164**	**30**	**118**	**34**

Comment

Payments to suppliers and employees were higher than normal in 2000-01 due to staff redundancy payments.

Proceeds from the sale of Property, plant & equipment in both 2000-01 and 2001-02 reflect the sale of the commercial operations.

Proceeds from borrowings in 2000-01 represented the temporary loan from the Department of Primary Industries, Water and Environment, and repaid on 31 October 2001.

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01	2001-02
Financial Performance						
Result from operations ($'000s)		(6)	(25)	(86)	(464)	N/a
EBIT ($'000s)		4	(20)	(79)	(276)	N/a
Operating margin	>1.0	0.98	0.93	0.74	0.31	N/a
Return on assets		0.8%	-4.1%	-17.0%	-66.7%	N/a
Return on equity		1.3%	-3.5%	-14.8%	-138.7%	N/a
Financial Management						
Debt to equity		-	-	-	491.8%	N/a
Debt to total assets		-	-	-	81.7%	N/a
Interest cover	>3	-	-	-	-	N/a
Current ratio	>1	3.77	4.10	2.78	1.19	N/a
Cost of debt	7.5%	-	-	-	-	N/a
Debt collection	30 days	109	68	211	426	N/a
Creditor turnover	30 days	9	9	13	3	N/a
Returns to Government						
Dividends paid or payable ($'000s)		0	0	0	0	N/a
Dividend payout ratio	50%	-	-	-	-	N/a
Dividend to equity ratio	6%	-	-	-	-	N/a
Income tax paid or payable ($'000s)		0	0	0	0	N/a
Effective tax rate	30%	-	-	-	-	N/a
Total return to the State ($'000s)		0	0	0	0	N/a
Total return to equity ratio		0.0%	0.0%	0.0%	0.0%	N/a
Other information						
Staff numbers FTEs		5	5	5	5	-
Average staff costs ($'000s)		30	38	51	N/a	N/a

Comment

The performance indicators for the five years generally reflect a declining financial performance.

Due to the sale of the commercial operations, most of the indicators for 2000-01 and 2001-02 are not applicable.

OVERALL COMMENT

During 2001-02 most activities of the Board were associated with the wind-down of its operations. As at 30 June 2002, assets consisted of Cash, $0.034m, and Receivables (relating to GST owing), $0.001m. There were no outstanding liabilities.

1.3 FORESTRY TASMANIA

INTRODUCTION

Forestry Tasmania (FT) was established under the *Forestry Amendment (Forestry Corporation) Act 1994*, which amended the *Forestry Act 1920*. The Corporation has responsibility for optimising both the economic returns from its wood production activities and the benefits to the public and the State of the non-wood values of forests.

The core business of the Corporation is the sustainable production and delivery of forest products and services for optimum community benefit.

The Corporation's Board is comprised of six members, five appointed by the Governor on the recommendation of the Minister, and the Managing Director.

At 30 June 2002 the Responsible Minister was the Minister for Infrastructure, Energy and Resources, and on 9 August 2002 the Responsible Minister became the Minister for Economic Development, Energy and Resources.

AUDIT OF THE 2001-02 FINANCIAL STATEMENTS

The Tasmanian Audit Office received signed financial statements of Forestry Tasmania on 29 October 2002 and an unqualified audit report was issued on 30 October 2002.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	1998-99	1999-00	2000-01	2001-02
	$'000s	$'000s	$'000s	$'000s	$'000s
Operating revenue	90 071	95 796	116 225	169 870	159 183
Non-operating revenue	2 329	2 411	2 138	2 018	5 379
Total Revenue	**92 400**	**98 207**	**118 363**	**171 888**	**164 562**
Borrowing costs	179	321	321	48	757
Depreciation	5 971	7 020	7 827	8 564	8 556
Other operating expenses	65 076	80 055	99 072	136 226	128 980
Non-operating expenses	3 196	3 006	2 811	2 289	18 327
Total Expenses	**74 422**	**90 402**	**110 031**	**147 127**	**156 620**
Result from ordinary activities	**17 978**	**7 805**	**8 332**	**24 761**	**7 942**
Income tax expense	6 971	3 413	(5 097)	5 665	1 240
Result after taxation	**11 007**	**4 392**	**13 429**	**19 096**	**6 702**

Comment

The significant rise in the 2000-01 in operating revenue was due principally to the introduction of Australian Accounting Standard AAS 35 ‘Self Generating and Regenerating Assets’, whereby movements in the Forest asset are recorded as revenues or expenses. Previously, these amounts were noted as asset revaluations and hence were adjusted against equity. In that year, the increase in the forest estate asset amounted to $32.118m.

During the course of the 2001-02 audit it was found that this prior year valuation was in error, as appropriate costs were not correctly distributed through the Forest Valuation Model. As a result, and in accordance with Australian Accounting Standard AASB 1018 “Statement of Financial Performance”, Forestry disclosed a Correction of a Fundamental Error within the 2001-02 profit calculation amounting to $12.253m. This represents the revenue overstatement in the 2000-01 year. This correction of a fundamental error is included within Non-operating expenses for 2001-02 above. It should be noted that the fundamental error has no impact on cash flows or dividends paid or payable to the shareholders in either the 2000-01 or 2001-02 financial years.

Apart from the fundamental error, Non-operating expenses amounted to $6.074m. This larger amount equals the written down value of assets sold during the 2001-02 year, which has increased due to Forestry selling its fleet of heavy plant to Civil Construction Corporation. There was an equivalent increase in Non-operating revenues, which reflects the cash proceeds received for this sale.

The increase in borrowing costs in the current year is due to a bank overdraft being maintained through the majority of the year.

The considerable increase in Other operating expenses for the 2000-01 financial year was due principally to the increase in the share of the softwood joint venture expenses of $6.865m and an increase in contractors' expense of $13.570m. The decease in the current year is predominantly due to a decrease in current crop expenditure, $4.690m, relating to the capital costs of the forest asset expensed in accordance with AAS 35. Employee benefits and expenses have also decreased by $3.332m in the 2001-02 year.

The negative income tax expense for the year 1999-00 was due in part to the write-back of forest establishment costs on the sale of softwood plantations and an adjustment for over provision of tax from the prior year.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	4 228	6 994	21 882	3 229	11 126
Receivables	2 244	2 331	11 190	12 569	16 488
Investments	17 036	0	0	0	0
Inventories	3 360	3 506	4 294	5 918	5 828
Other	60 861	61 946	24 510	26 596	27 601
Total Current Assets	**87 729**	**74 777**	**61 876**	**48 312**	**61 043**
Property, plant & equipment	30 976	30 326	29 292	31 616	22 211
Investments	0	12 602	13 440	14 560	13 759
Other	855 125	494 567	737 278	784 912	739 542
Total Non-Current Assets	**886 101**	**537 495**	**780 010**	**831 088**	**775 512**
Payables	2 474	2 132	4 778	8 407	5 708
Borrowings	687	694	157	6 457	4 085
Provisions	17 993	11 930	17 850	20 093	19 655
Other	6 612	7 992	9 214	12 417	14 492
Total Current Liabilities	**27 766**	**22 748**	**31 999**	**47 374**	**43 940**
Borrowings	700	206	48	3	10 030
Provisions	52 878	56 900	53 685	59 061	62 365
Total Non-Current Liabilities	**53 578**	**57 106**	**53 733**	**59 064**	**72 395**
Net Assets	**892 486**	**532 418**	**756 154**	**772 962**	**720 220**
Capital	272 057	272 057	232 057	232 057	232 057
Reserves	614 099	256 941	515 935	519 405	443 829
Retained profits	6 330	3 420	8 162	21 500	44 334
Total Equity	**892 486**	**532 418**	**756 154**	**772 962**	**720 220**

Comment

The increase in Cash in 1999-00 was due principally to the retention of cash to fund costs of the softwood joint venture project. This included retention of part of the sale proceeds from the joint venture to establish a Forestry Infrastructure Fund. The significant decrease of cash funds for the 2000-01 year was due principally to a market downturn in all sectors of the market, coupled with a high capital expenditure program. The rise in the cash balance at the end of the 2001-02 year is due to the proceeds of the new borrowings not being fully utilised, and a decrease in capital expenditure to $12.359m.

The increase in Receivables since 1999-00 is due to delays in settlement with large trade debtors as some amounts are currently in dispute.

The decrease in current investments for the year 1998-99 to nil is due firstly to regional forest agreement funds being received directly into Forestry Tasmania's trading bank account instead of a separate investment account. Secondly, the superannuation fund investment of $12.602m was reclassified as a non-current investment.

Property, plant and equipment decreased by $9.405m in the 2001-02 year due principally to the sale of Forestry's heavy plant fleet to Civil Construction Corporation, at a written down value of $6.074m.

Other Current and Non-current asset movements are due to changes in assumptions implicit in the Forest Valuation. Over the past five years the Forest Valuation model has undergone some significant adjustments in how data is captured and how a current value of the forest asset is measured. In light of AAS 35, the valuation approach is now consistent, which has lead to less volatility being noted since the 2000-01 year.

The movement in the Forest asset during 2001-02 amounted to $64.878m, which is predominantly the result of a reclassification of road assets from a deprival valuation basis to a cost basis. As part of this reclassification, all previous revaluation increments were wound back, to show the road assets at their actual historical cost. This process was consistent with the requirements of Accounting Standard AASB 1041 'Revaluation of Non-Current Assets' where an entity can choose to disclose an asset class on either a cost or fair value basis. This accounting treatment also explains the decrease noted in Reserves for the 2001-02 year.

The increase in payables in 2000-01 was due largely to unpaid invoices relating to Tahune Airwalk Project and very tight cash restrictions, which resulted in an increase in trade creditors.

The increase in borrowings in 2000-01 was due to the establishment and utilisation of a bank overdraft facility. In 2001-02 this was replaced with long-term borrowings.

CASH POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	93 687	99 382	109 709	126 829	126 184
Payments to suppliers and employees	(65 867)	(82 366)	(93 918)	(121 199)	(114 278)
Interest received	524	1 080	2 653	821	341
Borrowing costs	(127)	(251)	(123)	(73)	(757)
Taxation expense	(3 087)	(4 134)	(2 128)	0	0
Cash from operations	**25 130**	**13 711**	**16 193**	**6 378**	**11 490**
Proceeds from investments	20 886	5 056	0	0	1 600
Payments for investments	(31 239)	0	0	0	0
Payments for P, P & Equipment	(26 534)	(35 472)	(32 189)	(24 617)	(12 359)
Proceeds from sale of P, P & E	22 611	30 977	74 139	2 018	5 379
Cash used in investing activities	**(14 276)**	**561**	**41 950**	**(22 599)**	**(5 380)**
Proceeds from borrowings	23	241	0	0	14 000
Repayment of borrowings	(1 747)	(740)	(400)	(157)	(42)
Dividends paid	(9 890)	(11 007)	(42 855)	(8 687)	(5 759)
Cash from financing activities	**(11 614)**	**(11 506)**	**(43 255)**	**(8 844)**	**8 199**
Net increase in cash	**(760)**	**2 766**	**14 888**	**(25 065)**	**14 309**
Cash at the beginning of the period	4 988	4 228	6 994	21 882	(3 183)
Cash at end of the period	**4 228**	**6 994**	**21 882**	**(3 183)**	**11 126**

Comment

The increase in Receipts from customers in 2000-01 is due to increased mill door and woodchip sales and additional receipts for increased wood stumpages. This increased activity accounts for the increase in Payments to suppliers and employees to $121.199m in the same year. This figure decreased to $114.278m in 2001-02 due principally to a decrease of $4.690m for forest activity payments, which are included in the cash flow statement to ensure compliance with AAS 35.

The large amount for proceeds for investments in 1997-98 is due to the receipt of the regional forests agreement funds, in addition to the superannuation investment funds. As received, these funds were placed into interest earning investments, which explains the payments for investments noted in the same year.

The decrease in payments for property and equipment for 2001-02 reflects reduced expenditure in the current year particularly for roads and forest establishment.

Dividends paid in 1999-00 included a dividend paid from capital, amounting to $40.000m.

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01	2001-02
Financial Performance						
Result from operations ($'000s)		18 845	8 400	9 005	25 032	20 890
EBIT ($'000s)		18 157	8 126	8 653	24 809	8 699
Operating margin	>1.0	1.26	1.10	1.08	1.17	1.15
Return on assets		2.2%	1.0%	1.2%	2.9%	1.0%
Return on equity		1.4%	0.6%	2.1%	2.5%	0.9%
Financial Management						
Debt to equity		0.2%	0.2%	0.0%	0.8%	2.0%
Debt to total assets		0.1%	0.1%	0.0%	0.7%	1.7%
Interest cover	>3	101	25	27	517	11
Current ratio	>1	3.16	3.29	1.93	1.02	1.39
Cost of debt	7.5%	8.7%	6.9%	6.9%	8.4%	8.4%
Debt collection	30 days	29	32	43	43	40
Creditor turnover	30 days	24	15	25	29	20
Returns to Government						
Dividends paid or payable ($'000s)		4 955	7 302	48 687	5 759	4 961
Dividend payout ratio	50%	45.0%	166.3%	362.6%	30.2%	74.0%
Dividend to equity ratio		0.6%	1.0%	7.6%	0.8%	0.7%
Income tax paid or payable ($'000s)		4 697	1 283	313	0	0
Effective tax rate	30%	26.1%	16.4%	3.8%	0.0%	0.0%
Total return to the State ($'000s)		9 652	8 585	49 000	5 759	4 961
Total return to equity ratio		1.3%	1.2%	7.6%	0.8%	0.7%
Other information						
Staff numbers FTEs		585	591	559	564	532
Average staff costs ($'000s)		46	46	52	54	51

Comment

In each of the past five financial years, Forestry had obtained significant results from operations, averaging a result from operations of $16.434m per annum. Despite this, Forestry’s return on equity was low, peaking at 2.5% during the 2000-01 year.

The Return on assets and equity figures above are impacted upon by the fundamental error described earlier. If the fundamental error had been correctly identified in the prior year, the return on assets and equity for the 2000-01 would have reduced to 1.8% and 1.4% respectively. Furthermore, the return on assets and equity in the 2001-02 year would have increased to 2.8% and 2.1% respectively, which equates to the best financial result in the five years under analysis.

Total returns to the State total $77.957m over the five years. This total is heavily influenced by the capital dividend paid in 1999-00 amounting to $40.000m. Due to Forestry’s high equity, which principally represents the forest asset of the state, the total return to equity ratio remains low, in line with the analysis above.

OVERALL COMMENT

The audit of the accounts for the 2001-02 year was completed with satisfactory results.

1.4 HYDRO-ELECTRIC CORPORATION

INTRODUCTION

The Hydro-Electric Corporation (HEC) was established as a Commission by the *Hydro-Electric Commission Act 1944* and corporatised by the *Hydro-Electric Corporation Act 1995*. The Corporation trades as *Hydro Tasmania*.

The HEC is a Government Business Enterprise and is the renewable electricity generator for the State of Tasmania. The HEC also operates a consulting division, is a renewable energy developer and owns the electricity distribution assets on the Bass Strait Islands.

Since its construction in 1971 as thermal backup to Tasmania's hydro system, Bell Bay Power Station has operated two 120 megawatt oil-fired turbines, and is presently converting one of the two units to operate on natural gas. When commissioning is complete, the gas-fired unit will produce electricity for HEC, supplementing the hydro production. The second oil-fired unit has been placed on six-week standby, and may also to be converted to operate on natural gas.

Bell Bay Power Pty Ltd (BBP) is a subsidiary of HEC established on 20 December 2001 to own and operate the Bell Bay Power Station.

Hydstra Pty Ltd was established as a subsidiary company on 27 September 2001 and holds 100% of the shareholding of Hydsys Pty Ltd. Hydsys Pty Ltd was acquired by Hydstra Pty Ltd on 1 October 2001.

Located in Hobart, Canberra and San Diego USA, Hydstra Group (comprising Hydstra Pty Ltd and Hydsys Pty Ltd) commenced operations on the 1st October 2001, merging the operations of HEC's TimeStudio business with the Hydsys/Hydron business of Hydsys Pty Ltd.

The Group develops and markets software for the acquisition, storage, analysis and reporting of environmental time-series data, such as rainfall, lake level, wind speed and river flow.

In addition to being a key component of the operational infrastructure of HEC, the Group's software is marketed internationally, with key markets being North America and Europe.

The Group is 100% owned by HEC.

The Auditor-General has been appointed as the auditor of all three subsidiary companies.

In addition, HEC has three dormant subsidiary companies: Roaring 40s Wind Pty Ltd and Taswind Pty Ltd, both involved in wind generation activity, and Lofty Ranges

Power Pty Ltd, which was registered on 26 April 2002 for the purposes of joint venture activity in South Australia. No transactions took place for these companies during 2001-02, however it is understood that they will become operational during 2002-03.

Environmental approval for the Basslink power cable project was achieved in mid-July 2002. The Basslink Joint Advisory Panel, established to conduct this assessment, recommended the project should proceed as it has substantial benefits for Tasmania, Victoria and Australia. The Panel was satisfied that environmental impacts of Basslink are minimal.

Tasmanian Government Jurisdictional Approval was gained in early August and both Victorian and Federal Jurisdictional Approvals occurred in mid-September 2002.

The formal Notice to Proceed, which triggers the design and construction of the cable, will be issued by the proponent once contract amendments are finalised and all Conditions Precedent have been met.

The financial information presented below represents the consolidated accounts of HEC and its subsidiaries.

As at 30 June 2002 the Responsible Minister was the Minister for Infrastructure, Energy and Resources. Subsequent to 9 August 2002, the Responsible Minister became the Minister for Economic Development, Energy and Resources.

AUDIT OF THE 2001-02 FINANCIAL STATEMENTS

Signed financial statements of HEC were received on 28 August 2002 and an unqualified audit report was issued on 30 August 2002.

FINANCIAL RESULTS

The HEC was disaggregated into three separate businesses on 1 July 1998. The distribution/retail and transmission businesses (assets and liabilities) were transferred to Aurora Energy Pty Ltd (Aurora) and Transend Networks Pty Ltd (Transend) respectively. After disaggregation the HEC retained the generation, systems control and consulting businesses. The systems control business was transferred to Transend on 1 July 2000.

BBP commissioned the conversion of Unit A, an oil-fired turbine to gas-fired during 2001-02. The converted Unit will have a value of approximately \$20.000m and comprises a receivable amount and corresponding revenue of \$20.000m on BBP's financial statements representing the value of the work done on BBP's behalf. As well, the Company has entered into contracts for the purchase and supply of gas and supply of O&M services. Provision for the financial impact of these future costs has increased other operating costs by \$20.000m. BBP will be utilising 100% of the output from the converted unit during 2003. The asset conversion is shown in the Financial Position as at 2002 as an increase in generating assets at fair value, together with increases in receivables and payables, reflecting the revenue and costs associated with converting Unit A to gas operation.

FINANCIAL PERFORMANCE

	*1997-98	1998-99	1999-00	2000-01	2001-02
	$'000s	$'000s	$'000s	$'000s	$'000s
Operating revenue	537 255	324 029	323 873	331 746	370 527
Non-operating revenue	350	0	0	0	0
Total Revenue	**537 605**	**324 029**	**323 873**	**331 746**	**370 527**
Borrowing costs	157 267	108 022	127 633	87 637	73 869
Depreciation	118 739	74 862	76 502	76 848	79 495
Other operating expenses	166 906	113 701	117 624	120 725	157 201
Non-operating expenses	4 175	652	438	252	(94)
Total Expenses	**447 087**	**297 237**	**322 197**	**285 462**	**310 471**
Result from ordinary activities	**90 518**	**26 792**	**1 676**	**46 284**	**60 056**
Income tax expense	55 100	24 201	(5 547)	31 060	(25 453)
Result after taxation	**35 418**	**2 591**	**7 223**	**15 224**	**85 509**

*1997-98 shows Financial Performance prior to disaggregation. This should be noted when comparing results since 1998.

Comment

The increase in operating revenue in 2001-02 was primarily due to increases in electricity sales revenue of $18.900m and recognition of revenue associated with Bell Bay Unit A conversion.

The increase in borrowing costs in 1999-00 was due to the early termination of certain loans and interest rate swaps as part of a debt-restructuring program, resulting in a loss of $26.800m. The reduction in 2000-01 was as a result of lower interest rates and further loan restructures that also had a flow-on effect in 2001-02.

Other operating expenses increased during 2001-02 due to increases in labour and material costs of $20.300m and future cost provisions of $20.000m associated with BBP.

Income tax expense in 1999-00 amounted to $16.900m and was offset by an adjustment of $22.500m due to a change in company income tax rates. This resulted in a tax equivalent benefit of $5.500m for the year. In 2001-02 income tax expense amounted to $32.200m and was offset by an increase in future income tax benefit (FITB), $57.700m, resulting from entry into the National Taxation Equivalent Regime (NTER). Prior to this adjustment profit after tax from operations stood at $27.800m. The nature of this adjustment was that, prior to entry to the NTER, the Corporation claimed a deduction for the annual movement in the provision for superannuation for taxation purposes, but is now only able to claim the actual superannuation payments made. The FITB of $57.700m results from being able to claim the provision for superannuation of $192.000m in future years as payments are made on an emerging cost basis to the Retirement Benefits Fund Board.

FINANCIAL POSITION

	*1997-98 $'000s	1998-99 $'000s	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s
Cash	224	249	274	2 035	1 617
Receivables	84 427	34 420	36 772	37 971	54 700
Investments	32 933	32 740	20 000	30 200	50 357
Inventories	10 710	4 254	6 180	3 323	647
Other	7 124	7 928	763	17 235	13 955
Total Current Assets	**135 418**	**79 591**	**63 989**	**90 764**	**121 276**
Receivables	380	140	0	0	0
Property, plant & equipment	3 891 233	3 112 562	3 180 746	3 245 157	3 335 057
Investments	1 000	0	0	816	16
Other	12 587	6 703	4 903	5 220	58 669
Total Non-Current Assets	**3 905 200**	**3 119 405**	**3 185 649**	**3 251 193**	**3 393 742**
Payables	55 073	45 896	35 484	35 924	72 694
Borrowings	290 969	317 738	136 384	209 763	189 641
Provisions	138 855	81 546	81 088	83 330	110 181
Other	3 797	230	602	334	841
Total Current Liabilities	**488 694**	**445 410**	**253 558**	**329 351**	**373 357**
Borrowings	1 104 812	728 846	900 175	826 791	846 913
Provisions	384 149	314 255	292 473	299 688	306 834
Other	0	0	2 000	242	0
Total Non-Current Liabilities	**1 488 961**	**1 043 101**	**1 194 648**	**1 126 721**	**1 153 747**
Net Assets	**2 062 963**	**1 710 485**	**1 801 432**	**1 885 885**	**1 987 914**
Reserves	2 061 386	1 548 549	1 677 335	1 794 882	1 839 322
Retained profits	1 577	161 936	124 097	91 003	148 592
Total Equity	**2 062 963**	**1 710 485**	**1 801 432**	**1 885 885**	**1 987 914**

*1997-98 shows Financial Position prior to disaggregation. This should be noted when comparing results since 1998.

Comment

Cash and investment balances fluctuate depending on levels of cash reserves at the time.

The increase in receivables and payables reflects revenues and costs associated with the conversion of Bell Bay Unit A to gas.

Other current assets have substantially increased in 2000-01 due principally to a prepayment associated with a large contract. Other current assets have remained high as at June 2002 due to the increase in FITB as mentioned above.

Provisions have increased in 2001-02 due mainly to providing for future costs associated with Bell Bay operation.

In recent years, HEC has restructured its loan portfolio, which has impacted on the split between current and non-current borrowings.

The reduction in reserves and the increase in retained profits in 1998-99 are as a result of the disaggregation process mentioned above. A number of reserves were transferred to retained profits, as they were no longer required within the new organisation.

Of note in this regard, the Fuel Cost Reserve, which had been maintained to meet future thermal generation costs, has been written back to Retained Profits this year due to the conversion of Bell Bay Unit 1 to gas. Although the remaining Unit 2 will still operate on fuel oil, the power station will not be as heavily reliant on fuel oil in the future.

Reserves as at 30 June 2002 comprise a General Insurance Reserve of $9.900m and an Asset Revaluation Reserve of $1.829bn.

During the year HEC executed a financial instrument relating to the Basslink project where the HEC pays a fixed amount and receives a variable amount. The facility fee obligations to the Basslink project include an interest rate exposure similar to that of a floating interest rate exposure on amortising debt. The primary objective of HEC in the use of derivatives for the Basslink project is to manage the market risks that arise from Basslink facility fee payments, including:

- The foreign exchange risk inherent in the facility fee payment obligation;
- The interest rate risk inherent in the facility fee payment obligation; and
- The interest rate risk arising from floating exposures in the facility fee.

These risks have been hedged through the execution of a derivative transaction with a single counterparty. As at 30 June 2002 the notional principal amount for this instrument was $510.680m. The derivative transaction was correctly accounted for at 30 June 2002. At financial close, a liability representing the facility fee swap will be brought to account. The amount of this liability is variable; hence the precise amount is not known at the time of publication. Should Basslink proceed as anticipated the instrument will be amortised over the period of the contract, expected to be 25 years. In the event that Basslink does not proceed, the derivative transaction would be marked to market and brought to account as a profit or loss according to accounting standards in existence at the time. This instrument was not in place at 30 June 2001.

CASH POSITION

	*1997-98	1998-99	1999-00	2000-01	2001-02
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	539 841	336 456	320 414	353 433	352 340
Payments to suppliers and employees	(157 080)	(109 167)	(125 724)	(163 980)	(118 977)
Interest received	217	384	336	300	442
Contributions to Consolidated Fund	(14 776)	(123)	(161)	(101)	(11)
Borrowing costs	(159 390)	(104 554)	(119 371)	(86 048)	(72 133)
Income Tax Equivalent Paid	(30 790)	(33 258)	(17 355)	(21 328)	(35 578)
Cash from operations	**178 022**	**89 738**	**58 139**	**82 276**	**126 083**
Payments for investments	0	0	0	0	(1 943)
Payments for P, P & Equipment	(131 372)	(30 652)	(22 092)	(26 503)	(55 577)
Proceeds from sale of P, P & E	5 518	1 385	5 754	2 634	564
Cash used in investing activities	**(125 854)**	**(29 267)**	**(16 338)**	**(23 869)**	**(56 956)**
Proceeds from borrowings	597 400	1 283 000	1 620 906	572 127	534 380
Repayment of borrowings	(601 363)	(1 222 767)	(1 557 282)	(558 944)	(525 655)
Repayment of Treasury Loans	(27 763)	(59 510)	(74 055)	(14 531)	(9 021)
Dividend Paid	(27 153)	(57 709)	(42 591)	(45 062)	(49 230)
T/f Money Market Investments	0	(2 500)	0	0	0
Cash from financing activities	**(58 879)**	**(59 486)**	**(53 022)**	**(46 410)**	**(49 526)**
Net increase in cash	**(6 711)**	**985**	**(11 221)**	**11 997**	**19 601**
Cash at the beginning of the period	37 185	30 474	31 459	20 238	32 373
Cash at end of the period	**30 474**	**31 459**	**20 238**	**32 235**	**51 974**

*1997-98 shows Financial Cash Position prior to disaggregation. This should be noted when comparing results since 1998.

Comment

Payments to suppliers were abnormally high in 2000-01 due mainly to a significant increase in prepayments ($12.000m) for the year and debt restructuring costs of $8.000m.

Borrowing costs have generally been reducing due to lower interest rates and loan restructuring in 2000-01.

Adjustments due to a change in company income tax rates resulted in lower than normal income tax equivalent payments for 1999-00.

Increased activity related to wind farm development in the North-West of the State and a large capital upgrade programme is the principal reason for an increase in payments for property, plant and equipment in 2001-02.

In 1999-00 HEC restructured its loan portfolio, resulting in larger than normal repayments and proceeds from borrowings.

Money market investments valued at $2.500m were transferred to Aurora in 1998-99 as part of the disaggregation process.

FINANCIAL ANALYSIS

	Bench Mark	*1997-98	1998-99	1999-00	2000-01	2001-02
Financial Performance						
Result from operations ($'000s)		94 343	27 444	2 114	46 536	59 962
EBIT ($'000s)		247 785	134 814	129 309	133 921	133 925
Operating margin	>1.0	1.21	1.09	1.01	1.16	1.19
Return on assets		5.9%	3.7%	4.0%	4.1%	3.9%
Return on equity	12%	1.6%	0.1%	0.4%	0.8%	4.4%
Financial Management						
Debt to equity		67.7%	61.2%	57.5%	55.0%	52.1%
Debt to total assets		34.5%	32.7%	31.9%	31.0%	29.5%
Interest cover	>3	1.6	1.2	1.0	1.5	1.8
Current ratio	>1	0.28	0.18	0.25	0.28	0.32
Cost of debt	7.5%	11.1%	8.8%	12.3%	8.5%	7.1%
Debt collection	30 days	61	40	43	43	35
Creditor turnover	30 days	14	20	21	43	61
Returns to Government						
Dividends paid or payable ($'000s)		57 709	42 591	45 062	49 230	60 503
Dividend payout ratio	50%	162.9%	1643.8%	623.9%	323.4%	70.8%
Dividend to equity ratio		2.6%	2.3%	2.6%	2.7%	3.1%
Income tax paid or payable ($'000s)		38 262	16 116	9 764	23 591	31 346
Effective tax rate	30%	42.3%	60.2%	582.6%	51.0%	52.2%
Total return to the State ($'000s)		95 971	58 707	54 826	72 821	91 849
Total return to equity ratio		4.3%	3.1%	3.1%	3.9%	4.7%
Other information						
Staff numbers FTEs		0	0	628	639	722
Average staff costs ($'000s)		0	0	74	75	80

*1997-98 shows Financial Analysis prior to disaggregation. This should be noted when comparing results since 1998.

Comment

HEC's equity is made up of substantial reserves impacting the overall return on equity, which continues to improve although remains well below that which would be expected for an unregulated commercial undertaking. However returns to the State are boosted by the special dividend of $40.000m each year.

The interest cover ratio of between one and two over the past five years indicates that revenues are low compared to the borrowing costs required to service the loan portfolio.

Over the past five years, current liabilities have consistently exceeded current assets resulting in a current ratio of substantially less than one.

The dividend payout ratio reduced substantially in 2001-02 due to a larger result after taxation that included an increase in FITB's, $57.700m, resulting from entry into the National Taxation Equivalent Regime. Treasury has stated that this component of the result is not assessable for dividends.

The effective tax rate increased significantly in 1999-00 due to a small result from ordinary activities and adjustments due to changes in company income tax rates.

The creditor turnover ratio has increased due to the cash management approach used to process the increased volume of transactions associated with the construction of the wind farm in Woolnorth and the increased expenditure associated with the capital/upgrade programme.

Average staff costs include redundancy payments. The increase in staff numbers has occurred across all divisions of the HEC. In regard to Consulting, employees have increased due to the purchase of Hydsys Pty Ltd and the opening of consulting offices in Melbourne and Adelaide. In Generation the increase of staff is due to preparations for entry into the national electricity market, and development of Basslink. Increased operational and maintenance expenditure in the upgrade and refurbishment of power stations, and the development and construction of wind farms has also resulted in extra staff being hired. With these projects continuing and growing during the next few years, the trend is anticipated to continue.

FTE staff numbers were not available for the first two years.

OVERALL COMMENT

Retained profits of the organisation have been steadily decreasing, principally due to the special dividend of $40.000m that is required to be paid to the Government each year. The increase in 2001-02 is due primarily to an increase in FITB's, $57.700m, resulting from entry into the National Taxation Equivalent Regime.

However, total equity has increased each year since disaggregation due to annual revaluations of property, plant and equipment flowing through to the asset revaluation reserve.

HEC has been able to pay the special dividend from cash generated from operating activities without any additional borrowings.

The 2001-02 audit was completed with satisfactory results.

1.5 MOTOR ACCIDENTS INSURANCE BOARD

INTRODUCTION

The Motor Accidents Insurance Board (MAIB) was established under the *Motor Accidents (Liability and Compensation) Act 1973*. The principal business of the MAIB is to provide no fault insurance coverage to Tasmanian motorists.

The Board of Directors of the MAIB comprises seven members appointed by the Governor on the recommendation of the Responsible Minister.

At 30 June 2002 the Responsible Minister was the Minister for Infrastructure, Energy and Resources. Subsequent to 9 August 2002, the Responsible Minister became the Minister for Infrastructure.

AUDIT OF THE 2001-02 FINANCIAL STATEMENTS

Signed financial statements of MAIB were received on 29 August 2002 and an unqualified audit report was issued on 6 September 2002.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	1998-99	1999-00	2000-01	2001-02
	$'000s	$'000s	$'000s	$'000s	$'000s
Operating revenue	101 515	92 129	119 847	117 558	92 760
Non-operating revenue	143	44	93	64	73
Total Revenue	**101 658**	**92 173**	**119 940**	**117 622**	**92 833**
Depreciation	172	159	431	541	534
Claims Expense	90 846	94 341	104 581	101 332	82 006
Other operating expenses	6 245	7 656	8 647	11 337	11 153
Non-operating expenses	228	115	236	90	94
Total Expenses	**97 491**	**102 271**	**113 895**	**113 300**	**93 787**
Result from ordinary activities	**4 167**	**(10 098)**	**6 045**	**4 322**	**(954)**
Income tax expense	373	(4 530)	2 979	704	(5 149)
Result after taxation	**3 794**	**(5 568)**	**3 066**	**3 618**	**4 195**

Comment

Operating revenue consists of 2 major components, premium revenue and investment revenue.

Premium revenue has gradually increased over the five-year period due to increases in vehicle numbers and premium rate increases based on Government Prices Oversight Committee (GPOC) recommendations.

The Board's investments are measured at net market value at the end of the reporting period in accordance with Australian Accounting Standard AAS26 'Financial Reporting of General Insurance Activities'. Differences between the net market values of investments at reporting date and their net market values at the previous reporting date, (or cost of acquisition, if acquired during the financial year), are recognised as revenue or expenses in the period in which the changes occur. Net market value losses of $10.117m and $19.255m were incurred in 1998-99 and 2001-02 respectively, causing the reduction in operating revenues for those years.

The increase in depreciation expense from 1998-99 to 1999-00, $0.272m, can be attributed to the implementation of a new claims management system during 1999-00.

The Board's major expense is claims expense. The value of the Board's claims liability is actuarially assessed each year and the discounted claims liability, and related movements for the year are recorded in the Board's financial statements in accordance with AAS26.

Abnormal expenses relating to the impact of *A New Tax System (Goods and Services Tax) Act 1999* on the non-current portion of the outstanding claims provision of $16.000m (1998-99) and $2.526m (1999-00) are included in claims expense for these years. The effect of the abnormal item in 1998-99 resulted in the Board making a loss of $10.098m before tax for the year.

The reduction in claims expense in 2001-02, $19.326m, is due mainly to a reduction in the cost of future care claims assessed by the actuary for prior years.

The income tax revenue of $5.149m is primarily due to exempt foreign income included in investment revenue.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	240	100	1 557	1 165	1 759
Receivables	254	65	31	215	98
Investments	221 559	106 031	255 756	275 932	495 166
Other	352	398	331	332	360
Total Current Assets	**222 405**	**106 594**	**257 675**	**277 644**	**497 383**
Plant & equipment	1 127	1 436	1 969	1 507	1 137
Property & Investments	255 563	387 700	279 281	296 317	86 135
Other	10 059	13 233	9 983	9 045	13 902
Total Non-Current Assets	**266 749**	**402 369**	**291 233**	**306 869**	**101 174**
Payables	349	204	4 249	1 079	2 101
Provisions	94 956	108 145	114 915	124 208	129 009
Other	452	529	580	950	541
Total Current Liabilities	**95 757**	**108 878**	**119 744**	**126 237**	**131 651**
Provisions	329 785	345 041	372 587	399 890	405 236
Total Non-Current Liabilities	**329 785**	**345 041**	**372 587**	**399 890**	**405 236**
Net Assets	**63 612**	**55 044**	**56 577**	**58 386**	**61 670**
Retained profits	63 612	55 044	56 577	58 386	61 670
Total Equity	**63 612**	**55 044**	**56 577**	**58 386**	**61 670**

Comment

The composition of the Board's investment portfolio at 30 June 2002 resulted in a greater component of the portfolio being classified as a current asset than in comparative years.

The decrease in Plant and equipment from 1999-00 to 2000-01, $0.462m, is due primarily to the first full year of depreciation of the claims management system.

The major component of Other Non-Current Assets is the future income tax benefit relating to the carry forward losses from prior years. At 30 June 2002 the FITB totalled $12.237m, which represents an increase from the prior year of $5.195m and is primarily due to significant timing differences between the accounting and taxable income from investments.

Current payables for 1999-00 included $3.900m for Goods and Services Tax payable on premiums for policies that spanned 30 June 2000 and were collected prior to 30 June 2000.

CASH POSITION

	1997-98 $'000s	1998-99 $'000s	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s
Receipts from customers	80 762	83 968	89 794	99 220	104 138
Payments to suppliers and employees	(69 059)	(74 452)	(81 781)	(91 842)	(91 904)
Interest received	19 604	21 144	23 080	24 884	18 642
Cash from operations	**31 307**	**30 660**	**31 093**	**32 262**	**30 876**
Proceeds from investments					
Payments for investments	(19 787)	(24 960)	(31 750)	(31 867)	(29 465)
Payments for P, P & Equipment	(2 397)	(1 739)	(1 602)	(292)	(262)
Proceeds from sale of P, P & E	166	799	3 716	1 038	1 255
Cash used in investing activities	**(22 018)**	**(25 900)**	**(29 636)**	**(31 121)**	**(28 472)**
Dividends paid	(9 750)	(4 900)	0	(1 533)	(1 809)
Cash from financing activities	**(9 750)**	**(4 900)**	**0**	**(1 533)**	**(1 809)**
Net increase in cash	**(461)**	**(140)**	**1 457**	**(392)**	**595**
Cash at the beginning of the period	701	240	100	1 557	1 165
Cash at end of the period	**240**	**100**	**1 557**	**1 165**	**1 760**

Comment

The Board jointly owned an office building situated at 21 Kirksway Place, Hobart with the Retirement Benefits Fund Board for the purpose of leasing the building as commercial office premises. The Board sold its share of the building to the Retirement Benefits Fund Board during 1999-00 resulting in the increase in proceeds from the sale of property, plant and equipment during that year.

The $9.750m paid during 1997-98 comprised a special dividend of $3.000m and an ordinary dividend of $3.750m provided for at 30 June 1997, and a second special dividend of $3.000m determined for 1997-98. The $4.900m paid during 1998-99 included a further $3.000m special dividend and an ordinary dividend of $1.900m relating to 1997-98.

Payments for the purchase of property, plant and equipment during the 1998-99 and 1999-00 years included the development of a new claims management system. The proceeds from sale in 2001-02, $1.255m, included the disposal of the remaining property relating to the Douglas Parker Centre.

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01	2001-02
Financial Performance						
Result from operations ($'000s)		4 252	(10 027)	6 188	4 348	(933)
EBIT ($'000s)		4 167	(10 098)	6 045	4 322	(954)
Operating margin	>1.0	1.04	0.90	1.05	1.04	0.99
Return on assets		0.9%	-2.0%	1.1%	0.8%	-0.2%
Return on equity		5.9%	-9.4%	5.5%	6.3%	7.0%
Financial Management						
Debt to equity		-	-	-	-	-
Debt to total assets		-	-	-	-	-
Interest cover	>3	-	-	-	-	-
Current ratio	>1	2.31	0.97	2.14	2.18	3.78
Cost of debt	7.5%	-	-	-	-	-
Debt collection	30 days	-	-	-	-	-
Creditor turnover	30 days	-	-	-	-	-
Returns to Government						
Dividends paid or payable ($'000s)		4 900	3 000	1 533	1 809	910
Dividend payout ratio	50%	129.2%	-53.9%	50.0%	50.0%	21.7%
Dividend to equity ratio	6%	7.6%	5.1%	2.7%	3.1%	1.5%
Effective tax rate	30%	-	-	-	-	-
Total return to the State ($'000s)		4 900	3 000	1 533	1 809	910
Total return to equity ratio		7.6%	5.1%	2.7%	3.1%	1.5%
Other information						
Staff numbers FTEs		32	35	36	37	36
Average staff costs ($'000s)		46	40	45	51	50

Comment

Dividends totalling $12.152m have been provided and/or paid to the State Government relating to the 1997-98 to 2001-02 financial years. It is noted that the 2001-02 dividend of $0.910m was based on a dividend averaging policy, which was adopted by the Board and approved by Government with effect from 2001-02. In accordance with the new policy, dividends are based on the average of profits and losses over the current and four preceding years.

The loss during 1998-99 resulted in negative returns on assets and equity for that year.

The reduction in the current ratio for 1998-99 was due to the composition of the investment portfolio at 30 June 1999 and the resulting allocation between current and non-current.

MAIB does not have any debt therefore the debt related ratios are not applicable.

The nature of the Board's operations is that the majority of revenue is derived from premium payments and investment income. Premium revenue is invoiced to customers by the Department of Infrastructure, Energy and Resources as part of overall motor vehicle registration fees. The MAIB does not raise debtors for these amounts and therefore the debt collection ratio is not a relevant measure of performance and has not been included.

Similarly due to the nature of the Board's operations, the majority of expenses are claims and underwriting expenses. The creditor turnover ratio is therefore not relevant and has not been included.

Special dividends of $3.000m per year were payable to the State Government for the 1997-98 and 1998-99 years. The special dividend payable for the 1998-99 year resulted in a negative dividend payout ratio as the Board recorded an operating loss of $10.098m for that financial year.

The Board is required under the GBE Act 1995 to make tax equivalent payments to the State Government, however due to tax losses incurred in prior years no payments have been made within the last 5 years. Carry forward tax losses total $24.900m as at 30 June 2002. A future income tax benefit of $12.237m (which includes carry-forward tax losses) has been recorded as an asset in the financial statements as the realisation of the benefits is considered virtually certain.

OVERALL COMMENT

MAIB returned a profit before tax of $3.482m (after tax $9.105m) for the 5 years to 2001-02. During this same period $12.152m in dividends have been provided for or paid to the Tasmanian Government. Due to the Board's carry forward tax losses, no tax equivalent payments have been made in the last 5 years.

The 2001-02 audit was completed satisfactorily with no major issues outstanding.

The nature of the MAIB's operation results in claims being made for personal injury resulting from motor vehicle accidents. The claims made take a considerable amount of time to be settled and as a consequence, the determination of a liability for outstanding and unreported claims is an estimate.

The total liability for claim provisions at 30 June 2002 was $490.200m (2000-01, $478.439m). Following a solvency review, the Board adopted a Market Linked Fixed Gap Model for valuing claim liabilities in the 2001-02 year. The model adopts a "fixed gap" between expected investment returns and claims inflation for claims liabilities beyond ten years and a market determined discount rate for each year up to ten years.

To ensure the adequacy of the claims liability the MAIB has appointed an independent Actuary to review claims data and provide the valuation of the claims liability.

It is noted that the estimation of future payments is inherently imprecise, particularly in respect of liabilities settled over an extended time frame. Although the valuation is prepared in accordance with probable future experience, the actual experience could vary from that assumed.

Consequently, the liability includes a prudential margin on central claims estimates. Central claims estimates are the Actuary's estimate of liabilities with no deliberate bias to either under or overstate the provision.

The level at which the prudential margin is set has a significant impact on the outstanding claims liability and impacts on the claims expense total, which directly affects the operating result of the MAIB. It is noted that the prudential margin has remained constant over the previous five accounting periods.

1.6 PORT ARTHUR HISTORIC SITE MANAGEMENT AUTHORITY

INTRODUCTION

The Authority is constituted under the *Port Arthur Historic Site Management Authority Act 1987*. The Authority is responsible for the management of the historic site including its preservation and maintenance as an example of a major British convict settlement and penal institution.

The Authority consists of 6 members as at 30 June 2002.

As at 30 June 2002 the Responsible Minister was the Minister for State Development and on 9 August 2002 the Responsible Minister became the Premier, Minister for Tourism, Parks and Heritage.

AUDIT OF THE 2001-02 FINANCIAL STATEMENTS

The 2001-02 financial statements of the Authority were signed on 11 October 2002 and an unqualified audit report was issued on 17 October 2002.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	**1998-99**	**1999-00**	**2000-01**	**2001-02**
	$'000s	$'000s	$'000s	$'000s	$'000s
Operating revenue	4 583	5 173	5 974	6 210	6 386
Non-operating revenue	5 624	4 173	2 421	1 010	2 025
Total Revenue	**10 207**	**9 346**	**8 395**	**7 220**	**8 411**
Depreciation	236	315	485	517	540
Other operating expenses	6 374	5 846	6 629	8 195	8 766
Non-operating expenses	950	158	0	9	0
Total Expenses	**7 560**	**6 319**	**7 114**	**8 721**	**9 306**
Result from ordinary activities	**2 647**	**3 027**	**1 281**	**(1501)**	**(895)**
Result after taxation	**2 647**	**3 027**	**1 281**	**(1501)**	**(895)**

Comment

After strong growth up to and including 1999-00, Operating revenue has continued to increase and generally reflects increasing visitor numbers. Non-operating revenue in 1997-98 included conservation and deficit funding of $4.100m, and asset take-up of $1.500m. Non-operating expenses in 1997-98 included a workers compensation excess of $0.835m.

Non-operating revenue in 1998-99 included deficit funding of $3.700m and a write-back of the superannuation liability of $0.450m. 1999-00 Non-operating revenue included conservation funding of $2.100m and a further superannuation write-back, $0.265m, while in 2000-01 the item included conservation funding amounting to $0.862m.

Operating expenses in 2000-01 included additional expenditure on conservation works of $1.250m plus a transfer of $0.322m work-in-progress from the prior year.

Non-operating revenue in 2001-02 includes $2.000m received from the State Government representing the second instalment of an approved five-year $10.000m conservation-funding program to preserve its convict heritage for future generations. Operating expenses for 2001-02 includes conservation expenditure totalling $2.298m and an increase in employee entitlements, $0.758m, which includes retirement benefits for those affected by the events of 1996. Since that time the employee benefit provisions have been subject to fluctuation.

Over the period of review the Authority has returned a positive result from operations totalling $4.559m, or an annual average result of $0.912m. However, ignoring both the Non-operating revenue (which predominantly comprises deficit, or conservation funding referred to above), and Non-operating expenditure the Authority returned a negative operating result over the same period totalling $9.577m, or an annual average deficit $1.915m.

The Authority, while classed as a Government Business Enterprise, is exempt from income tax.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	1 581	1 489	2 635	2 214	1 935
Receivables	100	185	91	76	118
Inventories	170	229	180	248	316
Other	50	60	93	117	43
Total Current Assets	**1 901**	**1 963**	**2 999**	**2 655**	**2 412**
Property, plant & equipment	6 726	9 416	9 575	9 022	9 216
Total Non-Current Assets	**6 726**	**9 416**	**9 575**	**9 022**	**9 216**
Payables	150	257	245	136	231
Provisions	458	563	591	933	1 449
Other	572	146	217	473	466
Total Current Liabilities	**1 180**	**966**	**1 053**	**1 542**	**2 146**
Provisions	1 619	1 549	1 376	1 491	1 733
Total Non-Current Liabilities	**1 619**	**1 549**	**1 376**	**1 491**	**1 733**
Net Assets	**5 828**	**8 864**	**10 145**	**8 644**	**7 749**
Retained profits	5 838	8 864	10 145	8 644	7 749
Total Equity	**5 838**	**8 864**	**10 145**	**8 644**	**7 749**

Comment

The increase in Property, plant and equipment in 1998-99 is primarily due to the completion of the Visitors Centre, $2.600m, while the reduction in 2000-01 is a result of depreciation charges for the year in a year where there was little additional capital expenditure to add to the asset base. During 2000-01 there was a slight increase in the item due to asset additions, $0.734m, which includes the construction of a jetty for ferry passengers, $0.566m, being offset by depreciation charges for the year, $0.540m.

Equity reductions for both 2000-01 and 2001-02 result from operating deficits recorded in each year amounting to $1.501m and $0.894m respectively.

CASH POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	8 083	8 839	7 995	7 679	8 614
Payments to suppliers and employees	(5 970)	(5 774)	(6 326)	(8 022)	(8 315)
Interest received	28	67	84	163	145
Cash from operations	**2 141**	**3 132**	**1 753**	**(180)**	**444**
Payments for P, P & Equipment	(1 260)	(3 250)	(647)	(242)	(747)
Proceeds from sale of P, P & E	27	27	39	1	24
Cash used in investing activities	**(1 233)**	**(3 223)**	**(608)**	**(241)**	**(723)**
Net increase in cash	**908**	**(91)**	**1 145**	**(421)**	**(279)**
Cash at the beginning of the period	673	1 581	1 490	2 635	2 214
Cash at end of the period	**1 581**	**1 490**	**2 635**	**2 214**	**1 935**

Comment

The present strong cash position is a result of cash surpluses generated in 1997-98 and in 1999-00. Over the period under review, conservation and deficit funding provided by the State Government included in Receipts from customers amounts to $5.074m and $7.758m respectively. Without that assistance the Authority's cash flow pattern would have been markedly different.

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01	2001-02
Financial Performance						
Result from operations ($'000s)		(2 027)	(988)	(1 140)	(2 502)	(2 920)
EBIT ($'000s)		2 647	3 027	1 281	(1 501)	(895)
Operating margin	>1.0	0.69	0.84	0.84	0.71	0.69
Return on assets		37.8%	30.3%	10.7%	-12.4%	-7.7%
Return on equity		58.6%	41.2%	13.5%	-16.0%	-20.7%
Financial Management						
Debt to equity		-	-	-	-	-
Debt to total assets		-	-	-	-	-
Interest cover	>3	-	-	-	-	-
Current ratio	>1	1.61	2.03	2.85	1.72	1.12
Cost of debt	7.5%	-	-	-	-	-
Debt collection	30 days	14	21	10	8	13
Creditor turnover	30 days	13	13	21	13	9
Returns to Government						
Dividends paid ($'000s)		0	0	0	0	0
Dividend payout ratio	50%	-	-	-	-	-
Dividend to equity ratio	6%	-	-	-	-	-
Income tax expense ($'000s)		0	0	0	0	0
Effective tax rate	30%	-	-	-	-	-
Total return to the State ($'000s)		0	0	0	0	0
Total return to equity ratio		0.0%	0.0%	0.0%	0.0%	0.0%
Other information						
Staff numbers FTEs		72	87	74	82	80
Average staff costs ($'000s)		46	34	46	47	60

Comment

While the result from operating activities is a negative $9.577m for the five-year period, earnings before interest and taxation are a positive $4.559m and is predominantly a result of approximately $12.762m of State Government funding for deficit funding and conservation works.

The Authority is exempt from the payment of taxation and dividends.

Average staff costs for 2001-02 are inflated by the impact of additional retirement benefits expense, $0.758m, referred to earlier in this segment of the Report.

OVERALL COMMENT

The Authority operates two distinct activities, firstly to conserve the fabric of the historic site for posterity, and secondly to operate the site as a tourist destination. It is unlikely that the site will ever generate sufficient income from tourism to support the required level of conservation works to maintain the site. The Authority will, therefore require continued government support to guarantee the long-term future of the site.

GBE status may not be consistent with the primary objectives of the Authority to ensure the preservation and maintenance of the historic site, to co-ordinate archaeological activities and to promote an understanding of the historical and archaeological importance of the historic site.

1.7 PRINTING AUTHORITY OF TASMANIA

INTRODUCTION

The Printing Authority of Tasmania (PAT) was established under the *Printing Authority of Tasmania Act 1994*.

The Authority's mission is to provide a fail-safe printing service to the Tasmanian Government for the printing of legislation, reports and other printed materials. In addition, the PAT competes with the private sector for printing services to the public sector departments and other authorities. The PAT is also permitted to do printing for prescribed bodies, which include:

- Any body corporate which receives funding from the Tasmanian Government or the Australian Government;
- Any person or body that carries on a business or resides in a place other than Tasmania; and
- Work that any businesses are unable to carry out effectively.

As at 30 June 2002 the Responsible Minister was the Minister for Infrastructure, Energy and Resources. Subsequent to 9 August 2002, the Responsible Minister became the Minister for Infrastructure.

AUDIT OF THE 2001-02 FINANCIAL STATEMENTS

Signed financial statements of the Authority were received on 26 August 2002 and an unqualified audit report was issued on 3 September 2002.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	1998-99	1999-00	2000-01	2001-02
	$'000s	$'000s	$'000s	$'000s	$'000s
Operating revenue	7 290	7 758	7 968	8 747	8 436
Non-operating revenue	0	0	0	0	0
Total Revenue	**7 290**	**7 758**	**7 968**	**8 747**	**8 436**
Borrowing costs	10	0	0	0	0
Depreciation	218	250	302	444	415
Other operating expenses	6 999	7 453	7 415	8 077	7 784
Non-operating expenses	0	0	0	0	0
Total Expenses	**7 227**	**7 703**	**7 717**	**8 521**	**8 199**
Result from ordinary activities	**63**	**55**	**251**	**226**	**237**
Income tax expense	0	0	0	0	0
Result after taxation	**63**	**55**	**251**	**226**	**237**

Comment

The last year in which the Authority received a financial contribution towards the operating deficit was 1995-96. The purpose of this government contribution was to cover the fixed costs of Parliamentary printing. Before this, the Authority received this financial contribution as a Community Service Obligation. These financial contributions were treated as revenue and not a subsidy.

The last loss by the Authority was made in 1996-97. Since then modest profits were made in 1997-98 and 1998-99, and better returns in 1999-00, 2000-01 and 2001-02.

Increasingly profitable operations over the last three years should see the Authority paying income tax equivalents in the next few years.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	606	230	506	607	890
Receivables	487	605	603	703	531
Investments	178	395	569	1 019	1 067
Inventories	503	451	492	480	411
Other	5	41	28	28	56
Total Current Assets	**1 779**	**1 722**	**2 198**	**2 837**	**2 955**
Property, plant & equipment	1 445	1 220	1 117	1 384	1 041
Total Non-Current Assets	**1 445**	**1 220**	**1 117**	**1 384**	**1 041**
Payables	985	717	866	1 026	754
Provisions	622	587	793	838	887
Other	479	447	400	506	398
Total Current Liabilities	**2 086**	**1 751**	**2 059**	**2 370**	**2 039**
Provisions	140	138	77	51	38
Total Non-Current Liabilities	**140**	**138**	**77**	**51**	**38**
Net Assets	**998**	**1 053**	**1 179**	**1 800**	**1 919**
Reserves	0	0	0	508	508
Retained profits	998	1 053	1 179	1 292	1 411
Total Equity	**998**	**1 053**	**1 179**	**1 800**	**1 919**

Comment

Increased investments reflect increases in working capital resulting from increasing profitable operations.

Plant and equipment increased in 2000-01 following a revaluation increment of $0.508m to manufacturing plant. The purchase of capital equipment has always been funded from within Printing Authority internal funds and not by government subsidy.

The Authority made a repayment of $0.315m for borrowings in 1997-98 and has been debt free since that time.

CASH POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	7 209	7 562	7 983	9 414	9 153
Payments to suppliers and employees	(6 838)	(7 732)	(7 383)	(8 618)	(8 728)
Interest received	39	36	49	83	91
Borrowing costs	(17)	0	0	0	0
Cash from operations	**393**	**(134)**	**649**	**879**	**516**
Proceeds from investments	322	0	0	0	0
Payments for investments	0	(217)	(174)	(450)	(48)
Payments for P, P & Equipment	(131)	(25)	(199)	(203)	(72)
Cash used in investing activities	**191**	**(242)**	**(373)**	**(653)**	**(120)**
Repayment of borrowings	(315)	0	0	0	0
Dividends paid	0	0	0	(125)	(113)
Cash from financing activities	**(315)**	**0**	**0**	**(125)**	**(113)**
Net increase in cash	**269**	**(376)**	**276**	**101**	**283**
Cash at the beginning of the period	337	606	230	506	607
Cash at end of the period	**606**	**230**	**506**	**607**	**890**

Comment

Cash from operations has been used to fund the purchase of additional investments, and property, plant and equipment.

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01	2001-02
Financial Performance						
Result from operations ($'000s)		63	55	251	226	237
EBIT ($'000s)		73	55	251	226	237
Operating margin	>1.0	1.01	1.01	1.03	1.03	1.03
Return on assets		2.3%	1.8%	8.0%	6.0%	5.8%
Return on equity	12.00%	9.1%	5.4%	22.5%	15.2%	12.7%
Financial Management						
Debt to equity		-	-	-	-	-
Debt to total assets		-	-	-	-	-
Interest cover	>3	7.2	-	-	-	-
Current ratio	>1	0.85	0.98	1.07	1.20	1.45
Cost of debt	7.5%	6.4%	-	-	-	-
Debt collection	30 days	25	29	28	30	23
Creditor turnover	30 days	47	23	32	36	25
Returns to Government						
Dividends paid or payable ($'000s)		0	0	125	113	118
Dividend payout ratio	50%	-	-	49.8%	50.0%	49.8%
Dividend to equity ratio		-	-	11.2%	7.6%	6.3%
Income tax paid or payable ($'000s)		0	0	0	0	0
Effective tax rate	30%	-	-	-	-	-
Total return to the State ($'000s)		0	0	125	113	118
Total return to equity ratio		-	-	11.2%	7.6%	6.3%
Other information						
Staff numbers FTEs		72	73	71	70	68
Average staff costs ($'000s)		40	40	40	42	44

Comment

Since the 1997-98 working capital has increased from a negative of $0.307m to a positive $0.916m in 2001-02 and reflects increasingly profitable operations over that period.

OVERALL COMMENT

In line with the present Government policy of returning 50% of after tax profit by way of a dividend, the Authority declared a dividend of $0.118m for 2001-02.

Increasingly profitable operations over the last three years should see the Authority paying income tax equivalents in the next few years.

1.8 RIVERS AND WATER SUPPLY COMMISSION

INTRODUCTION

The Rivers and Water Supply Commission operates under the *Rivers and Water Supply Commission Act 1999*. The Commission comprises four members appointed by the Governor.

The Commission administers the following nine schemes:

- Cressy-Longford Irrigation Scheme;
- Furneaux Drainage Scheme;
- Lobster Rivulet River Improvement Scheme;
- Montagu River Improvement Scheme;
- Prosser River Water Supply Scheme;
- South East Irrigation Scheme;
- Togari Water Supply Scheme;
- Welcome River Drainage Scheme; and
- Winnaleah Irrigation Scheme.

In addition the Commission administers the Meander Valley Irrigation Scheme, which has not yet been proclaimed. This scheme does not undertake trading operations, but the financial transactions are included in those of the Commission.

The Responsible Minister is the Minister for Primary Industries, Water and Environment.

AUDIT OF THE 2001-02 FINANCIAL STATEMENTS

Incomplete signed statements were received on 29 August 2002. As at the date of completing this segment of the Report, 12 November 2002, substantial amendments to these statements were required before the audit could be finalised. As a result, it was not possible to include any analysis of the 2001-02 operations in this Report.

1.9 SOUTHERN REGIONAL CEMETERY TRUST

INTRODUCTION

The Southern Regional Cemetery Trust (the Trust) was established under the *Southern Regional Cemetery Act 1981*.

The Trust is responsible for the control and management of cemeteries and crematoria vested in or acquired by it for the burial or cremation of persons who were former residents of the southern area of the State, and ensuring that adequate cemeteries and crematoria are available to meet future requirements.

The Trust comprises six members appointed by the Governor.

In 2001-02 a number of changes took place to the legislative framework under which the Trust operates. The *Burial and Cremation Act 2002* was developed and amendments were made to the *Southern Regional Cemetery Act 1981.* Legislative changes also included the re-constitution of the Trust from representation by Local and State Government, with an independent chair, to an expertise based Trust from the Private Sector with an independent chair. The appointment of new Trustees took effect from 1 July 2002.

As at 30 June 2002 the Responsible Minister was the Premier. Subsequent to 9 August 2002, the Responsible Minister became the Minister Assisting the Premier on Local Government.

AUDIT OF THE 2001-02 FINANCIAL STATEMENTS

Financial statements were received on 6 September 2002 with the audit substantially complete at the time of publication, but an audit report has not yet been issued due to a number of outstanding matters. Accordingly, the amounts referred to for 2001-02 in this report for the Trust relate to the unaudited financial statements.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	1998-99	1999-00	2000-01	2001-02
	$'000s	$'000s	$'000s	$'000s	$'000s
Operating revenue	1 536	1 428	1 683	1 764	1 621
Total Revenue	**1 536**	**1 428**	**1 683**	**1 764**	**1 621**
Depreciation	169	183	185	343	374
Other operating expenses	1 295	1 535	1249	1 461	1 418
Total Expenses	**1 464**	**1 718**	**1 434**	**1 804**	**1 792**
Result from ordinary activities	**72**	**(290)**	**249**	**(40)**	**(171)**
Income tax expense	48	(62)	89	5	(386)
Result after taxation	**24**	**(228)**	**160**	**(45)**	**215**

Comment

The increase in Operating revenue in 1999-00 was due mainly to an increase in the sale of gravesites at Cornelian Bay, an increase in burial fees and increased sale of plaques through marketing, all partially offset by the opening of a private sector crematorium in competition with the Trust on the Eastern Shore. A further increase was experienced in 2000-01 with the development of above ground crypts. The Eastern Shore Crematorium had a more substantial impact on business in 2001-02 with revenue decreasing overall.

Depreciation increased since 2000-01 due mainly to the crypt development.

In regard to Other operating expenses, the increase in 1998-99 was due largely to a deficit in the provision for superannuation identified by the actuary. The increase in 2000-01 was because of the development of new crypts, increase in purchases of plaques, maintenance, and a large payout of superannuation and leave entitlements for an employee.

The Trust became liable for Income Tax Equivalents from 1997-98.

Income tax revenue in 2001-02, $0.353m, resulted from adjustment of Future Income Tax Benefits (FITB) on entry to the National Taxation Equivalence Regime (NTER). The nature of this adjustment was that the Trust previously claimed a deduction for the annual movement in the provision for superannuation for taxation purposes prior to entry into NTER, but is now only able to claim the actual superannuation payments made. The FITB results from being able to claim the provision for superannuation in future years as payments are made on an emerging costs basis to the Retirement Benefits Fund Board. This affected the result after taxation turning a net loss in 2000-01, $0.045m, to a net profit, $0.215m. for 2001-02.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	52	13	93	36	144
Receivables	226	263	261	463	305
Investments	2 453	2 519	2 800	2 420	2 470
Other	4	55	3	3	16
Total Current Assets	**2 735**	**2 850**	**3 157**	**2 922**	**2 935**
Property, plant & equipment	5 560	5 431	5 398	5 379	5 294
Other	0	0	0	0	343
Total Non-Current Assets	**5 560**	**5 431**	**5 398**	**5 379**	**5 637**
Payables	91	53	103	69	57
Provisions	84	91	174	189	190
Other	32	21	0	70	124
Total Current Liabilities	**207**	**165**	**277**	**328**	**371**
Provisions	757	1 025	1 107	1 097	1 110
Total Non-Current Liabilities	**757**	**1 025**	**1 107**	**1 097**	**1 110**
Net Assets	**7 331**	**7 091**	**7 171**	**6 876**	**7 091**
Capital	1 252	1 252	1 252	1 002	1 002
Reserves	6 012	6 012	6 012	6 012	6 012
Retained profits	67	(173)	(93)	(138)	77
Total Equity	**7 331**	**7 091**	**7 171**	**6 876**	**7 091**

Comment

The higher than normal cash balance at 30 June 2002 relates to standard fluctuations in cash flows occurring in the course of normal business.

Receivables were higher than in prior years at the end of 2000-01 due mainly to one funeral director falling behind with payments.

Investments were higher in 1999-00 as a result of increased funds being available for investment from higher revenue and lower costs.

The increase in the Non-Current Provision from 1998-99 was due to an actuarial reassessment of the superannuation liability of the Trust.

Capital decreased in 2000-01 as the Trust was required to return the $0.250m capital contribution originally made by the State Government.

Other Non-Current Assets in 2001-02 consisted of FITB, $0.343m.

The net profit achieved in 2001-02 is reflected in the increase in Retained profits at the end of the year.

CASH POSITION

	1997-98 $'000s	1998-99 $'000s	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s
Receipts from customers	1 463	1 302	1 547	1490	1708
Payments to suppliers and employees	(1 266)	(1 280)	(1 172)	(1 441)	(1 367)
Interest received	123	118	136	169	112
Cash from operations	**342**	**140**	**511**	**218**	**453**
Proceeds from investments	0	50	0	380	0
Payments for investments	(150)	0	(400)	0	(50)
Payments for P, P & Equipment	(340)	(126)	(166)	(342)	(338)
Proceeds from sale of P, P & E	26	26	16	17	43
Cash used in investing activities	**(464)**	**(50)**	**(550)**	**55**	**(345)**
Repayment of borrowings	0	0	0	(250)	0
Dividends paid	0	(12)	0	(80)	0
Cash from financing activities	**0**	**(12)**	**0**	**(330)**	**0**
Net increase in cash	**(122)**	**78**	**(39)**	**(57)**	**108**
Cash at the beginning of the period	176	54	132	93	36
Cash at end of the period	**54**	**132**	**93**	**36**	**144**

Comment

Movements in the cash position over the five-year period generally reflect the movements in the Statements of Financial Performance and the Cash Balances in the Statements of Financial Position.

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01	2001-02
Financial Performance						
Result from operations ($'000s)		72	(290)	249	(40)	(171)
EBIT ($'000s)		72	(290)	249	(40)	(171)
Operating margin	>1.0	1.05	0.83	1.17	0.98	0.90
Return on assets		0.9%	-3.5%	3.0%	-0.5%	-2.0%
Return on equity		0.3%	-3.2%	2.2%	-0.6%	3.1%
Financial Management						
Debt to equity		-	-	-	-	-
Debt to total assets		-	-	-	-	-
Interest cover	>3	-	-	-	-	-
Current ratio	>1	13.21	17.27	11.40	8.88	7.91
Debt collection	30 days	59	72	63	108	74
Creditor turnover	30 days	32	15	34	32	26
Returns to Government						
Dividends paid or payable ($'000s)		12	0	330	0	0
Dividend payout ratio	50%	50.0%	-	206.3%	-	-
Dividend to equity ratio	6%	0.2%	-	4.6%	-	-
Income tax paid or payable ($'000s)		0	0	0	5	0
Effective tax rate	30%	-	-	-	-12.4%	-
Total return to the State ($'000s)		12	0	330	5	0
Total return to equity ratio		0.2%	0.0%	4.6%	0.1%	0.0%
Other information						
Staff numbers FTEs		15	17	16	16	14
Average staff costs ($'000s)		34	36	42	44	50

Comment

Results from operations and EBIT were significantly lower in 1998-99 and 2001-02. These can be attributed to a major repair on the crematorium in 1998-99 and lower revenue in 2001-02.

Variances in return on assets between years can be attributed to the large fluctuations in results from ordinary activities between these years. This has a similar effect on the return on equity.

Current ratio reduced from 2000-01 due mainly to the increase in the provision for superannuation.

Debt collection in 2000-01 increased to 108 days due mainly to a funeral director being behind in payment.

The higher debt collection figures are attributable to two factors. The Trust operates debtor accounts on 60-day terms, as most accounts are paid in conjunction with the administration of deceased estates. In addition to the commencement of the crypt development and sales, and related high prices, longer term arrangements have been negotiated with clients.

Even though the Trust returned a loss on ordinary activities for 2001-02, income tax amounting to $0.005m was payable and results from certain operating expenses not being allowable as a tax deduction. This also explains the negative effective tax rate of 12.4%.

The return to the state in 1999-00 was significantly higher due to a dividend payable of $0.080m and income tax paid of $0.088m. This in turn affected the total return to equity ratio for the same year.

OVERALL COMMENT

The Trust's assets mainly consist of the two properties and associated buildings and equipment and approximately $2.470m of investments. The Trust has no borrowings. It generally experiences only small profits and occasional losses. Otherwise its financial position is satisfactory. Several recent initiatives have been made to increase revenue, but it is still affected by competition in the industry.

1.10 STANLEY COOL STORES BOARD

INTRODUCTION

The Stanley Cool Stores Board was established under the *Stanley Cool Stores Act 1945*, with responsibility for the 'management and control of certain cool stores erected at Stanley, and for matters incidental thereto'. The Principal Act has been subsequently amended in certain areas, but its original intent has not changed. The Board trades under its own name.

The core business of the Board is to lease and/or license the use of refrigerated cool store space in support of regional enterprise development.

The Responsible Minister is the Minister for Primary Industries, Water and Environment.

AUDIT OF THE 2001-02 FINANCIAL STATEMENTS

Signed financial statements of Stanley Cool Stores Board were received on 3 October 2002 and an unqualified audit report was issued on 8 October 2002.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	**1998-99**	**1999-00**	**2000-01**	**2001-02**
	$'000s	$'000s	$'000s	$'000s	$'000s
Operating revenue	587	594	634	594	602
Non-operating revenue	0	2	0	0	0
Total Revenue	**587**	**596**	**634**	**594**	**602**
Depreciation	30	44	44	44	44
Other operating expenses	265	252	315	328	379
Total Expenses	**295**	**296**	**359**	**372**	**423**
Result from ordinary activities	**292**	**300**	**275**	**222**	**179**
Income tax expense	107	115	89	98	44
Result after taxation	**185**	**185**	**186**	**124**	**135**

Comment

Operating revenue increased in the 1999-00 year by $0.040m from the prior year. The increase was due primarily to increased revenue earned from bin movements, $0.026m. The Board commenced invoicing McCain Foods (Aust) Pty Ltd for moving bins within the cool store in June 1999. This revenue is additional to the rental received from McCain for the lease of the cool store.

Operating revenue decreased by $0.040m in 2000-01 due to a reduction in interest earned of $0.042m. Interest revenue decreased due to the payment of a special dividend of $1.000m in June 2000. Revenue for the 2001-02 year increased marginally from the prior year, due predominantly to an increase in cold storage charges.

Depreciation expense increased from $0.030m in 1997-98 to $0.044m in 1998-99 due to the revaluation of land and buildings on 30 June 1998. Other operating expenses increased by $0.063m from 1998-99 to 1999-00 due to additional maintenance being undertaken and an increase in the number of FTEs. Additional maintenance was carried out on the cold stores during the 2001-02 year, increasing other operating expenses by $0.051m from 2000-01.

The income tax expense has been steadily decreasing over the five-year period under review. The largest decrease of $0.055m in 2001-02 is a result of a lower operating result before taxation and the timing of revenue receipts.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	71	151	159	138	108
Receivables	0	0	3	7	7
Investments	1 215	1 275	356	534	558
Inventories	11	16	18	11	10
Other	12	13	1	1	28
Total Current Assets	**1 309**	**1 455**	**537**	**691**	**711**
Property, plant & equipment	960	916	872	828	1 131
Total Non-Current Assets	**960**	**916**	**872**	**828**	**1 131**
Payables	25	24	38	42	56
Provisions	65	76	66	85	18
Other	44	44	0	44	0
Total Current Liabilities	**134**	**144**	**104**	**171**	**74**
Total Non-Current Liabilities	**0**	**0**	**0**	**0**	**0**
Net Assets	**2 135**	**2 227**	**1 305**	**1 348**	**1 768**
Reserves	1 408	1 408	1 408	1 408	1 755
Retained profits	727	819	(103)	(60)	13
Total Equity	**2 135**	**2 227**	**1 305**	**1 348**	**1 768**

Comment

The balance of investments decreased from 1998-99 to 1999-00 by $0.919m when the Board paid a special dividend of $1.000m to the State Government. The payment is also reflected by the decrease in retained profits from $0.819m to a negative balance of $0.103m.

At 30 June 2001 the Board had an income tax liability of $0.061m. This was shown as part of the current provisions. The Board made five income tax instalment payments during the 2001-02 year and at 30 June 2002 have an income tax receivable balance of $0.028m.

The balance of Property, plant and equipment increased by $0.303m between 2000-01 and 2001-02 due to the revaluation of land and buildings to market value on 30 June 2002, $0.347m, less depreciation expense for the year, $0.044m. A corresponding increase in the balance of reserves is attributable to the asset revaluation increment.

Other current liabilities represent revenue received in advance by the Board for rental of the cold stores. This item varies from year to year depending on the timing of receipts from the lessee.

CASH POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	524	528	510	659	600
Payments to suppliers and employees	(266)	(254)	(303)	(370)	(441)
Interest received	65	66	89	34	29
Borrowing costs					
Taxation expense	(145)	(107)	(99)	(86)	(132)
Cash from operations	**178**	**233**	**197**	**237**	**56**
Proceeds from investments	0	0	919	0	0
Payments for investments	(62)	(61)	0	(177)	(24)
Proceeds from sale of P, P & E					
Cash used in investing activities	**(62)**	**(61)**	**919**	**(177)**	**(24)**
Dividends paid	(88)	(92)	(1 108)	(81)	(62)
Cash from financing activities	**(88)**	**(92)**	**(1 108)**	**(81)**	**(62)**
Net increase in cash	**28**	**80**	**8**	**(21)**	**(30)**
Cash at the beginning of the period	43	71	151	159	138
Cash at end of the period	**71**	**151**	**159**	**138**	**108**

Comment

Receipts from customers have remained fairly constant for the three-year period to 30 June 2000. The marked increase in receipts from customers and payments to suppliers from 1999-00 to 2000-01 is due to the impact of GST. Receipts from customers have decreased during the 2001-02 year due to no revenue in advance being received for cold store rentals. An amount of $0.044m was received in June 2001 for July 2001 rental, increasing the receipts from customers for that year.

Proceeds from investments in 1999-00, $0.919m, were used to pay the special dividend of $1.000m. Total dividends paid in 1999-00 included the special dividend of $1.000m and an ordinary dividend of $0.108m.

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01	2001-02
Financial Performance						
Result from operations ($'000s)		292	298	275	222	179
EBIT ($'000s)		292	300	275	222	179
Operating margin	>1.0	1.99	2.01	1.77	1.60	1.42
Return on assets		15.3%	12.9%	14.6%	15.2%	10.7%
Return on equity		10.6%	8.5%	10.5%	9.3%	8.7%
Financial Management						
Debt to equity		-	-	-	-	-
Debt to total assets		-	-	-	-	-
Interest cover	>3	-	-	-	-	-
Current ratio	>1	9.77	10.10	5.16	4.04	9.61
Cost of debt	7.5%	-	-	-	-	-
Debt collection	30 days	-	-	2	5	4
Creditor turnover	30 days	43	44	58	48	72
Returns to Government						
Dividends paid or payable ($'000s)		88	92	1 108	81	62
Dividend payout ratio	50%	47.6%	49.7%	595.7%	65.3%	45.9%
Dividend to equity ratio		5.0%	4.2%	62.7%	6.1%	4.0%
Income tax paid or payable ($'000s)		107	115	90	99	44
Effective tax rate	30%	36.6%	38.3%	32.7%	44.6%	24.6%
Total return to the State ($'000s)		195	207	1 198	180	106
Total return to equity ratio		11.1%	9.5%	67.8%	13.6%	6.8%
Other information						
Staff numbers FTEs		1.5	1.5	2.0	2.3	2.4
Average staff costs ($'000s)		37	36	38	37	36

Comment

Over the five-year period of the review, returns from the operations (i.e. operating revenue less operating expenses) have totalled $1.266m or an annual return of $0.253m. The return on assets has been consistent with the exception of 2001-02, which has the lowest return of 10.7%. The decrease can be mainly attributed to an increase in average total assets caused by the revaluation of land and buildings at 30 June 2002.

The Board has no borrowings and therefore the debt and interest expense ratios are not applicable.

The decrease in the current ratio in 1999-00 reflects the payment of the special dividend in June 2000. As the Board has an income tax asset rather than a liability at 30 June 2002, the current ratio has increased.

The debt collection ratio is unusually low as the rental revenue is paid monthly in advance by McCain. The receivables outstanding at 30 June 2000, 2001 and 2002 represent unpaid invoices for bin movements.

The creditor turnover figure has been consistently above the benchmark of 30 days because the payables figure in each year includes an amount owing to Aurora Energy Pty Ltd for a three-month period. The ratios in 1999-00 and 2001-02 are significantly higher than the benchmark. This is the result of an invoice outstanding at 30 June 2000 for $0.017m relating to plumbing services and an invoice outstanding at 30 June 2002 for $0.023m for a compressor overhaul.

The total return to equity ratio has been satisfactory in all five years. A ratio of 67.8% was recorded in 1999-00 as a result of the special dividend.

OVERALL COMMENT

Over the period of the review, the Board has achieved a sound return on equity. Total returns to the State from both dividends and income tax amounted to $1.886m or an average return of $0.377m per year. The average return has been significantly affected by the payment of a special dividend to the State of $1.000m.

1.11 TASMANIAN GRAIN ELEVATORS BOARD

INTRODUCTION

The Tasmanian Grain Elevators Board was established under the *Grain Reserve Act 1950* and, in effect, permits the Board to undertake all the activities of a grain merchant.

The core business of the Board is to provide efficient and effective grain handling facilities for the benefit of suppliers and consumers of grain and the community at large. It is the major supplier of wheat to the Tasmanian flour and stock feed milling and intensive animal industries and is also the key supplier of grain for stock feed during adverse climatic conditions.

Through an arrangement with the Australian Wheat Board (AWB) the Board stores, issues and sells wheat and collects the proceeds on the AWB's behalf. These transactions are not included in the Board's financial statements. A handling fee per tonne is paid by the AWB and is included in Operating Revenue. In addition, the Board trades in its own right and is the major trader and supplier of locally grown grain in the state.

The Responsible Minister is the Minister for Primary Industries, Water and Environment.

AUDIT OF THE 2001-02 FINANCIAL STATEMENTS

The financial statements of the Tasmanian Grain Elevators Board were received on 15 October 2002 and an unqualified audit report was issued on 31 October 2002.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	1998-99	1999-00	2000-01	2001-02
	$'000s	$'000s	$'000s	$'000s	$'000s
Operating revenue	1 758	5 169	5 799	7 796	7 432
Non-operating revenue	198	39	5	8	110
Total Revenue	**1 956**	**5 208**	**5 804**	**7 804**	**7 542**
Depreciation	142	184	185	172	182
Other operating expenses	1 679	4 987	5 348	7 406	6 912
Non-operating expenses	0	12	35	3	102
Total Expenses	**1 821**	**5 183**	**5 568**	**7 581**	**7 196**
Result from ordinary activities	**135**	**25**	**236**	**223**	**346**
Income tax expense	(16)	12	64	83	(260)
Result after taxation	**151**	**13**	**172**	**140**	**606**

Comment

Prior to 30 June 1999 the Board's revenue was reported net of cost of goods sold. Consequently, gross totals of both operating revenue and operating expenditure are not readily available.

While not disclosed in the above table, Non-operating revenue in 1996-97 included $0.830m profit on the sale of Hobart premises including the silos with settlement due 1 March 1998. Following default by the purchaser the Board entered into a new contract with another developer on 15 April 1998 whereupon the original entry was reversed and an amended profit on disposal recorded. The subsequent profit on disposal, $0.989m, together with the reversal of the original entry is reflected in the 1997-98 non-operating revenue.

The significant increase in operating revenue in 2000-01, $1.997m, was due principally to increased grain sales by the Board $1.815m. Cost of sales included in operating expenses increased at the same time by $1.483m. Overall grain movements during 2001-02 remained only marginally lower than that of the prior year which, together with savings in grain freight costs resulted in an increased Result from ordinary activities.

Over the 5-year period, the Tasmanian Grain Elevators Board has returned a positive result from ordinary activities totalling $0.965m.

Income tax expense on operations for the year amounted to $0.104m. However, due to the Board (along with all Tasmanian Government Businesses) entering the National Tax Equivalents Regime (NTER) from 1 July 2001, the tax expense was offset by the tax effect of a future income tax benefit (FITB) amounting to $0.364m and disclosed as revenue. The nature of this adjustment was that under the former Tasmanian Tax equivalent regime the Board was permitted to claim a deduction for the annual movement in the provision for superannuation for taxation purposes. On entry to the NTER it is now only able to claim the actual superannuation payments made. The FITB results from being able to claim the provision for superannuation, currently standing at $1.178m, in future years as payments are made on an emerging cost basis to the Retirement Benefits Fund Board.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	480	447	176	433	599
Receivables	1 147	722	1 471	1 079	1 287
Investments	664	943	636	397	428
Inventories	533	812	435	1 184	908
Other	80	50	56	71	433
Total Current Assets	**2 904**	**2 974**	**2 774**	**3 164**	**3 655**
Property, plant & equipment	1 820	1 931	1 991	2 032	2 122
Total Non-Current Assets	**1 820**	**1 931**	**1 991**	**2 032**	**2 122**
Payables	268	569	282	529	598
Provisions	1 298	100	241	259	241
Total Current Liabilities	**1 566**	**669**	**523**	**788**	**839**
Provisions	183	1 328	1 169	1 270	1 252
Total Non-Current Liabilities	**183**	**1 328**	**1 169**	**1 270**	**1 252**
Net Assets	**2 975**	**2 908**	**3 073**	**3 138**	**3 686**
Reserves	2 520	2 520	2 590	2 660	2 730
Retained profits	455	388	483	478	956
Total Equity	**2 975**	**2 908**	**3 073**	**3 138**	**3 686**

Comment

The decrease in receivables in 2000-01 is due principally to improved collection procedures adopted by the Board coupled with a policy of charging interest on over due accounts. At the same time, the increase in the Board's inventories at 30 June 2001 was due to an increase in supply of grain by the local producers.

The increase in receivables in 2001-02 is due principally to the timing of grain sales, with 90% of grain sales outstanding due within credit limits.

CASH POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	3 570	5 518	4 947	8 829	8 167
Payments to suppliers and employees	(4 182)	(4 991)	(5 316)	(8 531)	(7 600)
Interest received	42	83	92	106	75
Taxation expense	0	(4)	(13)	(102)	(124)
Cash from operations	**(570)**	**606**	**(290)**	**302**	**518**
Payments for P, P & Equipment	(564)	(317)	(285)	(215)	(374)
Proceeds from sale of P, P & E	1 589	36	5	8	109
Cash used in investing activities	**1 025**	**(281)**	**(280)**	**(207)**	**(265)**
Dividends paid	0	(80)	(7)	(76)	(58)
Cash from financing activities	**0**	**(80)**	**(7)**	**(76)**	**(58)**
Net increase in cash	**455**	**245**	**(577)**	**19**	**195**
Cash at the beginning of the period	689	1 144	1 389	812	831
Cash at end of the period	**1 144**	**1 389**	**812**	**831**	**1 026**

Comment

The increase in the Board’s receipts from customers during 2000-01 was due to the increased level of grain purchases and sales referred to previously in this segment of the Report together with the impact of GST on revenue, $0.748m. Similar movements are reflected in payments to suppliers and employees.

Payments for property, plant and equipment in 1997-98 reflect the Board’s move to Brighton upon sale of the Hobart premises. Over the period of review, the Board has reinvested $1.755m in non-current assets as against its total depreciation charges for the same period of $0.865m.

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01	2001-02
Financial Performance						
Result from Operations ($'000s)		(63)	(2)	266	218	338
EBIT ($'000s)		135	25	236	223	346
Operating margin	>1.0	0.97	1.00	1.05	1.03	1.05
Return on assets		3.0%	0.5%	4.9%	4.5%	6.3%
Return on equity		5.2%	0.4%	5.8%	4.5%	17.8%
Financial Management						
Debt to equity		-	-	-	-	-
Debt to total assets		-	-	-	-	-
Interest cover	>3	-	-	-	-	-
Current ratio	>1	1.85	4.45	5.30	4.02	4.36
Cost of debt	7.5%	-	-	-	-	-
Debt collection	30 days	32	52	94	51	64
Creditor turnover	30 days	1	1	20	22	22
Returns to Government						
Dividends paid or payable ($'000s)		80	7	76	58	0
Dividend payout ratio	50%	53.0%	53.8%	44.2%	41.4%	-
Dividend to equity ratio		2.8%	0.2%	2.5%	1.9%	-
Income tax paid or payable ($'000s)		4	13	102	107	105
Effective tax rate	30%	3.0%	52.0%	43.2%	48.0%	30.3%
Total return to the State ($'000s)		84	20	178	165	105
Total return to equity ratio		2.9%	0.7%	6.0%	5.3%	3.1%
Other information						
Staff numbers FTEs		6	8	8	10	8
Average staff costs ($'000s)		74	62	72	66	75

Comment

During the period under review the Board has returned a positive result from ordinary activities totalling $0.965m compared with an operating result over the same period amounting to $0.757m. The difference between the two amounts predominantly reflects the net proceeds from sale of assets over the period.

The marked increase in the Return on equity ratio in 2002 principally reflects the Board's entry into the National Tax Equivalent Regime that resulted in the creation of a Future Income Tax Benefit amounting to $0.364m. Further comments were provided earlier in this segment of the Report.

The debt collection ratio of 64 indicates that at 30 June 2002 the Board had the equivalent of 64 days revenue in receivables which is marginally greater than its credit policy terms of 60 days. The 64 days is influenced by greater than average monthly grain sales during May and June 2002.

The Board has not yet declared a dividend for the year ended 30 June 2002. However, Notes to the Financial Statements include comment that a standard benchmark of dividends being 50% of after tax profits is to apply to the Board.

The low profitability results of the Board are reflected in the level of dividends paid and, although the dividends paid in recent years approximate 50% of after tax profits, in absolute terms the total dividend payable to the State for the four years prior to 2001-02 amounts to $0.221m, or average annual returns of $0.055m. The low profitability results, together with the effect of timing differences resulting from differing rates of depreciation for taxation and accounting purposes, also impact on the level of income tax payable in any one year. Average annual tax payable over the five year period amounts to $0.066m.

Due to the low level of staff employed by the Board, statistics addressing average staff costs are susceptible to distortion particularly with relation to movements in the provision for retirement benefits and costs associated with the use of casual staff during a particular year.

OVERALL COMMENT

Low profitability of the Board has resulted in total returns (i.e. dividends and income tax) to the State for the four year period prior to 2001-02 amounting to $0.447m, or average annual total returns over those years of $0.111m. At the date of completing this segment of the Report, 31 October 2002, the Board had not declared a dividend in respect to 2001-02 operations.

1.12 TASMANIAN INTERNATIONAL VELODROME MANAGEMENT AUTHORITY

INTRODUCTION

The Tasmanian International Velodrome Management Authority was established under the *Tasmanian International Velodrome Management Authority Act 1984*. The Authority trades under its own name and the registered trade name of the Silverdome.

The core business of the Authority is the management and operation of the Silverdome for sporting, entertainment, exhibition and related purposes. The Authority leases the Silverdome from the Department of Primary Industry, Water and Environment.

The Board of the Authority comprises five members appointed by the Governor.

At 30 June 2002 the Responsible Minister was the Minister for State Development, and on 9 August 2002 the Responsible Minister became the Minister for Racing, Sport and Recreation.

AUDIT OF THE 2001-02 FINANCIAL STATEMENTS

The signed financial statements of the Tasmanian International Velodrome Management Authority were received on 25 September 2002 and an unqualified audit report was issued on 7 October 2002.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	1998-99	1999-00	2000-01	2001-02
	$'000s	$'000s	$'000s	$'000s	$'000s
Operating revenue	599	256	300	272	276
Non-operating revenue	187	185	248	275	275
Total Revenue	**786**	**441**	**548**	**547**	**551**
Depreciation	84	73	58	42	29
Other operating expenses	688	501	513	580	504
Total Expenses	**772**	**574**	**571**	**622**	**533**
Result from ordinary activities	**14**	**(133)**	**(23)**	**(75)**	**18**
Income tax expense	12	(21)	0	0	0
Result after taxation	**2**	**(112)**	**(23)**	**(75)**	**18**

Comment

Operating revenue has declined significantly since 1997-98 and the Authority has recorded losses from Ordinary Activities in three of the past four financial years. The most notable loss, amounting to $0.133m before income tax, was incurred in 1998-99 and the loss was primarily due to a decrease in revenue, particularly revenue from live entertainment, with similar trends recorded in related revenue sources such as merchandising, licences and recoveries.

Non-operating revenue for each of the five-year periods under review includes a government deficit contribution of $0.185m. In both the 2000-01 and 2001-02 years, the Authority received additional funding from the Department of State Development (DSD) amounting to $0.090m. This funding was required to enable the operations of the Silverdome to continue.

Non-operating revenue for 1999-00 included $0.063m relating to an adjustment to the provision for superannuation arising from the introduction of the Retirement Benefits Fund – Tasmanian Accumulation Scheme. Under the new Scheme, the Authority is only required to maintain a provision in respect of those employees who have benefits retained in the Compulsory Preservation Account. The provision for superannuation was consequently reduced by $0.063m and the adjustment was recognised as abnormal revenue in the 1999-00 financial statements.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	268	139	59	65	71
Receivables	14	17	19	8	12
Inventories	1	1	0	0	0
Other	29	8	15	18	30
Total Current Assets	**312**	**165**	**93**	**91**	**113**
Property, plant & equipment	311	269	240	227	202
Total Non-Current Assets	**327**	**269**	**240**	**227**	**202**
Payables	76	26	9	28	28
Provisions	62	56	64	64	66
Other	17	8	16	57	34
Total Current Liabilities	**155**	**90**	**89**	**149**	**128**
Borrowings					
Provisions	105	77	0	0	0
Total Non-Current Liabilities	**105**	**77**	**0**	**0**	**0**
Net Assets	**379**	**267**	**244**	**169**	**187**
Reserves	615	615	615	615	615
Retained profits	(236)	(348)	(371)	(446)	(428)
Total Equity	**379**	**267**	**244**	**169**	**187**

Comment

Since 1997-98, the Cash held by the Authority has gradually declined. As a result, additional funding was required from the DSD in both the 2000-01 and 2001-02 years to enable the Authority to continue to operate.

At 30 June 1998, the Authority recognised a future income tax benefit of $0.016m and a deferred income tax liability of $0.037m. These balances were reversed in 1998-99 resulting in a negative income tax expense of $0.021m. The balances were reversed as the Authority could not satisfy virtual certainty criteria required by Australian Accounting Standard AAS 3 "Accounting for Income Tax (Tax Effect Accounting)".

The balance of non-current provisions at 30 June 1999, $0.077m, related to a provision for superannuation. As noted previously, the provision was adjusted downwards by $0.063m and the remaining balance included as a current liability.

CASH POSITION

	1997-98 $'000s	1998-99 $'000s	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s
Receipts from customers	768	430	478	662	578
Payments to suppliers and employees	(588)	(536)	(537)	(627)	(570)
Interest received	15	9	7	5	3
Cash from operations	**195**	**(97)**	**(52)**	**40**	**11**
Payments for P, P & Equipment	(143)	(32)	(28)	(41)	(5)
Proceeds from sale of P, P & E	17	0	0	7	0
Cash used in investing activities	**(126)**	**(32)**	**(28)**	**(34)**	**(5)**
Cash from financing activities	**0**	**0**	**0**	**0**	**0**
Net increase in cash	**69**	**(129)**	**(80)**	**6**	**6**
Cash at the beginning of the period	199	268	139	59	65
Cash at end of the period	**268**	**139**	**59**	**65**	**71**

Comment

Receipts from customers and payments to suppliers increased significantly in 2000-01 due to the impact of GST. The net increase in cash held during both of the 2000-01 and 2001-02 years was $0.006m. However, if the additional funding received from DSD of $0.090m was taken into account, the Authority’s cash balance would have declined by $0.084m during each of these years.

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01	2001-02
Financial Performance						
Result from operations ($'000s)		(173)	(318)	(271)	(350)	(257)
EBIT ($'000s)		14	(133)	(23)	(75)	18
Operating margin	>1.0	0.78	0.45	0.53	0.44	0.52
Return on assets		2.4%	-24.8%	-6.0%	-23.0%	5.7%
Return on equity		0.5%	-34.7%	-9.0%	-36.3%	10.1%
Financial Management						
Debt to equity		-	-	-	-	-
Debt to total assets		-	-	-	-	-
Interest cover	>3	-	-	-	-	-
Current ratio	>1	2.01	1.83	1.04	0.61	0.88
Cost of debt	7.5%	-	-	-	-	-
Debt collection	30 days	9	25	24	11	16
Creditor turnover	30 days	50	31	11	22	24
Returns to Government						
Dividends paid or payable ($'000s)		0	0	0	0	0
Dividend payout ratio	50%	-	-	-	-	-
Dividend to equity ratio		-	-	-	-	-
Income tax paid or payable ($'000s)		0	0	0	0	0
Effective tax rate	30%	-	-	-	-	-
Total return to the State ($'000s)		0	0	0	0	0
Total return to equity ratio		-	-	-	-	-
Other information						
Staff numbers FTEs		7	6	7	7	7
Average staff costs ($'000s)		40	37	34	38	38

Comment

The Authority does not have any outstanding borrowings and therefore the debt related ratios are not applicable.

Due to the Authority's ongoing loss situation, no dividends or tax payments have been made to the State. The dividend, tax and total return ratios are therefore not applicable.

The financial performance ratios reveal that the Authority has made a loss from operations in all of the past five years and, as a result, the Operating margin for each year is well below the benchmark of one. EBIT reflects the impact of both the annual deficit contribution received from the State Government, $0.185m, together with additional funding from DSD in 2000-01 and 2001-02 of $0.090m each year.

The current ratio reflects the decline in operating income and the continuing cash flow problems. The current ratio has fallen below the benchmark for the last two years under review.

The debt collection ratio has been consistently below the benchmark of 30 days. The creditor turnover ratio for 1997-98 was unusually high due to a large invoice outstanding at 30 June 1998 relating to the purchase of safety lines.

OVERALL COMMENT

The financial performance ratios reveal that the Authority has continued to incur operating losses over the period of the review. Members and officers of the Authority have held meetings with the Premier and representatives from the DSD and the Department of Treasury and Finance to discuss the future of the Authority.

A report was provided to the Government in September 2001 with alternative options for increasing operating outcomes and maximising utilisation of the facilities. At the time of preparing this report, no decision has been made by the Government regarding the future of the Authority.

Repairs, maintenance and replacement of equipment continue to be a significant issue on the Authority's agenda. The Corporate Plan submitted to the Government for the years 2002-05 identified a range of capital expenditure required to maintain and upgrade the facility to appropriate standards. It is noted that the Corporate Plan was not approved by the Government. Advice provided to the Authority indicates that due to a lack of clarification of the Silverdome's longer term direction, funding for maintenance and capital expenditure at this time will only be made available to address safety and public liability issues.

1.13 TASMANIAN PUBLIC FINANCE CORPORATION

INTRODUCTION

The Corporation (TASCORP) was established by the *Tasmanian Public Finance Corporation Act 1985*. The Corporation comprises four members appointed by the Governor. The functions of the Corporation include the development and implementation of borrowing and investment programs for State Authorities, including local government.

The Responsible Minister is the Treasurer.

AUDIT OF THE 2001-02 FINANCIAL STATEMENTS

The financial statements of the Corporation were received on 1 September 2002 and a **qualified audit report** was issued on 3 September 2002. That qualification relates to the non-compliance with the requirements of Australian Accounting Standard AAS 23 'Set-off and Extinguishment of Debt'. The Corporation redeems debt before its maturity in order to replace it with more suitable debt, or because the debt is no longer required, due to early repayment of loans by clients. Since 1 April 1992, the Corporation has amortised gains and losses arising on debt redeemed over the remaining term of the liability, under the terms of an exemption from the Treasurer in applying AAS 23. However it is still necessary for me to take cognisance of any non-compliance with the Accounting Standards in issuing my audit opinion.

Liabilities of $384.362m (2000-01, $384.362m) have been redeemed since April 1992. As at 30 June 2002 the un-amortised loss totalled $0.641m ($1.364m), and net expense of $0.724m ($6.758m), was amortised during the year. Had these transactions taken place in the absence of an exemption from AAS 23 the result for the year would be an operating profit of $9.119m ($14.455m) before tax and the amount of $0.640m ($1.364m) Deferred Debt Buy-Back Losses would not have appeared as an asset in Balance Sheet.

The Corporation has advised that had the exemption not been granted under the Act, the debt concerned would not have been redeemed.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	1998-99	1999-00	2000-01	2001-02
	$'000s	$'000s	$'000s	$'000s	$'000s
Operating revenue	372 010	360 739	409 467	454 726	394 361
Non-operating revenue	43	20	23	25	21
Total Revenue	**372 053**	**360 759**	**409 490**	**454 751**	**394 382**
Borrowing costs	363 889	352 482	396 743	437 002	380 715
Depreciation	156	145	143	124	106
Other operating expenses	4 464	3 633	7 439	9 899	5 143
Non-operating expenses	43	23	23	29	22
Total Expenses	**368 552**	**356 283**	**404 348**	**447 054**	**385 986**
Result from ordinary activities	**3 501**	**4 476**	**5 142**	**7 697**	**8 396**
Income tax expense	1 144	1 498	919	2 721	2 425
Result after taxation	**2 357**	**2 978**	**4 223**	**4 976**	**5 971**

Comment

During the past five years operating revenue, which is a principal function of TASCORP's operations, has fluctuated as returns made on investments are a function of market conditions, underlying interest rates, margins and investment strategies. The substantial increase in 1999-00 was due to a change in accounting policy, where interest on cross currency swaps was shown on a gross basis instead on a net basis as in prior years. The increase the 2000-01 year is due to a significant rise in interest on investments, which was due principally to a change in TASCORP's investment strategies. The subsequent decrease noted in 2001-02 was due to a reduction in the face value of loans to clients, and a decrease in interest rates and market conditions.

The borrowing costs expense has fluctuated in line with the revenue movements, and is a reflection of TASCORP's risk management of interest rate exposures.

The peaks noted in other operating expenses are due to amounts being recorded for the debt reconstruction amortisation, which was discussed above in the qualification explanation. This amortisation was significantly reduced to $0.724m in 2001-02, accounting for the large decrease in operating expenses.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	781	(248)	775	(671)	77
Interest Receivable	103 948	125 740	115 691	89 429	79 292
Investments	919 303	1 117 591	1 525 400	1 660 702	1 833 862
Other	86 269	61 084	151 131	251 918	54 188
Total Current Assets	**1 110 301**	**1 304 167**	**1 792 997**	**2 001 378**	**1 967 419**
Property, plant & equipment	17 797	17 735	17 687	17 647	17 860
Investments	3 366 213	3 356 098	3 312 033	3 032 701	3 507 219
Other	4 706	11 115	5 750	2 344	1 972
Total Non-Current Assets	**3 388 716**	**3 384 948**	**3 335 470**	**3 052 692**	**3 527 051**
Interest Payable	100 228	95 264	109 188	86 865	75 297
Borrowings	1 204 581	1 465 980	1 975 950	2 511 078	2 777 474
Provisions	2 642	3 327	4 676	10 177	8 226
Other	81 088	409	35 695	54 221	31 197
Total Current Liabilities	**1 388 539**	**1 564 980**	**2 125 509**	**2 662 341**	**2 892 194**
Borrowings	3 093 139	3 098 889	2 982 159	2 377 291	2 589 944
Provisions	7 339	15 246	10 799	4 438	2 332
Total Non-Current Liabilities	**3 100 478**	**3 114 135**	**2 992 958**	**2 381 729**	**2 592 276**
Net Assets	**10 000**	**10 000**	**10 000**	**10 000**	**10 000**
Reserves	10 000	10 000	10 000	10 000	10 000
Total Equity	**10 000**	**10 000**	**10 000**	**10 000**	**10 000**

Comment

Although TASCORP's financial statements do not separately disclose assets and liabilities in current and non-current categories, this has been done for this Report for consistency of presentation with other GBEs and comparability purposes.

The major movements over the past 5 years are a function of the duration (i.e. average time to maturity) of investments and borrowing instruments. In the 1997-98 there was a significant change to invest in longer-term instruments. In contrast, there was a significant increase in current investments and borrowings in the 2000-01 year, as these types of investments became more profitable than longer-term investments.

CASH POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	4 222	3 500	3 366	6 012	4 608
Payments to suppliers and employees	(3 435)	(3 042)	(14 804)	(3 236)	(4 352)
Interest received	376 904	351 692	509 722	435 245	512 267
Borrowing costs	(376 201)	(356 711)	(476 451)	(499 339)	(470 257)
Taxation expense	(2 676)	0	0	(991)	(7 114)
Cash from operations	**(1 186)**	**(4 561)**	**21 833**	**(62 309)**	**35 152**
Proceeds from investments	(27 545)	(36 926)	(49 974)	(326 251)	(219 263)
Payments for investments	189 334	(10 782)	114 067	261 376	(211 634)
Payments for P, P & Equipment	(148)	(106)	(118)	(112)	(342)
Proceeds from sale of P, P & E	43	20	23	25	21
Cash used in investing activities	**161 684**	**(47 794)**	**63 998**	**(64 962)**	**(431 218)**
Proceeds from borrowings	0	(63 171)	(67 543)	26 131	117 192
Repayment of borrowings	9 969	220 342	176 694	(131 572)	137 414
Dividends paid	(1 196)	(2 351)	(2 978)	(4 223)	(4 976)
Cash from financing activities	**8 773**	**154 820**	**106 173**	**(109 664)**	**249 630**
Net increase in cash	**169 271**	**102 465**	**192 004**	**(236 935)**	**(146 436)**
Cash at the beginning of the period	(101 766)	67 505	169 970	361 974	125 039
Cash at end of the period	**67 505**	**169 970**	**361 974**	**125 039**	**(21 397)**

Comment

TASCORP includes cash balances and the net balance of investments and borrowings at call as the cash balance for cash flow purposes.

The significant volatility in proceeds and payments for investments, in addition to the changes in proceeds and payments for borrowings, is merely a function of TASCORP's investment strategies. The figures noted only represent net movements in types of investments (investment and advances) and borrowings (deposits, borrowings) as well as swap prepayments.

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01	2001-02
Financial Performance						
Result from operations ($'000s)		3 501	4 479	5 142	7 701	8 397
Operating margin	>1.0	1.01	1.01	1.01	1.02	1.02
Return on equity		23.6%	29.8%	42.2%	49.8%	59.7%
Financial Management						
Current ratio	>1	0.80	0.83	0.84	0.75	0.68
Cost of debt	7.5%	8.7%	8.0%	8.3%	8.9%	7.4%
Returns to Government						
Dividends paid or payable ($'000s)		2 351	2 978	4 223	4 976	5 971
Dividend payout ratio	50%	99.7%	100.0%	100.0%	100.0%	100.0%
Dividend to equity ratio		23.5%	29.8%	42.2%	49.8%	59.7%
Income tax paid or payable ($'000s)		0	0	0	5 676	4 159
Effective tax rate	30%	0.0%	0.0%	0.0%	73.7%	49.5%
Total return to the State ($'000s)		2 351	2 978	4 223	10 652	10 130
Total return to equity ratio		23.5%	29.8%	42.2%	106.5%	101.3%
Other information						
Staff numbers FTEs		16	14	14	14	14
Average staff costs ($'000s)		84	85	86	88	95

Comment

The Corporation is primarily a financial institution, borrowing and lending on behalf of other organisations. As some areas of analysis are designed to indicate the extent to which government organisations borrow, lend, collect debtors and turn over creditors, they are not applicable in TASCORP's context.

Due to TASCORP's low equity base, significant returns on equity are noted for each of the five years under review. Overall, in tax and dividends, the Corporation has returned $30.335m to the state over the past five years, at an average of $6.067m per annum.

OVERALL COMMENT

Apart from the qualification issue noted previously, the audit of the financial statements for the 2001-02 year was completed with satisfactory results.

1.14 THE PUBLIC TRUSTEE

INTRODUCTION

The Public Trustee was established by the *Public Trustee Act 1930.* Principal commercial activities undertaken include the provision to the general community with access to professional advice and service in relation to Trustee services including wills, estate administration, trust management and powers of attorney; and the protection of the financial interests of individuals under a legal, physical or intellectual disability where The Public Trustee is appointed to act on their behalf.

The Public Trustee's Board is comprised of six members, five of whom are appointed by the Governor on the recommendation of the Minister.

The Responsible Minister is the Attorney-General and Minister for Justice and Industrial Relations.

AUDIT OF THE 2001-02 FINANCIAL STATEMENTS

The financial statements of The Public Trustee were signed by the Chairperson and the Chief Executive Officer on 16 September 2002, and an unqualified audit report was issued on 31 October 2002.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	**1998-99**	**1999-00**	**2000-01**	**2001-02**
	$'000s	$'000s	$'000s	$'000s	$'000s
Operating revenue	3 513	3 592	3 259	3 885	4 245
Non-operating revenue	457	69	294	17	0
Total Revenue	**3 970**	**3 661**	**3 553**	**3 902**	**4 245**
Borrowing costs	210	0	0	0	0
Depreciation	118	108	91	92	87
Other operating expenses	3 181	3 459	3 364	3 566	4 174
Non-operating expenses	123	0	107	0	0
Total Expenses	**3 632**	**3 567**	**3 562**	**3 658**	**4 261**
Result from ordinary activities	**338**	**94**	**(9)**	**244**	**(16)**
Income tax expense	335	70	0	0	(1 488)
Result after taxation	**3**	**24**	**(9)**	**244**	**1 472**

Comment

The Public Trustee's Operating revenue is derived from commission and fees charged on the administration of estates and trusts under its control (including payment of an amount for performing Community Service Obligations (CSOs) on behalf of the Government) together with rental income and interest earned on its investments. The Public Trustee's investments are invested, along with other funds that it holds in Trust, in a Common Fund. Over the period of review, commission and fees earned (exclusive of CSOs) ranged from 80% of total Operating revenue in 1997-98 to 78% in 2001-02. It had dropped to 75% in 2001-02. Over the same period, interest revenue on its investments has decreased from \$0.240m in 1997-98 to \$0.083m in 2001-02 while its investment balance at 30 June for each of those years has risen from \$1.800m to \$2.849m. The decrease in interest from 1997-98 is attributable to the utilisation of \$2.400m in invested funds during 1997-98 to repay outstanding borrowings in connection with the purchase of its building.

The amount received/receivable by way of CSOs for 2001-02 amounted to \$0.660m compared with \$0.665m in 2000-01. Prior to 2000-01, annual amounts of \$0.300m were paid as a contribution to CSOs. In the past two years, CSOs have contributed approximately 16% of total Operating revenue.

Non-operating revenues generally relate to adjustments to the provisions for retirement benefits (in accordance with actuarial advice) and income tax. In 1997-98 these adjustments amounted to \$0.334m and \$0.121m respectively. The items in 1998-99 and 1999-00 both related to retirement benefit adjustments, also in accordance with actuarial advice.

Non-operating expenses in 1997-98 and 1999-00 represent revaluation decrements of the properties owned by The Public Trustee.

Borrowing costs in 1997-98 were connected with a loan for the construction of the premises at Murray Street. This loan was repaid during that year.

The item Income tax expense predominantly represents the recognition of an income tax benefit arising from the entry of Government Business Enterprises (GBE) into the National Tax Equivalent Regime (NTER). Under the NTER, an income tax deduction is only allowable for payments made to superannuation funds whereas under the former tax equivalent regime GBEs had the option of either complying with income tax law or claiming a deduction for movements in the retirement benefits provision. The result of the change in policy was to recognise as revenue a future income tax benefit (FITB) amounting to \$1.193m. In addition, and in accordance with Australian Accounting Standards), the Public Trustee had not recognised either a FITB or a deferred income tax liabilitiy (DITL) owing to it having both significant carried-forward tax losses, and an on-going building allowance entitlement for taxation purposes, which made their realisation uncertain. With the change resulting from entry into the NTER, accumulated tax losses were utilised and both the FITB and DITL were reinstated into the accounts. The net effect was a further adjustment to revenue amounting to \$0.117m. In conjunction with the tax effect of the current year operations, the impact on the Balance Sheet was to create a FITB asset and DITL liability of \$1.552m and \$0.043m respectively. In addition, for the first time for a number of years, the Public Trustee will pay income tax in respect of its annual operations.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	1	1	1	1	1
Receivables	86	88	52	252	248
Investments	1 800	2 251	1 992	2 350	2 849
Other	0	0	6	31	166
Total Current Assets	**1 887**	**2 340**	**2 051**	**2 634**	**3 264**
Property, plant & equipment	3 543	3 459	3 409	3 327	3 311
Other	13	10	0	0	1 551
Total Non-Current Assets	**3 556**	**3 469**	**3 409**	**3 327**	**4 862**
Payables	150	420	243	343	381
Provisions	427	435	550	937	1 377
Other	0	0	0	0	21
Total Current Liabilities	**577**	**855**	**793**	**1 280**	**1 779**
Provisions	3 927	4 003	3 725	3 616	3 768
Other	0	0	0	0	43
Total Non-Current Liabilities	**3 927**	**4 003**	**3 725**	**3 616**	**3 811**
Net Assets	**939**	**951**	**942**	**1 065**	**2 536**
Retained profits	939	951	942	1 065	2 536
Total Equity	**939**	**951**	**942**	**1 065**	**2 536**

Comment

The increase in receivables in 2000-01 and 2001-02 is due to the timing in the receipt of the final payment for CSOs amounting to $0.244m and $0.239m respectively.

The Investment item represents The Public Trustee's invested funds in the Common Fund referred to earlier in this segment of the Report. In the year prior to the analysis, the balance of the investment was $4.280m and was partially used to repay the outstanding loan on the Murray Street property.

The increase in the Current Liability item Provisions, is due principally to an actuarial adjustment to the retirement benefit entitlements together with the normal movement in expected future payments.

Due almost entirely to the recognition of an FITB referred to earlier in the segment of the Report, Total Equity of The Public Trustee more than doubled to $2.536m.

CASH POSITION

	1997-98 $'000s	1998-99 $'000s	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s
Receipts from customers	3 513	3 616	3 240	3 662	4 115
Payments to suppliers and employees	(3 008)	(3 139)	(3 349)	(3 310)	(3 422)
Interest received	0	0	0	0	0
Borrowing costs	(264)	0	0	0	0
Taxation expense	0	0	0	0	0
Cash from operations	**241**	**477**	**(109)**	**352**	**693**
Proceeds from investments	2 400	0	200	0	0
Payments for investments	0	(400)	0	(300)	(500)
Payments for P, P & Equipment	(97)	(26)	(149)	(51)	(72)
Proceeds from sale of P, P & E	50	0	0	57	0
Cash used in investing activities	**2 353**	**(426)**	**51**	**(294)**	**(572)**
Proceeds from borrowings	0	0	0	0	0
Repayment of borrowings	(2 674)	0	0	0	0
Dividends paid	0	0	0	0	(122)
Cash from financing activities	**(2 674)**	**0**	**0**	**0**	**(122)**
Net increase in cash	**(80)**	**51**	**(58)**	**58**	**(1)**
Cash at the beginning of the period	281	201	252	193	251
Cash at end of the period	**201**	**252**	**194**	**251**	**250**

Comment

The Public Trustee's Cash from operations, assisted by the receipt of CSOs in recent years, has enabled it to increase its investment in the Common Fund while maintaining cash holdings at static levels.

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01	2001-02
Financial Performance						
Result from operations ($'000s)		4	25	(196)	227	(16)
EBIT ($'000s)		338	94	(9)	244	(16)
Operating margin	>1.0	1.00	1.01	0.94	1.06	1.00
Return on assets		4.9%	1.7%	-0.2%	4.3%	-0.2%
Return on equity		0.3%	2.5%	-1.0%	24.3%	81.8%
Financial Management						
Debt to equity		-	-	-	-	-
Debt to total assets		-	-	-	-	-
Interest cover	>3	-	-	-	-	-
Current ratio	>1	3.27	2.74	2.59	2.06	1.83
Cost of debt	7.5%	-	-	-	-	-
Debt collection	30 days	9	9	6	24	21
Creditor turnover	30 days	17	23	16	31	31
Returns to Government						
Dividends paid or payable ($'000s)		0	12	0	122	0
Dividend payout ratio	50%	-	50.0%	-	50.0%	-
Dividend to equity ratio		-	1.3%	-	12.2%	-
Income tax paid or payable ($'000s)		0	0	0	0	21
Effective tax rate	30%	-	-	-	-	-131.3%
Total return to the State ($'000s)		0	12	0	122	21
Total return to equity ratio		-	1.3%	-	12.2%	1.2%
Other information						
Staff numbers FTEs		51	51	49	49	49
Average staff costs ($'000s)		36	37	38	51	61

Comment

Financial performance ratios are generally reflective of The Public Trustee's low profitability and low equity base whereby fluctuations in activity have a large impact on those performance ratios. The increase in the 2001-02 return on equity ratio is due almost exclusively to the impact of the taxation adjustments referred to earlier in this segment of the Report.

The Current ratio has remained consistently high over the years of review – however, given the nature of the current assets and liabilities the ratio is particularly subject to movement in the Investments in the Common Fund and the Provision for employee entitlements.

The total return to the State has been low over the period due to the marginal operating results being obtained over the past 5 years. However, when returns are made there is a significant impact on the return to equity ratio due to its small equity base. 2000-01 is an example.

OVERALL COMMENT

The operations of The Public Trustee are generally reflective of its limited business opportunities, low profitability and general dependence upon CSO payments from Government that, in the last two years, has accounted for approximately 16% of its Operating revenue. In 2001-02, employee related costs (which included adjustments to retirement benefit provisions) accounted for approximately 70% of its Operating Expenditure. The increase in the Result after taxation in 2001-02 is exclusively due to the income tax adjustments resulting from entry into the NTER.

2 STATE OWNED CORPORATIONS

BACKGROUND

Government Businesses and Authorities that may be subject to provisions of their enabling legislation, and also subject to the provisions of *Corporations Act 2001*, are referred to as State Owned Corporations (SOCs).

Tasmania's SOCs (excluding port corporations) collectively have net assets valued in excess of $753m, employ over 1 700 people, and generate an estimated $795m in operating revenue annually, and are significant to the Tasmanian economy.

The Government is the sole shareholder in each SOC on behalf of the Tasmanian community. The broad governance framework for SOCs is set out in the legislation for each SOC, the *Corporations Act 2001* and the Constitution of each SOC.

The corporatisation of Government Businesses and Authorities under the *Corporations Act 2001* continues the reform process for improving public sector efficiency and effectiveness. While still serving a public purpose and owned by Government, corporatised entities are autonomous in day to day decision making with Ministerial direction provided through the strategic planning process.

Enabling legislation provides for the payment of guarantee fees, taxation equivalents and dividends.

RESPONSIBLE MINISTER

The Ministers responsible at 30 June 2002 for the entities within this group were as follows:

Entity	Responsible Minister
Aurora Energy Pty Ltd	Minister for Infrastructure, Energy and Resources
Metro Tasmania Pty Ltd	Minister for Infrastructure, Energy and Resources
TOTE Tasmania Pty Ltd	Minister for Racing and Gaming
Transend Networks Pty Ltd	Minister for Infrastructure, Energy and Resources
TT-Line Company Pty Ltd	Minister for Infrastructure, Energy and Resources

From 9 August the Minister for Infrastructure, Energy and Resources became the Minister for Economic Development, Energy and Resources; and the Minister for Racing and Gaming became the Minister for Racing, Sport and Recreation.

The responsible Minister together with the Treasurer hold the shares in the companies.

2.1 AURORA ENERGY PTY LTD

INTRODUCTION

Aurora Energy Pty Ltd (Aurora) was established on 17 June 1998 under the *Electricity Companies Act 1997* and is subject to the *Corporations Act 2001*. The Tasmanian Government through its two shareholders, the Treasurer and the Minister for Infrastructure, Energy and Resources, owns Aurora. The Office of the Tasmanian Electricity Regulator sets the maximum prices Aurora can charge.

Aurora consists of five business divisions as well as whole-of-business support services. These comprise of Aurora Retail (electricity retailing), Network (distribution asset management), Network Services (assists network in overseeing resource allocation to network management) Contract Services (customer contracting management and compliance) and New Ventures (exploring innovation and diversification).

Aurora holds a controlling interest in Aurora Energy AAPT Pty Ltd (trading as TasTel) a telecommunications joint venture with Hydro Tasmania and has a fully owned subsidiary Ezikey Group Pty Ltd promoting pre-payment metering systems. Both of these entities were formed in 2000-01. In 2002 Aurora Gas Pty Ltd was formed to enter the tender process for the distribution and retail licences within Tasmania.

A board of seven directors, appointed by the Government, manages the Company.

At 30 June 2002 the Responsible Minister was the Minister for Infrastructure, Energy and Resources. Subsequent to 9 August 2002, the Responsible Minister became the Minister for Economic Development, Energy and Resources.

AUDIT OF THE 2001-02 FINANCIAL STATEMENTS

The Tasmanian Audit Office received signed financial statements of the Company on 19 September 2002 and an unqualified audit report was issued on 9 October 2002.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98 $'000s	1998-99 $'000s	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s
Operating revenue	542 078	552 273	573 007	586 973	
Non-operating revenue	772	2 300	0	0	
Total Revenue	**542 850**	**554 573**	**573 007**	**586 973**	
Borrowing costs	38 658	41 912	34 307	28 432	
Depreciation	37 292	39 183	40 673	44 783	
Other operating expenses	436 472	440 359	460 517	473 226	
Non-operating expenses	3 832	4 014	508	393	
Total Expenses	**516 254**	**525 468**	**536 005**	**546 834**	
Result from ordinary activities	**26 596**	**29 105**	**37 002**	**40 139**	
Income tax expense	14 196	9 002	16 856	9 082	
Result after taxation	**12 400**	**20 103**	**20 146**	**31 057**	

Comment

Operating revenue has continued to increase steadily with sales revenue for both Business Customers ($364m 2002, $349m 2001, $339m 2000, $332m 1999) and General Sales ($202m 2002, $192m 2001, $181m 2000, $177m 1999). This has been partially offset by increases in Energy and Transmission costs over the same period ($384m 2002, $363m 2001, $344m 2000, $336m 1999).

Non-operating revenue of $0.772m in 1998-99 related to gains on disposal of fixed assets, and in 1999-00 related to an adjustment of $2.300m to the RBF non-contributory provision for superannuation.

The decline in borrowing costs continues following the restructure of the Company's loan portfolio in 2000-01 as part of debt management procedures.

The increase in depreciation of $4.110m relates mainly to asset additions during the year, $77.594m, and an asset revaluation increment amounting to $16.098m.

Non-operating expenses in 1998-99 included $2.505m for redundancy payments and $1.327m for Aurora Energy re-branding costs. Further redundancy payments of $2.062m were made in 1999-00 together with $0.415m for Year 2000 costs and $0.438 for GST implementation.

Aurora is subject to income tax-equivalent provisions of the *Government Business Enterprises Act 1995*. Income tax expense in 1999-00 amounted to $14.956m and was offset by an adjustment of $5.954m due to a change in company income tax rates. This resulted in a tax equivalent expense of $9.002m for the year.

In 2001-02 income tax expense amounted to $15.719m and was offset by an increase in future income tax benefit (FITB) of $6.637m resulting from entry into the National Taxation Equivalent Regime (NTER). The nature of this adjustment was that the Company previously claimed a deduction for the annual movement in the provision for superannuation for taxation purposes prior to entry to the NTER, but is now only able to claim the actual superannuation payments made. The FITB of $6.637m results from being able to claim the provision for superannuation of $22.123m in future years as payments are made on an emerging cost basis to the Retirement Benefits Fund Board.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	23	37	10	8	235
Receivables	83 092	87 591	78 278	86 549	89 585
Investments	2 500	4 400	3 100	0	14 389
Inventories	5 592	4 988	3 905	3 559	3 414
Other	375	3 618	2 772	2 594	1 059
Total Current Assets	**91 582**	**100 634**	**88 065**	**92 710**	**108 682**
Property, plant & equipment	641 115	655 702	672 000	693 919	714 800
Investments	0	0	0	564	202
Other	5 364	5 465	4 601	4 902	12 437
Total Non-Current Assets	**646 479**	**661 167**	**676 601**	**699 385**	**727 439**
Payables	15 490	57 372	60 681	55 734	59 265
Borrowings	75 800	52 900	20 000	72 198	29 448
Provisions	22 164	25 785	31 045	36 434	40 878
Other	2 480	3 313	3 017	3 590	5 801
Total Current Liabilities	**115 934**	**139 370**	**114 743**	**167 956**	**135 392**
Borrowings	523 303	335 577	358 138	306 392	348 554
Provisions	86 081	59 924	53 702	54 578	54 456
Total Non-Current Liabilities	**609 384**	**395 501**	**411 840**	**360 970**	**403 010**
Net Assets	**12 743**	**226 930**	**238 083**	**263 169**	**297 719**
Capital	0	201 555	201 555	201 555	201 555
Reserves	12 743	19 175	20 277	35 459	51 518
Retained profits	0	6 200	16 251	26 155	44 646
Total Equity	**12 743**	**226 930**	**238 083**	**263 169**	**297 719**

Comment

The assets and liabilities transferred from the Hydro-Electric Corporation following its disaggregation are represented in the 1997-98 column. Consideration for the transfer consisted of an interest free loan of $249.055m to the Hydro-Electric Corporation. During this initial year, and at the direction of the Treasurer, Aurora repaid a sum of $47.500m with the remainder being transferred from the Hydro-Electric Commission to the Crown for nil consideration. The debt was then converted to equity on 30 June 1999 with the issue of two shares, one each for the Treasurer and the Minister for Energy.

The valuation methodology of the Company's distribution assets reflects the Tasmanian Electricity Code rules which regulates the revenue from these assets based on the written down optimised replacement value of the assets, and adjustments to these values as determined by the regulator. In other words it represents the least cost modern equivalent assets which would provide the same service potential of the existing assets. It is appropriate for the recoverable amount to reflect the adjusted written down optimised replacement value. Since their initial valuation as at the 1 July 1998 subsequent valuations have been determined by applying appropriate inflation factors and the inclusion of additions.

During 1999-00 the Company restructured its loan portfolio. Borrowings costs have declined since the restructure whilst the balance has remained stable since then at approximately $378.000m.

Current Investments represents Aurora's money market account and fluctuates as part of normal operations. Non-current Investments represents equity held in the joint venture (TasTel) at year-end. Other non-current assets have substantially increased in 2001-02 principally due to the increase in FITB as referred to earlier in this segment of the Report.

Equity for the company has grown in line with revaluation increments to reserves and the accumulation of retained profits.

CASH POSITION

	1997-98 $'000s	1998-99 $'000s	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s
Receipts from customers		551 613	565 316	610 638	635 141
Payments to suppliers and employees		(455 995)	(440 074)	(508 006)	(520 144)
Interest received		701	1 292	939	504
Borrowing costs		(35 216)	(45 121)	(32 280)	(26 513)
Taxation expense		(6 738)	(11 835)	(13 532)	(16 718)
Cash from operations		**54 365**	**69 578**	**57 759**	**72 270**
Payments for investments		0	0	(800)	0
Payments for P, P & Equipment		(47 994)	(57 112)	(50 060)	(54 372)
Proceeds from sale of P, P & E		3 269	1 635	2 143	4 378
Cash used in investing activities		**(44 725)**	**(55 477)**	**(48 717)**	**(49 994)**
Proceeds from borrowings		117 400	163 700	38 639	71 075
Repayment of borrowings		(126 400)	(173 700)	(39 169)	(72 203)
Dividends paid		0	(6 200)	(10 052)	(10 244)
Cash from financing activities		**(9 000)**	**(16 200)**	**(10 582)**	**(11 372)**
Net increase in cash		**640**	**(2 099)**	**(1 540)**	**10 904**
Cash at the beginning of the period		2 523	3 163	1 064	(476)
Cash at end of the period		**3 163**	**1 064**	**(476)**	**10 428**

Comment

Aurora benefits from a regular supply of income from its electricity debtors to meet its obligations to both suppliers and employees. These have continued to increase steadily over the proceeding years with an increase from 247 801, 1 July 2001 to 248 544 customers at 30 June 2002. The other major influence from 1 July 2000 is that totals for both Receipts from customers and Payments to suppliers include the application of Goods and Services Tax on Sales and Purchases respectively. Borrowing costs declined in line with prior restructuring and lower debt serving costs from a more strategic approach.

Property Plant and Equipment payments remain relatively stable. Proceeds and repayments of borrowings mainly offset each other, as Aurora’s debt portfolio remained stable from 2000-01. There were previous reductions in total borrowings of $9.000m in 1998-99 and $10.000m in 1999-00. Other financing activity cash flows are for dividend payments based on operating profit as shown above.

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01	2001-02
Financial Performance						
Result from operations ($'000s)			29 656	30 819	37 510	40 532
EBIT ($'000s)			65 254	71 017	71 309	68 571
Operating margin	>1.0		1.06	1.06	1.07	1.07
Return on assets			8.7%	9.3%	9.2%	8.4%
Return on equity			10.3%	8.6%	8.0%	11.1%
Financial Management						
Debt to equity			171.2%	158.8%	143.9%	127.0%
Debt to total assets			51.0%	49.5%	47.8%	45.2%
Interest cover	>3		1.7	1.7	2.1	2.4
Current ratio	>1		0.72	0.77	0.55	0.80
Cost of debt	7.5%		7.8%	10.9%	9.1%	7.5%
Debt collection	30 days		27	23	28	29
Creditor turnover	30 days		4	4	3	1
Returns to Government						
Dividends paid or payable ($'000s)			6 200	10 052	10 244	12 566
Dividend payout ratio	50%		50.0%	50.0%	50.8%	40.5%
Dividend to equity ratio	6%		5.2%	4.3%	4.1%	4.5%
Income tax paid or payable ($'000s)			14 196	9 002	16 856	9 082
Effective tax rate	30%		53.4%	30.9%	45.6%	22.6%
Total return to the State ($'000s)			20 396	19 054	27 100	21 648
Total return to equity ratio			17.0%	8.2%	10.8%	7.7%
Other information						
Staff numbers FTEs			859	841	810	820
Average staff costs ($'000s)			46	46	51	52

Comment

Aurora’s operating result continues to be strong with a $3.137m (8.48%) increase over the previous financial year. Return on equity after tax ratio, dividend payout after tax ratio and effective tax rate in 2001-02 has been affected by the FITB adjustment. Treasury advised that the $6.637m FITB adjustment resulting from entry into the National Taxation Equivalent Regime was not assessable for dividends.

Financial performance and management analysis figures remain relatively stable. The current ratio for the current financial year has increased due to timing increases of current assets and changes in borrowings structure. The afore-mentioned debt reductions and restructuring in 1998-99 and 1999-00 is evident in the debt to total assets and cost of debt ratios. Aurora’s creditor turnover figure remains low as payments to it largest creditors for energy and transmission purchases are made when due and accruals are excluded from this ratio.

Returns to the State remain stable at half operating profit after tax plus income tax. The effective tax and tax rate were lower in 1999-00 mainly due to the effects of reductions in the company tax rates on deferred tax balances.

OVERALL COMMENT

As a result of strong operations the Tasmanian Government will receive $27.621m comprising; income tax equivalence, $9.082m; statutory levy (5%) relating to the prior period, $1.632m, dividend based on 50% of after tax profit, $12.566m; payroll tax, $23.070m and debt guarantee fees, $1.230m.

The 5% statutory levy on all electricity accounts was abolished by the State Government with effect from 1 July 2001.

The Tasmanian Government has a Community Service Agreement with Aurora to provide discounts to pensioners. In 2001-02 reimbursements for the community service and administration costs was $9.745m.

The 2001-02 audit was completed with satisfactory results.

2.2 METRO TASMANIA PTY LTD

INTRODUCTION

Metro Tasmania Pty Ltd (Metro) is a State-owned company that provides public urban road transport services in the metropolitan areas of Hobart, Launceston and Burnie and through its subsidiary, to Kingston/Channel, New Norfolk and Richmond/Campania.

Metro was incorporated on 2 February 1998 under the *Metro Tasmania Act 1997*. This company is a successor in law of the Metropolitan Transport Trust.

Metro Coaches (Tas) Pty Ltd (Metro Coaches) was established as a subsidiary company on 7 May 1999, following the purchase by Metro of a portion of the former Hobart Coaches Pty Ltd. The Auditor-General is the auditor of the subsidiary company.

The financial information presented below represents the consolidated accounts of Metro and its subsidiary.

At 30 June 2002 the Responsible Minister was the Minister for Infrastructure, Energy and Resources. Subsequent to 9 August 2002, the Responsible Minister became the Minister for Infrastructure.

AUDIT OF THE 2001-02 FINANCIAL STATEMENTS

Draft financial statements of Metro and Metro Coaches were received on 12 August 2002, and signed statements were received on 29 August 2002. Unqualified audit reports were issued on 17 September 2002.

FINANCIAL RESULTS

Results for the 1997-98 financial year are for a period of 5 months only.

FINANCIAL PERFORMANCE

	1997-98	1998-99	1999-00	2000-01	2001-02
	$'000s	$'000s	$'000s	$'000s	$'000s
Operating revenue	11 742	27 648	29 842	28 950	29 535
Non-operating revenue	0	2	40	44	70
Total Revenue	**11 742**	**27 650**	**29 882**	**28 994**	**29 605**
Borrowing costs	258	522	427	262	227
Depreciation	1 246	2 952	2 992	2 790	2 975
Other operating expenses	9 981	26 441	25 700	25 995	25 990
Total Expenses	**11 485**	**29 915**	**29 119**	**29 047**	**29 192**
Result from ordinary activities	**257**	**(2 265)**	**763**	**(53)**	**413**
Income tax expense	0	0	0	0	0
Result after taxation	**257**	**(2 265)**	**763**	**(53)**	**413**

Comment

Operating revenue and expenses increased from 1998-99 being the first full year operation of Metro.

Borrowing costs have been reducing due to reductions in the levels of debt.

On incorporation, Metro had a contingent superannuation liability related to arrangements entered into prior to incorporation to allow certain categories of employees to elect, at a later date, to leave the State Government Retirement Benefits Fund (RBF) superannuation scheme. The opportunity occurred during 1998-99. More employees than anticipated elected to leave the scheme and consequently the original sum provided was $2.196m less than required. This was expensed in that year, resulting in a loss of $2.265m. As the provision related to the previous year, a transfer from Shareholders Equity on formation was made to make up the loss.

Metro has significant carry-forward tax losses and is therefore unlikely to pay income tax for a number of years.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	1 021	379	175	1 329	3 704
Receivables	399	611	380	1 068	863
Investments	472	1 076	2 673	3 092	2 695
Inventories	924	820	700	696	742
Other	381	318	260	431	497
Total Current Assets	**3 197**	**3 204**	**4 188**	**6 616**	**8 501**
Property, plant & equipment	32 107	30 778	27 800	26 834	26 039
Investments	15 703	3 040	2 599	1 990	2 630
Other	0	159	143	127	304
Total Non-Current Assets	**47 810**	**33 977**	**30 542**	**28 951**	**28 973**
Payables	1 303	1 348	1 497	1 975	2 726
Borrowings	51	5 923	514	71	4
Provisions	8 239	3 142	3 828	3 995	4 474
Total Current Liabilities	**9 593**	**10 413**	**5 839**	**6 041**	**7 204**
Borrowings	6 824	901	3 179	3 034	3 030
Provisions	16 647	10 189	9 804	9 431	10 052
Total Non-Current Liabilities	**23 471**	**11 090**	**12 983**	**12 465**	**13 082**
Net Assets	**17 943**	**15 678**	**15 908**	**17 061**	**17 188**
Capital	17 686	15 494	15 498	15 501	15 502
Reserves	0	0	0	1 207	1 192
Retained profits	257	184	410	353	494
Total Equity	**17 943**	**15 678**	**15 908**	**17 061**	**17 188**

Comment

A major change in the Statement of Financial Position for 1998-99 was to provide funding for the payout of employees withdrawing from the RBF superannuation scheme and referred to earlier in this segment of the Report. The effect of this was to decrease cash on hand from $1.021m in 1997-98 to $0.379m in 1998-99, increase current investments from $0.472m to $1.076m and decrease non-current investments from $15.703m to $3.040m.

The cash position increased in 2001-02 due to funds set aside for the purchase of buses.

Due to a large number of employees no longer being members of the Retirement Benefits Fund, there was a decrease in the non-current provision for employee provisions from $16.647m in 1997-98 to $10.189m in 1998-99.

A significant increase of $5.872m in current borrowings in 1998-99 was offset by a corresponding decrease in the non-current liability as a result of a large proportion of total borrowings being due in 1999-00.

Total borrowings decreased from $6.824m in 1998-99 to $3.693m in 1999-00 due to debt repayments to Tascorp, $2.5m, and the Department of Treasury and Finance, $0.631m. $2.792m of debt maturing during the year was refinanced.

Land, buildings and buses were re-valued in 2000-01, resulting in the creation of an asset revaluation reserve of $1.207m.

Payables in 2001-02 included $0.698m for two buses delivered prior to the end of the year.

CASH POSITION

	1997-98	**1998-99**	**1999-00**	**2000-01**	**2001-02**
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	11 075	26 775	29 159	28 700	29 969
Payments to suppliers and employees	(10 385)	(37 773)	(25 010)	(26 132)	(25 274)
Interest received	609	651	335	387	384
Borrowing costs	(258)	(522)	(427)	(262)	(227)
Cash from operations	**1 041**	**(10 869)**	**4 057**	**2 693**	**4 852**
Proceeds from investments	0	12 650	2 500	500	0
Payments for investments	(609)	(591)	(3 656)	(335)	(298)
Payments for P, P & Equipment	(318)	(2 036)	(1 047)	(858)	(2 899)
Proceeds from sale of P, P & E	1 549	255	1 073	275	791
Cash used in investing activities	**622**	**10 278**	**(1 130)**	**(418)**	**(2 406)**
Proceeds from borrowings	5 292	0	2 792	0	2 792
Repayment of borrowings	(5 295)	(51)	(5 923)	(588)	(2 863)
Dividends Paid	0	0	0	(533)	0
Cash from financing activities	**(3)**	**(51)**	**(3 131)**	**(1 121)**	**(71)**
Net increase in cash	**1 660**	**(642)**	**(204)**	**1 154**	**2 375**
Cash at the beginning of the period	(639)	1 021	379	175	1 329
Cash at end of the period	**1 021**	**379**	**175**	**1 329**	**3 704**

Comment

Receipts from customers increased in 1999-00 as a result of the first full year's operations of Metro Coaches.

Payments to employees in 1998-99 were abnormally high due to employees opting out of the Retirement Benefits Fund referred to earlier. These payments were funded from investments.

Payments for Property, plant and equipment included seven buses in 2001-02.

Borrowing activity in 1997-98, 1999-00 and 2001-02 was higher due to refinancing measures.

A dividend of $0.533m was paid to Treasury in 2000-01 based on the prior year profit result.

The increase in cash at the end of 2001-02 represents the cash committed for bus purchase.

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01	2001-02
Financial Performance						
Result from operations ($'000s)		257	(2 267)	723	(97)	343
EBIT ($'000s)		515	(1 743)	1 190	209	640
Operating margin	>1.0	1.02	0.92	1.02	1.00	1.01
Return on assets		1.0%	-4.0%	3.3%	0.6%	1.8%
Return on equity	12%	1.5%	-13.5%	4.8%	-0.3%	2.4%
Financial Management						
Debt to equity		38.3%	43.5%	23.2%	18.2%	17.7%
Debt to total assets		13.5%	18.4%	10.6%	8.7%	8.1%
Interest cover	>3	2.0	-3.3	2.8	0.8	2.8
Current ratio	>1	0.33	0.31	0.72	1.10	1.18
Cost of debt	7.5%	3.8%	7.6%	8.1%	7.7%	7.4%
Debt collection	30 days	13	8	5	13	11
Creditor turnover	30 days	41	32	26	32	51
Returns to Government						
Dividends paid or payable ($'000s)		0	0	533	0	286
Dividend payout ratio	50%	-	-	69.9%	-	69.2%
Dividend to equity ratio		-	-	3.4%	-	1.7%
Income tax paid or payable ($'000s)		0	0	0	0	0
Effective tax rate	30%	-	-	-	-	-
Total return to the State ($'000s)		0	0	533	0	286
Total return to equity ratio		-	-	3.4%	-	1.7%
Other information						
Staff numbers FTEs		389	376	378	371	367
Average staff costs ($'000s)		42	43	42	45	47

Comment

The negative result in 1998-99 was due to an abnormal payout of superannuation entitlements for employees withdrawing from the RBF scheme noted above.

The lower interest cover ratio in 2000-01 indicated that revenues were low compared to the borrowing costs required to service the loan portfolio.

Returns to the State continue to be well below that which would be expected from commercial undertakings. The terms of the Community Service Agreement contract with government for urban bus services allows only for a "break even" result. This determines the returns that Metro is able to make to the State.

The increase in credit turnover in 2001-02 is due to the inclusion of the liability for the purchase of two buses.

OVERALL COMMENT

The financial position of Metro is satisfactory.

2.3 TOTE TASMANIA PTY LTD

INTRODUCTION

The former Totalizator Agency Board (TAB) was incorporated as TOTE Tasmania Pty Ltd on 5 March 2001. The company is empowered to establish and conduct totalizator betting in Tasmania under *The Racing Regulation Act 1952*.

The Board currently comprises five members who are appointed by the State Government as the 100% owner of the company.

The company has a one hundred percent interest in Tasradio Pty Ltd, a commercial radio broadcaster, which enables it to provide race broadcasts throughout most of Tasmania. Consequently, the financial information presented below represents the consolidated results and financial position of the company and its subsidiary.

At 30 June 2002 the Responsible Minister was the Minister for Racing and Gaming. Subsequent to 9 August 2002, the Responsible Minister became the Minister for Racing, Sport and Recreation.

AUDIT OF THE 2001-02 FINANCIAL STATEMENTS

Unsigned financial statements were received on 11 September 2002 and signed statements were received on 31 October. An unqualified audit report was issued on 1 November 2002.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	1998-99	1999-00	2000-01	2001-02
	$'000s	$'000s	$'000s	$'000s	$'000s
Wagering revenue	25 372	25 190	26 215	30 830	36 595
Interest received	320	183	231	305	316
Other revenue	1 182	1 123	1 729	3 350	4 777
Non-operating revenue	0	0	401	0	0
Total Revenue	**26 874**	**26 496**	**28 576**	**34 485**	**41 688**
Borrowing costs	0	0	0	154	160
Depreciation and amortisation	1 546	1 537	2 221	2 326	2 784
Other operating expenses	15 758	15 679	25 938	31 109	37 443
Non-operating expenses	0	0	260	1	0
Total Expenses	**17 304**	**17 216**	**28 419**	**33 590**	**40 387**
Result from ordinary activities	**9 570**	**9 280**	**157**	**896**	**1 301**
Income tax expense	0	0	0	362	497
Result after taxation	**9 570**	**9 280**	**157**	**533**	**804**

Comment

The five-year comparatives refer to the TAB for the period 1997-98 to 4 March 2001, the company from 5 March 2001 to 30 June 2001 and the Company for 2001-02. The take-over on 1 December 1999 of Racing Tasmania's functions influenced the Statement of Financial Performance by bringing to account the cost of racing operations and administration prior to the determination of the operating result.

Non-operating revenue in 1999-00 included profit on sale of assets.

Following the assumption of Racing Tasmania in 1999-00, unsecured borrowings of $2.785m were included resulting in Borrowing costs for TOTE from that year. Similarly the amount Property, plant and equipment increased with a resultant increase in depreciation. Other expenses increased accordingly.

Operating expenses increased in 1999-00 with the merger of Racing Tasmania during the year and the full year effect continuing into 2000-01.

On corporatisation in 2000-01, TOTE became liable to the income tax equivalent regime.

Increased performance in 2001-02 resulted in income tax equivalent expense attributable to operating profit of $0.497m.

Non-operating expenses generally relate to losses on disposal of non-current assets. In 1999-00 the item included redundancy payments of $0.260m as a result of the merger with Racing Tasmania.

Prior to the merger of Racing Tasmania, dividends from the net result were paid to Racing Tasmania, but are now used for funding the assumed operating costs of Racing Tasmania.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	372	1 920	2 957	994	2 002
Receivables	698	391	1 055	1 144	1 520
Investments	3 523	2 239	2 632	4 909	6 498
Inventories	0	0	0	0	
Other	309	386	555	973	517
Total Current Assets	**4 902**	**4 936**	**7 200**	**8 019**	**10 537**
Property, plant & equipment	12 522	11 773	17 001	16 791	14 291
Investments	0	0	0	0	
Other	1 068	935	861	833	1 434
Total Non-Current Assets	**13 591**	**12 708**	**17 862**	**17 624**	**15 725**
Payables	683	687	2 244	2 054	1 849
Borrowings	0	0	1 052	0	0
Provisions	698	775	1 269	1 669	2 546
Other	3 187	2 255	2 103	2 583	2 980
Total Current Liabilities	**4 568**	**3 717**	**6 669**	**6 306**	**7 375**
Borrowings	0	0	1 732	2 784	2 819
Provisions	102	104	1 157	929	1 000
Other	0	0	0	0	0
Total Non-Current Liabilities	**102**	**104**	**2 889**	**3 713**	**3 819**
Net Assets	**13 823**	**13 823**	**15 503**	**15 623**	**15 068**
Capital	12 709	12 709	9 892	9 892	9 892
Reserves	1 114	1 114	5 511	5 505	4 873
Retained profits	0	0	100	226	303
Total Equity	**13 823**	**13 823**	**15 503**	**15 623**	**15 068**

Comment

Most items in the Statements of Financial Position show changes in 1999-00 following the assumption of Racing Tasmania. Property, plant and equipment include buildings, racecourse leasehold improvements and computer equipment.

In 2001-02 the company undertook an independent revaluation of land and buildings that resulted in a net decrease to the asset revaluation reserve of $0.457m, the remainder of the movement for the year, $0.175m, representing a write-back of revalued assets sold.

CASH POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	224 581	221 529	215 107	163 512	184 158
Other receipts	455	465	403	400	3 694
Interest received	344	190	238	290	322
Payments to customers	(188 362)	(184 474)	(178 825)	(131 457)	(149 667)
Payments to suppliers and employees	(15 429)	(15 503)	(25 561)	(30 132)	(34 169)
Borrowing costs	(5)	(4)	(109)	(169)	(196)
Other payments	(23 624)	(20 628)	(10 693)	(183)	(87)
Cash from operations	**(2 040)**	**1 573**	**560**	**2 261**	**4 055**
Proceeds from investments	2 932	1 285	1 764	2 633	47
Payments for investments	(300)	(513)	0	(41)	(10)
Payments for P, P & Equipment	(1 369)	(952)	(1 576)	(2 410)	(2 369)
Proceeds from sale of P, P & E	162	135	252	503	1 282
Cash used in investing activities	**1 425**	**(45)**	**441**	**685**	**(1 050)**
Transfer from Racing Tasmania	0	0	36	0	0
Dividends paid	0	0	0	0	(407)
Cash from financing activities	**0**	**0**	**36**	**0**	**(407)**
Net increase in cash	**(614)**	**1 528**	**1 037**	**2 945**	**2 598**
Cash at the beginning of the period	1 007	392	1 920	2 957	5 902
Cash at end of the period	**392**	**1 920**	**2 957**	**5 902**	**8 500**

Comment

Changes in the cash position are reflected through the Statements of Financial Position and Performance.

The majority of changes in the statements are attributable to the TAB taking over the Racing Tasmania from 1 December 1999.

Both Receipts from customers and Payments to customers show large decreases in 2000-01. This is due to a change in policy in respect of the determination of these amounts whereby the sums reinvested or 'turned over' in customers accounts have been eliminated from the cash flows. This change has eliminated $101.350m in reinvestments from receipts from customers, but added back $20.980m in customer deposits. Similarly, amounts have been eliminated from payments to customers representing dividends on winning reinvestments.

Receipts from and Payments to customers in 2001-02 increased largely as a result of increased turnover from punters. This increase plus proceeds from the sale of assets contributed to an increase in cash held at the end of the reporting period.

The increase in Other receipts is largely due to the Sky Channel Fees now being collected by TOTE Tasmania following the transfer of that Company's hotel and club business throughout the State from August 2001.

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01	2001-02
Financial Performance						
Result from operations ($'000s)		9 570	9 280	157	896	1 301
EBIT ($'000s)		9 570	9 280	157	1 050	1 461
Operating margin	>1.0	1.55	1.54	1.00	1.03	1.03
Return on assets		47.2%	51.4%	0.7%	4.1%	5.6%
Return on equity		69.6%	67.1%	1.1%	3.4%	5.2%
Financial Management						
Debt to equity		-	-	18.0%	17.8%	18.7%
Debt to total assets		-	-	11.1%	10.9%	10.7%
Interest cover	>3	-	-	-	7	9
Current ratio	>1	1.07	1.33	1.08	1.27	1.43
Cost of debt	7.5%	-	-	-	5.5%	5.7%
Debt collection	30 days	10	6	15	14	15
Creditor turnover	30 days	25	23	41	29	22
Returns to Government						
Dividends paid or payable ($'000s)		0	0	0	407	803
Dividend payout ratio	50%	-	-	-	76.3%	99.9%
Dividend to equity ratio	6%	-	-	-	2.6%	5.2%
Income tax paid or payable ($'000s)		0	0	0	362	497
Effective tax rate	30%	-	-	-	40.4%	38.2%
Total return to the State ($'000s)		0	0	0	769	1 300
Total return to equity ratio		0.0%	0.0%	0.0%	4.9%	8.5%
Other information						
Staff numbers FTEs		95	103	98	102	102
Average staff costs ($'000s)		59	45	60	51	62

Comment

Result from operations, EBIT and Operating margin reflect the downward trend in the Result from ordinary activities for the years 1997-99. The figures in 1999-01, reflect the assumption of Racing Tasmania, as discussed earlier in this segment of the Report.

Current and non-current liabilities for borrowings were taken over from Racing Tasmania in 1999-00 resulting in the Cost of debt figures for 2000-01 and 2001-02. In 2000-01 the current liability for borrowings was reclassified to non-current, as required by Australian Accounting Standards. TOTE does not anticipate this debt will be repaid in the near future.

There was little movement in receivables between 1999-00 and 2000-01. The increase in creditor turnover for 1999-00 and 2000-01 relates to the takeover of Racing Tasmania. Debt collection has increased as a result of the takeover as well.

Average staff costs in 1999-00 were significantly higher than the other years. This was influenced by redundancy costs associated with the closure of branches (TAB staffed) in that year associated with extensive network rationalisation, together with the additional costs associated with the assumption of Racing Tasmania staff (RBFB superannuation provisions of non transferring employees).

In 2000-01 TOTE became liable to pay income tax.

Most movement in the 2001-02 indicators can be attributed to an increase in results from operations with increasing turnover during the year. This had an effect on the current ratio, through an increase in current assets. Equity fell marginally due to a decrease in the asset revaluation reserve, as a result of the revaluation of land and buildings. This coupled with the large increase in Total return to the State resulted in a higher Total return on equity.

OVERALL COMMENT

Revenue and operating expenses and assets and liabilities increased from 1999-00 when TOTE took over Racing Tasmania. TOTE was incorporated on 5 March 2001. All assets and liabilities of TAB were transferred to TOTE.

The majority of changes to TOTE for 2001-02 came from an increase in results from operations due to stronger trading. This resulted in a higher dividend provision and income tax expense. A slight decrease in equity resulted from a decrease in the asset revaluation reserve following land and building revaluations.

2.4 TRANSEND NETWORKS PTY LTD

INTRODUCTION

Transend Networks Pty Ltd (Transend) was established under the *Electricity Companies Act 1997* and was incorporated under the Corporations Law on 17 June 1998. Two shares were issued to each of its two shareholders – the Treasurer and the Minister for Infrastructure, Energy and Resources.

Transend owns and operates the electricity transmission system in Tasmania – the link between power stations and the electricity distribution network.

On 1 July 2000 Transend acquired the System Controller and other associated functions from the Hydro-Electric Corporation. Liabilities of $4.286m and assets of $2.426m were transferred, resulting in a net receipt to Transend of $1.860m excluding GST.

A board of six directors manages the Company.

At 30 June 2002 the Responsible Minister was the Minister for Infrastructure, Energy and Resources. Subsequent to 9 August 2002, the Responsible Minister became the Minister for Economic Development, Energy and Resources.

AUDIT OF THE 2001-02 FINANCIAL STATEMENTS

Unsigned financial statements were received on 12 August 2002, signed statements were received on 14 October 2002 and an unqualified audit report was issued on 15 October 2002.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	1998-99	1999-00	2000-01	2001-02
		$'000s	$'000s	$'000s	$'000s
Operating revenue		66 265	69 698	77 939	81 027
Total Revenue		**66 265**	**69 698**	**77 939**	**81 027**
Borrowing costs		382	338	1 006	1 153
Depreciation		14 080	15 457	17 454	21 314
Other operating expenses		17 098	19 592	27 899	29 780
Non-operating expenses		49	91	9 173	143
Total Expenses		**31 609**	**35 478**	**55 532**	**52 390**
Result from ordinary activities		**34 656**	**34 220**	**22 407**	**28 637**
Income tax expense		14 668	11 821	12 341	8 963
Result after taxation		**19 988**	**22 399**	**10 066**	**19 674**

Comment

The increase in Operating revenue in 2000-01 was primarily due to the System Controller Fee, $8.329m, and in 2001-02 was predominantly due to an increase in fees associated with the use of the transmission system, $2.517m.

The increase in Borrowing costs from 2000-01 was due to increased borrowings and interest on the Provision for superannuation.

Depreciation expense increases are principally due to increases in transmission asset holdings and revaluations.

The increase in Other operating expenses in 2000-01 was chiefly due to the additional costs of the System Controller. In 2001-02 the increase was due partly to costs associated with Basslink and Tasmania's entry into the National Electricity Market. Transend established a special project (Tasmanian Wholesale Electricity Market) to ensure the successful implementation of these initiatives. In addition, more had to be spent on vegetation management, some critical work had to be done at the company's substations and there was an 80 per cent increase in insurance premiums.

Non-operating expenses in 2000-01 and 2001-02 were predominantly due to write-offs of decommissioned assets.

The Income tax expense decreased in 1999-00 due to a reduction in the company tax rate from 34% to 30%, and in 2001-02 reduced by $2.150m as a result of a change in the treatment of superannuation on entry to the National Tax Equivalent regime.

The lower Result after taxation in 2000-01 was due to the impact of writing off decommissioned assets. Earnings in 2001-02 were affected by the costs associated with Basslink and Tasmania's entry into the national electricity market. These costs were not anticipated in the Energy Regulator's allowance for transmission use of system charges. The result was a $1.200m reduction in profit.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
		$'000s	$'000s	$'000s	$'000s
Cash		1	0	0	0
Receivables		10 215	9 191	9 744	9 075
Investments		0	0	530	0
Inventories		727	489	489	481
Other		48	70	1 102	112
Total Current Assets		**10 991**	**9 750**	**11 865**	**9 668**
Property, plant & equipment		394 913	426 708	451 682	580 736
Other		470	394	623	2 817
Total Non-Current Assets		**395 383**	**427 102**	**452 305**	**583 553**
Payables		8 973	10 138	10 806	9 344
Borrowings		14 140	9 400	5 052	1 760
Provisions		16 499	15 971	16 387	12 972
Other		983	180	902	198
Total Current Liabilities		**40 595**	**35 689**	**33 147**	**24 274**
Borrowings		0	9 945	10 418	15 490
Provisions		14 636	17 311	25 248	30 196
Total Non-Current Liabilities		**14 636**	**27 256**	**35 666**	**45 686**
Net Assets		**351 143**	**373 907**	**395 357**	**523 261**
Capital		336 549	336 549	336 549	336 549
Reserves		4 600	16 164	37 639	155 707
Retained profits		9 994	21 194	21 169	31 005
Total Equity		**351 143**	**373 907**	**395 357**	**523 261**

Comment

Other Current Assets for 2000-01 included a prepayment of $1.064m for the Risdon substation project.

Property, plant and equipment increased in 2001-02 to reflect a revaluation of network assets as at 1 July 2001 based upon work undertaken by Sinclair Knight Merz Pty Ltd (SKM). This 1 July 2001 valuation has been inflated to 30 June 2002 values by applying a 2.8% escalation factor based upon the Australian Bureau of Statistics Consumer Price Index. This resulted in an increase in the Company's Asset Revaluation Reserve of $118.068m.

Total Borrowings increased by $5.205m in 1999-00 and by $1.780m in 2001-02 to provide for the Company's capital expenditure program, designed to improve the reliability of the State's transmission system.

The increase of $8.353m in total Provisions in 2000-01 was due to both the addition of the System Controller and an increase in the superannuation liability as determined by the State Actuary. The Provisions increased by $0.902m in 2001-02 due to an increase in the number of staff.

Other liabilities for 2000-01 included income received in advance, being the System Controller's fee, $0.826m.

The increase in Reserves in 2001-02 relates to the revaluation of Transend's assets mentioned above. The increases in 1999-00 and 2000-01 were based on indexation of the valuation of assets while in 2001-02 the increase was based on an independent valuation at 1 July 2001 which was then indexed to give a valuation at 30 June 2002.

CASH POSITION

	1997-98	1998-99 $'000s	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s
Receipts from customers		60 520	70 588	87 434	89 551
Payments to suppliers and employees		(21 572)	(17 427)	(32 749)	(38 544)
Interest received		145	0	45	44
Borrowing costs		(96)	(555)	(1 124)	(1 203)
Taxation expense		(6 500)	(11 290)	(8 295)	(10 293)
Cash from operations		**32 497**	**41 316**	**45 311**	**39 555**
Proceeds from transfer of system controller functions		0	0	2 046	0
Payments for P, P & Equipment		(47 591)	(35 975)	(32 073)	(32 359)
Proceeds from sale of P, P & E		66	90	197	221
Cash used in investing activities		**(47 525)**	**(35 885)**	**(29 830)**	**(32 138)**
Proceeds from borrowings		0	10 073	5 689	2 553
Repayment of borrowings		14 140	(4 740)	(9 930)	0
Dividends paid		0	(9 994)	(11 199)	(10 091)
Cash from financing activities		**14 140**	**(4 661)**	**(15 440)**	**(7 538)**
Net increase in cash		**(888)**	**770**	**41**	**(121)**
Cash at the beginning of the period		1	(887)	(117)	(76)
Cash at end of the period		**(887)**	**(117)**	**(76)**	**(197)**

Comment

Receipts from customers increased from 2000-01 due largely to inclusion of the System Controller's Fee. Similarly, the increase in Payments to suppliers and employees from 2000-01 was due mainly to the additional costs of the System

Controller and in 2001-02 to the costs associated with the company's Tasmanian Wholesale Electricity Market Project.

Borrowing costs correspond with movements in the Borrowing costs reported in the Statements of Financial Performance.

The functions of the System Controller were transferred from the Hydro-Electric Corporation on 1 July 2000, resulting in a cash flow of $2.046m.

Transend has been upgrading its substations and transmission lines since it was established, as part of a long term plan. This is reflected in the significant Payments for property, plant and equipment over the four-year period.

Transend has been able to partially finance these upgrades from its profits, but some borrowings have also been necessary.

Transend has paid dividends to its shareholders from the profits of preceding years.

The cash result at the end of each year has been a small overdraft on the bank account.

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01	2001-02
Financial Performance						
Result from operations ($'000s)			34 705	34 311	31 580	28 780
EBIT ($'000s)			35 038	35 067	23 863	30 261
Operating margin	>1.0		2.10	1.97	1.68	1.55
Return on assets			8.6%	8.3%	5.3%	5.7%
Return on equity			5.7%	6.2%	2.6%	4.3%
Financial Management						
Debt to equity			4.0%	5.2%	3.9%	3.3%
Debt to total assets			3.5%	4.4%	3.3%	2.9%
Interest cover	>3		91.7	41.4	16.4	18.6
Current ratio	>1		0.27	0.27	0.36	0.40
Cost of debt	7.5%		5.4%	5.1%	8.4%	9.9%
Debt collection	30 days		1	0	5	4
Creditor turnover	30 days		0	1	4	0
Returns to Government						
Dividends paid or payable ($'000s)			9 994	11 199	10 091	9 837
Dividend payout ratio	50%		50.0%	50.0%	100.2%	50.0%
Dividend to equity ratio	6%		2.8%	3.1%	2.6%	2.1%
Income tax paid or payable ($'000s)			11 860	9 483	8 855	7 001
Effective tax rate	30%		34.2%	27.7%	39.5%	24.4%
Total return to the State ($'000s)			21 854	20 682	18 946	16 838
Total return to equity ratio			6.2%	5.7%	4.9%	3.7%
Other information						
Staff numbers FTEs			52	52	91	113
Average staff costs ($'000s)			68	78	83	82

Comment

Transend has had good Results from operations since its inception in 1998. The result for 2001-02 was affected by costs associated with Basslink and Tasmania's entry into the national electricity market. The lower EBIT in 2000-01 was primarily the result of the impact of writing off decommissioned assets.

Whilst the Operating margin has been good in all years, it has been declining mostly due to increasing operating expenses.

The Return on assets and Return on equity is lower in latter years due to increases in the asset revaluation reserve impacting on equity. The Return on equity for 2001-02 was an increase above that for the previous year, but short of the company's budget target of 6.9 per cent.

The Interest cover while lower in 2000-01 and 2001-02 was significantly above benchmark.

The Current ratio is low mainly as a result of large amounts of overnight and short-term Borrowings and Provisions. However, the ratio has been has been improving as short-term borrowings have been converted to long-term and the current Provisions have been gradually declining.

The increasing Cost of debt in the last two years reflects the transition from short-term to long-term borrowings

The company has paid fairly consistent dividends to the Government, but with some decline during the latter two years. Income tax equivalents paid to the State Government have been declining as a result of lower company tax rates and profits. As a result of these two items, the Total return to the Government has been declining during the four years since the company commenced.

The number of people employed by Transend has more than doubled since the company started operations. Staff numbers increased significantly from 1 July 2000 as a result of the transfer of the System Controller function. Further staff was employed during 2001-02 for special projects such as Tasmanian Wholesale Energy Market and the Revenue Reset.

Transend employs a large proportion of professionals, which results in relatively high Average staff costs.

OVERALL COMMENT

Transend's financial position is good. The company is continuing its long term capital investment program to upgrade and modernise Tasmania's electricity transmission system. This continues to influence the financial results.

Earnings in 2001-02 have also been affected by costs associated with Basslink and Tasmania's entry into the national electricity market.

In line with the present Government policy of returning 50% of after tax profit by way of a dividend, Transend has paid dividends of $31.284m from 1998–99 to 2000-01 financial years. The Board has recommended to the Shareholders a dividend of $9.837m for 2001-02.

2.5 TT-LINE COMPANY PTY LTD

INTRODUCTION

TT-Line Company Pty Ltd was established under the *TT-Line Arrangements Act 1993*. The core business of the Company is the provision of a passenger, vehicle and freight service between Devonport and Melbourne.

In addition, the Company agreed with its shareholders, after an initial trial in1998-99, to operate a summer catamaran service between George Town and Melbourne for a three-year period from 2000 to 2002. The catamaran service has not been extended beyond the three-year period due to continued operating losses. The Company has extended its services from the Devonport terminal with the purchase of two new vessels.

TT-Line Company Pty Ltd was incorporated on 1 November 1993 as a Company limited by shares and is registered under the Corporations Act. The shareholders of the Company are the Responsible Minister and the Treasurer.

At 30 June 2002 the Responsible Minister was the Minister for Infrastructure, Energy and Resources. From 9 August 2002, the Responsible Minister became the Premier Minister for Tourism, Parks and Heritage.

The Company is managed by a board of seven directors, appointed by the Government.

AUDIT OF THE 2001-02 FINANCIAL STATEMENTS

Signed financial statements were received on 13 November 2002. At the date of preparation of this report the audit was still in progress.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	1998-99	1999-00	2000-01	2001-02
	$'000s	$'000s	$'000s	$'000s	$'000s
Operating revenue	73 325	80 607	77 507	81 829	86 129
Non-operating revenue	0	0	4	13	107
Total Revenue	**73 325**	**80 607**	**77 511**	**81 842**	**86 236**
Borrowing costs	4 682	4 045	3 267	2 696	1 958
Depreciation	6 170	5 748	6 040	5 970	6 304
Other operating expenses	61 438	63 409	67 968	67 808	68 317
Non-operating expenses	1	28	0	0	30 940
Total Expenses	**72 291**	**73 230**	**77 275**	**76 474**	**107 519**
Result from ordinary activities	**1 034**	**7 377**	**236**	**5 368**	**(21 283)**
Income tax expense	0	0	0	0	0
Result after taxation	**1 034**	**7 377**	**236**	**5 368**	**(21 283)**

Comment

The majority of the Company's revenue is generated from ferry operations. In 1998-99 the Company commenced catamaran trials on a reduced basis to those currently operating.

The last four financial periods include the operations of the Spirit of Tasmania, which provides a regular service between Devonport and Melbourne and the summer catamaran service between George Town and Melbourne. With the exception of 1999-00 when Revenue decreased as a result of a downturn in the operations of the service operated from George Town, Revenue has been consistent with the services provided by the Company.

The breaks in the Spirit's operations relating to dry-docking in July 1999 and the major breakdown in September 1999 did reduce revenue but generally the operation was above budget expectations. Revenue in 2001-02 increased by $4.300m over that of the prior year resulting principally from increased passenger revenue totalling $3.769. The increase is attributed to a general increase in domestic travel experienced after the events of September 11, increased fares on the catamaran service and a reduction in concessional Apex fares.

Operating expenses has been consistent with the increase in services provided by the Company over the previous five year's operations. Depreciation expense has not changed significantly over the period under review as a consistent basis of depreciation has been applied to the Company's major asset, the Spirit of Tasmania.

Borrowing costs have decreased significantly over the past five years due to a reduction of $39.052m in borrowings (excluding new borrowings in 2002) over that period.

New borrowings of $291.461m relating to the purchase of the two new vessels were drawn down by the Company in June 2002. However, as the vessels did not commence operations until 2002-03 the new loans have not impacted on the overall borrowing costs as the interest costs have been capitalised.

Non operating revenues and expenses generally relate to the profits and losses associated with asset disposals. The Non-operating expense for 2001-02 includes $30.887m relating to a recoverable amount write down in the value of the Spirit of Tasmania. The write-down was required, as previous independent valuations of the vessel's value were not supported by actual market interest when the Spirit of Tasmania was advertised for sale.

The Company has successfully reported operating profits in each of the years under review. Profits were minimised in 1997-98 due to losses on the catamaran trials totalling $3.590m and in 1999-00 by $5.430m due to the Spirit breakdown.

The strong profit performances in 1998-99 and in 2000-01 include the effect of significant losses arising from the George Town to Melbourne service

The 2001-02 Result from Ordinary Activities, excluding the impact of the Spirit of Tasmania write-down, would have returned a profit of $9.604m.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	9 538	11 642	3 010	12 039	7 814
Receivables	3 907	5 395	5 179	4 743	3 261
Inventories	414	449	550	581	492
Other	413	369	799	583	62 769
Total Current Assets	**14 272**	**17 855**	**9 538**	**17 946**	**74 336**
Property, plant & equipment	110 740	109 602	105 769	101 655	304 806
Other	146	0	0	0	0
Total Non-Current Assets	**110 886**	**109 602**	**105 769**	**101 655**	**304 806**
Payables	5 942	5 466	5 708	6 999	12 461
Borrowings	12 382	12 360	2 526	16 971	112 511
Provisions	3 991	3 781	3 909	3 639	3 436
Other	4 453	5 153	4 881	5 176	5 810
Total Current Liabilities	**26 768**	**26 760**	**17 024**	**32 785**	**134 218**
Borrowings	49 706	42 573	39 810	22 587	201 536
Provisions	1 316	1 445	1 558	1 946	2 388
Total Non-Current Liabilities	**51 022**	**44 018**	**41 368**	**24 533**	**203 924**
Net Assets	**47 368**	**56 679**	**56 915**	**62 283**	**41 000**
Capital	94 568	94 568	94 568	94 568	94 568
Retained profits	(47 200)	(37 889)	(37 653)	(32 285)	(53 568)
Total Equity	**47 368**	**56 679**	**56 915**	**62 283**	**41 000**

Comment

The Company has maintained a strong cash position over the last five years with 1999-00 lower than other periods due to significant loan repayments made in 1998-99. The cash balance at the end of 2000-01 was required to fund the repayment of several large principal loans due in the 2001-02 financial period.

Other current assets for 2001-02 include a balance of $61.691m representing the value of the Spirit of Tasmania. The transfer of the previously recorded Non-current asset was made as it is anticipated the vessel will be sold in the 2002-03 financial year. The written-down carrying value of the vessel at 30 June 2002, before additions during the year, $0.186m, annual depreciation, $4.263m, and the recoverable amount write-down, $30.887m, was $96.655m.

The balance of Property, plant and equipment reduced steadily over the four-year period from 1997-98 to 2000-01 due mainly to the annual depreciation of the Spirit of Tasmania, which represented the majority of the asset balance.

The balance of Property, plant and equipment at 30 June 2002, $304.806m, has increased significantly from the previous period as a result of the purchase of the two new vessels, Spirit I and II. The vessels are currently recorded as capital works-in-progress with a cost of $299.758m which represents the initial purchase price, $290.418m, additional delivery and fit out costs, $7.218m, and capitalised interest, $2.122m.

Current liabilities in general have been stable over the period. The major exception relates to loan borrowings. The Company's debt portfolio is structured with both principal and interest loans and interest only loans (principal paid at termination of loan). Consequently, a current principal repayment can have a significant effect on a particular financial period. This occurred in the two years covering 1997-98 to 1998-99 and in 2000-01.

Total loan debt over the five-year period has increased from $62.088m in 1997-98 to $314.047m in 2001-02. This reflects a general decrease in debt relating to the purchase of the Spirit of Tasmania, $39.502m, and new borrowings in June 2002, totalling $291.461, for the purchase of the two new vessels. The new borrowings have had a significant impact on the Company's debt position.

However, the State Government has committed to assist in the repayment of one of the vessels and will contribute $44.000m annually over a four-year period to the Company. The anticipated current borrowings repayments of $112.511m reflects the Government's contribution and the anticipated proceeds from the sale of the Spirit of Tasmania, which will be used to retire debt.

Payables in 2001-02 totalled $12.461m, an increase of $5.462m from the 2000-01 period. Factors for the increase include additional loan interest accrued, $0.687m, an increase in withholding tax liability, $0.545m, and accrued Greece dry docking expenses relating to the new vessels, $2.109m.

Provisions have increased over the corresponding period. This is attributable to an increase in the Company's superannuation liability. The Company employs a number of employees who contribute to the State's Retirement Benefits Fund, which provides defined benefits, calculated on years of service and final average salary. The liability has been based upon external actuarial advice.

The Company has produced profits over the four-year period between 1997-98 and 2000-01, which resulted in a decrease of $14.915m in accumulated losses to $32.285m. The significant accumulated losses predominantly resulted from a material write-down in the carrying amount of the Spirit of Tasmania in 1995-96, amounting to $45.200m.

Accumulated losses at 30 June 2002 increased by $21.283m to $53.568m as a result of the current period's loss which was due primarily to the further recoverable amount write down of the Spirit of Tasmania referred to earlier in this segment of the Report, $30.887m.

CASH POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	71 849	79 266	78 406	90 201	96 565
Payments to suppliers and employees	(59 182)	(63 678)	(69 755)	(74 917)	(76 263)
Interest received	465	549	469	387	468
Borrowing costs	(4 864)	(4 175)	(3 652)	(2 722)	(1 271)
Cash from operations	**8 268**	**11 962**	**5 468**	**12 949**	**19 499**
Payments for P, P & Equipment	(1 145)	(2 866)	(1 537)	(1 229)	(298 321)
Proceeds from sale of P, P & E	20	163	34	87	107
Cash used in investing activities	**(1 125)**	**(2 703)**	**(1 503)**	**(1 142)**	**(298 214)**
Proceeds from borrowings	0	227	0	0	291 461
Repayment of borrowings	(6 167)	(7 382)	(12 597)	(2 778)	(16 971)
Dividends paid	0	0	0	0	0
Cash from financing activities	**(6 167)**	**(7 155)**	**(12 597)**	**(2 778)**	**274 490**
Net increase in cash	**976**	**2 104**	**(8 632)**	**9 029**	**(4 225)**
Cash at the beginning of the period	8 562	9 538	11 642	3 010	12 039
Cash at end of the period	**9 538**	**11 642**	**3 010**	**12 039**	**7 814**

Comment

As noted previously, the Company has maintained strong cash balances through its operations. This is reflected by the cash flows from operations balances. Cash flow from operations in 1999-00 was below the average due to the impact of a downturn in the operations of the service operated from George Town. The 2001-02 cash flows from operations, $19.499m, is significantly above average due to an increase in revenue arising from additional passengers numbers and a decrease in borrowing costs, corresponding to a then reducing debt balance.

Cash used in investing activities has fluctuated in the four-year period from 1997-98 to 2000-01. The majority of capital works relate to the on-going program of safety enhancements to ensure the Spirit of Tasmania met the requirements of Solas 95 and the Stockholm Agreement. In 1998-99, additional capital works were undertaken to increase vehicle carrying capacity.

However, payments for Property, plant and equipment increased significantly in 2001-02 as a result of the purchase of the two new vessels. This increase is complemented by the proceeds from borrowings totalling $291.461m.

The cash flows relating to the repayment of loans is consistent with the expense and varies depending upon the amount of current repayments. As referred to earlier in this segment of the Report, the loan portfolio includes both principal and interest loans and interest only loans. The payments for 2001-02, $16.971m, includes the full repayment of a loan which had a balance of $14.267m at 30 June 2001.

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01	2001-02
Financial Performance						
Result from operations ($'000s)		1 035	7 405	232	5 355	9 550
EBIT ($'000s)		5 716	11 422	3 503	8 064	(19 325)
Operating margin	>1.0	1.01	1.10	1.00	1.07	1.12
Return on assets		4.5%	9.0%	2.9%	6.9%	-7.7%
Return on equity		2.2%	14.2%	0.4%	9.0%	-41.2%
Financial Management						
Debt to equity		131.1%	96.9%	74.4%	63.5%	766.0%
Debt to total assets		49.6%	43.1%	36.7%	33.1%	82.8%
Interest cover	>3	1.2	2.8	1.1	3.0	- 9.9
Current ratio	>1	0.53	0.67	0.56	0.55	0.55
Cost of debt	7.5%	7.2%	6.9%	6.7%	6.6%	6.3%
Debt collection	30 days	20	25	25	21	14
Creditor turnover	30 days	24	16	19	24	34
Returns to Government						
Dividends paid or payable ($'000s)		0	0	0	0	0
Dividend payout ratio	50%	-	-	-	-	-
Dividend to equity ratio		-	-	-	-	-
Income tax paid or payable ($'000s)		0	0	0	0	0
Effective tax rate	30%	-	-	-	-	-
Total return to the State ($'000s)		0	0	0	0	0
Total return to equity ratio		-	-	-	-	-
Other information						
Staff numbers FTEs		336	343	347	345	366
Average staff costs ($'000s)		45	46	47	49	49

Comment

A review of the Company's Financial Performance indicates that the return on equity has been volatile. In 1998-99 the Company recorded a strong operating profit of $7.405m. In the 1997-98, 1999-00 and 2000-01 financial periods, profits were affected by the operations of catamaran services. In addition, the Spirit of Tasmanian breakdown and the associated loss incurred, $5.430m, affected the operating profit in 1999-00. The return on equity for 2001-02 is distorted by the recoverable amount write down in the valuation of the Spirit of Tasmania. If this did not occur the return on equity would have been 9.7%, based upon the profit from operations of $9.550m.

For the four-year period from 1997-98 to 2000-01, the reduction in borrowings and a corresponding reduction in accumulated losses resulted in a significant improvement in the debt to equity and debt to total assets ratios. In 1996-97 debt was considerably greater than equity. However, by 2000-01 the debt balance had reduced to approximately 60% of equity.

However, the impact of the purchasing of the two new vessels and the associated loan debt has had a significant impact on the debt ratio analysis in 2001-02. The debt to equity ratio for 2001-02 reflects the new borrowings in June 2002, totalling $291.461m. In addition, equity has reduced by $21.283m due mainly to the $30.887m write down in the valuation of the Spirit of Tasmania. The borrowings will be reduced in 2002-03 through contributions made by the State Government and the proceeds from the sale of the Spirit of Tasmania.

The debt to total assets ratio for 2001-02 has increased as a result of the purchase of the new vessels being fully funded through borrowings.

In the four-year period from 1997-98 to 2000-01, the Company has made sufficient profits from ordinary activities to meet the interest costs associated with its borrowings. This is reflected in the interest cover ratio. In 2001-02, the ratio has been affected by the significant loss. The impact of the write-down in the valuation of the Spirit of Tasmania has seen a negative ratio of 9.9. Had the write down been excluded from the financial statements, the ratio would have been 5.9.

The Company's current ratio is below the benchmark of 1, however the impact of current principal loan repayments included in current liabilities has a significant effect. Although below the benchmark, the Company has demonstrated the ability to generate sufficient cash flows through its operations to meet all current liabilities.

Cost of debt has remained constant for the five-year period to 2001-02. The new borrowings have not been finalised, however the Company is confident in obtaining a satisfactory interest rate.

The Company has not paid any dividends to date. The losses incurred by the summer catamaran service have been considered as its dividend payment, offset by the positive contribution of the additional passengers brought into the state.

In relation to income taxation payments, the Company has adopted the liability method of tax effect accounting. Taxation equivalents are calculated on operating profits adjusted for permanent and timing differences. The Company has a significant permanent difference in relation to the write down of the Spirit of Tasmania's valuation, totalling $45.200m. Consequently, the taxation calculations do not result in any taxation payments being required.

OVERALL COMMENT

The Company agreed with its shareholders, after an initial trial in 1998-99, to operate a summer catamaran service between George Town and Melbourne for a three-year period from 2000 to 2002. The Company has decided to cease this service as it was considered more profitable to increase the service between Devonport and Melbourne. Consequently, it was decided to sell the Spirit of Tasmania and purchase the two new vessels to increase voyage numbers.

The probable loss arising from the sale of the Spirit of Tasmania has been recorded in the 2001-02 financial year though the recoverable amount write down of $30.887m.

It is expected the sale price will closely reflect the current vessel valuation and have little impact on the 2002-03 financial period.

Although, the purchase of the new vessel has been fully funded through borrowings, the State Government's commitment to servicing the debt on one of the vessels will assist the Company in servicing its debt. It is anticipated the total borrowings at 30 June 2002, $314.047m, will be reduced to $201.536m by 30 June 2003.

3 PORT CORPORATIONS

The *Port Companies Act 1997* which came into effect on 30 July 1997, replaced the *Marine Act 1976* and associated legislation from that date and provided a framework for the establishment of State owned port companies.

In accordance with this Act, all Port Authorities and Marine Boards ceased operations on 29 July 1997.

All assets, rights and liabilities vested in the former Port Authorities and Marine Boards were vested in the new port Companies.

Tasmanian port corporations comprising:

- Burnie Ports Corporation Pty Ltd;
- Hobart Ports Corporation Pty Ltd;
- Port of Devonport Corporation Pty Ltd; and
- Port of Launceston Pty Ltd

have net assets of $128m, employ over 225 people, generate an estimated $62m in operating revenue, and are significant to Tasmanian trade and commerce.

The *Port Companies Act 1997* provides for the payment of guarantee fees, taxation equivalents and dividends.

The opening section to Chapter 3 on government Businesses included comment about Shareholder Value Added methodology and recommended appropriate returns on equity for commercial activities. Nominal post tax returns of the order of 7% to 8.5% are considered reasonable for government business enterprises.

The shareholding Ministers have advised the corporations that the government recognises that a key objective of the port companies is the facilitation of trade in the interests of economic development, especially in a regional sense, and that this objective must be balanced with the requirement to earn an economic rate of return.

Suggested rates of return, as medium term targets, were a pre-tax return in the range of the long-term Government bond rate (presently 6%) plus a risk margin of between 2% and 5%.

This rate of return would equate to a nominal post tax return of between 5.5% and 7.5%.

RESPONSIBLE MINISTER

At 30 June 2002 the responsible Minister was the Minister for Infrastructure, Energy and Resources, who with the Treasurer held the shares in the companies. Subsequent to 9 August 2002, the Responsible Minister became the Minister for Infrastructure.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	Burnie	**Devonport**	**Hobart**	**Launceston**
	$'000s	$'000s	$'000s	$'000s
Operating revenue	10 949	10 359	31 711	9 122
Non-operating revenue	0	18	657	85
Total Revenue	**10 949**	**10 377**	**32 368**	**9 207**
Borrowing Costs	919	514	634	944
Depreciation	2 652	1 809	1 519	1 375
Other Operating Expenses	6 001	7 357	23 902	5 945
Non-Operating Expenses	480	198	1 030	0
Total Expenses	**10 052**	**9 878**	**27 085**	**8 264**
Result from ordinary activities	**897**	**499**	**5 283**	**943**
Income tax expense	0	343	1 589	299
Result after taxation	**897**	**156**	**3 694**	**644**

Comment

All four ports recorded operating profits for the financial year. However, the Hobart Port's profit was significantly above the other Ports. This is attributable to an expansion in stevedoring operations, increased rental from the Elizabeth Street Pier redevelopment and the King Island Port Corporation commencing a petroleum production importation and distribution business.

The operating profit for the Port of Devonport was affected by maintenance dredging undertaken in March/April 2002, which totalled $1.323m.

The sale of the Burnie Airport resulted in the Burnie Port incurring a loss of $0.394m on disposal during the 2001-02 financial period.

FINANCIAL POSITION

	Burnie	Devonport	Hobart	Launceston
	$'000s	$'000s	$'000s	$'000s
Cash	265	9 298	2 766	3 538
Receivables	874	1 645	5 049	1 607
Investments	15 273	0	355	0
Inventories	253	5	223	557
Other	81	122	560	45
Total Current Assets	**16 746**	**11 070**	**8 953**	**5 747**
Property, plant & equipment	24 591	33 556	51 916	34 995
Investments	0	0	10 882	0
Other	0	205	898	3 386
Total Non-Current Assets	**24 591**	**33 761**	**63 696**	**38 381**
Payables	174	333	3 087	767
Borrowings	3 226	0	380	907
Provisions	606	755	3 505	498
Other	728	551	0	1 195
Total Current Liabilities	**4 734**	**1 639**	**6 972**	**3 367**
Borrowings	9 725	7 472	12 215	10 494
Provisions	69	1 346	2 787	3 956
Other	9 600	0	186	0
Total Non-Current Liabilities	**19 394**	**8 818**	**15 188**	**14 450**
Net Assets	**17 209**	**34 374**	**50 489**	**26 311**
Reserves	24 024	32 936	49 746	24 454
Retained profits	(6 815)	1 438	743	1 857
Total Equity	**17 209**	**34 374**	**50 489**	**26 311**

Comment

Current investments for Burnie Port include the proceeds from a second instalment of $6.000m made by Brambles Shipping as part of a new ten-year service agreement.

Both the Devonport and Launceston Ports classified their current investments as part of the cash balance.

Hobart Port has non-current investments that include an interest free shareholder's loan of $9.600m to Hobart International Airport.

Burnie Port has disclosed a non-current liability of $9.600m representing $12.000m revenue in advance from Brambles Shipping, less two-years' amortisation. The amount will be amortised over the ten-year life of the service agreement.

The retained deficit of $6.815m for Burnie Port is the result of several revaluation decrements relating to port and airport assets, totalling $17.300m over the last four years.

CASH POSITION

	Burnie $'000s	Devonport $'000s	Hobart $'000s	Launceston $'000s
Receipts from customers	16 924	11 049	32 595	10 213
Payments to suppliers and employees	(7 759)	(7 955)	(26 872)	(6 473)
Interest received	526	754	178	98
Borrowing costs	(955)	(516)	(578)	(954)
Taxation expense	0	(816)	(179)	0
Cash from operations	**8 736**	**2 516**	**5 144**	**2 884**
Proceeds from investments	3 856	1 058	224	0
Payments for investments	(12 020)	0	(414)	0
Payments for P, P & Equipment	(451)	(3 352)	(2 918)	(739)
Proceeds from sale of P, P & E	2 521	114	690	774
Cash used in investing activities	**(6 094)**	**(2 180)**	**(2 418)**	**35**
Proceeds from borrowings	0	0	500	0
Repayment of borrowings	(2 559)	0	(2 201)	(791)
Dividends paid	0	(108)	(540)	(335)
Cash from financing activities	**(2 559)**	**(108)**	**(2 241)**	**(1 126)**
Net increase in cash	**83**	**228**	**485**	**1 793**
Cash at the beginning of the period	182	(45)	2 281	1 745
Cash at end of the period	**265**	**183**	**2 766**	**3 538**

Comment

All four Ports recorded inflows from operations, which were sufficient to meet the cash requirements of their investing and financing activities.

Devonport is the only Port that is not making any borrowing repayments. Their loans are structured as interest only, with varying maturity dates.

Cash balances for Burnie Port do not include $15.273m held as a current investment.

Devonport cash balance likewise does not include $9.115m in investments reclassified at year-end.

FINANCIAL ANALYSIS

	Bench Mark	Burnie	Devonport	Hobart	Launceston
Financial Performance					
Result from ordinary activities ($'000s)		1 377	679	5 656	858
EBIT ($'000s)		1 816	1 013	5 917	1 887
Operating margin	>1.0	1.14	1.07	1.22	1.10
Return on assets		4.6%	2.3%	8.3%	4.3%
Return on equity		5.4%	0.5%	7.5%	2.5%
Financial Management					
Debt to equity		75.3%	21.7%	34.9%	43.3%
Debt to total assets		31.3%	16.7%	17.3%	25.8%
Interest cover	>3	2.0	2.0	9.3	2.0
Current ratio	>1	3.54	6.75	1.28	1.71
Cost of debt	7.5%	6.5%	6.9%	4.7%	8.0%
Debt collection	30 days	29	58	46	65
Creditor turnover	30 days	19	24	24	39
Returns to Government					
Dividends paid ($'000s)		0	78	975	0
Dividend payout ratio	50%	-	50%	26.4%	-
Dividend to equity ratio		-	0.2%	2.0%	-
Income tax expense ($'000s)		0	304	1 343	0
Effective tax rate	30%	-	60.9%	25.4%	-
Total return to the State ($'000s)		0	382	2 318	0
Total return to equity ratio		-	1.1%	4.7%	-
Other information					
Staff numbers FTEs		44	41	106	38
Average staff costs ($'000s)		60	59	95	59

Comment

Each of the Ports recorded positive returns on their assets and equity which, with the exception of Hobart Port, were modest in relation to a reasonable level of return expected from commercial entities.

The Burnie Port has a significantly greater debt to equity and debt to total assets position than the other ports. However, the second $6.000m payment from Brambles is being held in an investment account and will be used to assist the repayment of future borrowing obligations.

All the ports have positive current ratios and their cost of debt is reasonable. The Hobart Port's cost of debt ratio is below the other ports because it holds $2.767m in interest free borrowings.

Only Hobart Port paid any significant tax during the year and with its dividends, boosted its total return to the State to 4.3% of equity.

Devonport have made a very modest return in 2001-02, which reflects a below average result for the period.

The Burnie Port will make an ex-gratia payment, totalling $0.225m in the form of a dividend to the State Government for the 2001-02 period. Launceston Port did not provide for a dividend, however Government policy would require a dividend of 70% of pre-tax profit.

Both the Burnie and Launceston Ports do not make any tax payments as they have significant carried forward tax losses.

In relation to average staff costs, the three northern ports are consistent. However, the average for the Hobart Port is distorted because contract and casual labour numbers are not included in staff numbers.

OVERALL COMMENT

Excepting the Hobart Port, the returns on equity to the Government are considered poor when compared to shareholder expectations of 5.5% to 7.5% after tax.

3.1 BURNIE PORT CORPORATION PTY LTD

INTRODUCTION

The *Port Companies Act 1997* which came into effect on 30 July 1997, replaced the *Marine Act 1976* and associated legislation from that date and provided a framework for the establishment of State owned port companies.

In accordance with this Act, the Burnie Port Authority ceased operations on 29 July 1997. All assets, rights and liabilities vested in the former Authority were vested in the new port Corporation. The joint shareholders of the Corporation are the Treasurer and the Minister for Infrastructure. The shareholders were issued with ordinary shares of $1 each upon incorporation.

The Board is comprised of six directors, whose appointment is approved by the shareholders of the Corporation.

Information provided for the year ended 30 June 1998 includes operations of that former Authority to 29 July 1997 combined with the operations of the new Corporation from 30 July 1997.

AUDIT OF THE 2000-01 FINANCIAL STATEMENTS

The signed financial statements of the Corporation were received on 26 September 2002 and an unqualified audit report was issued on 17 October 2002.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	1998-99	1999-00	2000-01	2001-02
	$'000s	$'000s	$'000s	$'000s	$'000s
Operating revenue	13 013	13 501	14 114	11 513	10 949
Non-operating revenue	4 632	480	500	345	0
Total Revenue	**17 645**	**13 981**	**14 614**	**11 858**	**10 949**
Borrowing costs	2 101	1 997	1 623	1 622	919
Depreciation	1 823	2 351	2 220	2 966	2 652
Other operating expenses	8 623	8 207	8 212	6 229	6 001
Non-operating expenses	10 618	362	5 143	3 576	480
Total Expenses	**23 165**	**12 917**	**17 198**	**14 393**	**10 052**
Result from ordinary activities	**(5 520)**	**1 064**	**(2 584)**	**(2 535)**	**897**
Result after taxation	**(5 520)**	**1 064**	**(2 584)**	**(2 535)**	**897**

Comment

Operating revenue steadily increased over the three year period to 1999-00. However, in 2000-01 a new service agreement with Brambles Shipping and the loss of the AAA Consortium resulted in a significant reduction in revenue.

Non operating revenue includes the amortisation of deferred revenue relating to a sale and lease back transaction on a Panamax crane. The finance lease was finalised in 2000-01 and the full amount of revenue has been amortised. The 1997-98 financial period includes as part of non operating revenue a writeback of the seaport dredging provision totalling $1.456m, and the airport runway provision totalling $2.563m. The write back was undertaken after the Corporation reviewed its policy in relation to the provision for major repairs and was based upon external advice.

Borrowing costs are consistent with the borrowings held by the Corporation. In 2000-01, $7.156m was repaid from loan debt resulting in a saving of $0.553m in interest. However, the Corporation has changed the accounting treatment in relation to a Post-Panamax crane previously recognised as an operating lease. The lease payments previously expensed in other operating expenses, have been treated as an interest expense and a repayment of the lease liability. The net effect has resulted in the interest expense in 2000-01 remaining constant. Borrowing costs decreased in 2001-02 by $0.703m due to significant loan principal repayments in 2000-01 reducing loan interest by $0.196m; lease interest expenses decreasing by $0.200m; and the 2000-01 expense balance including additional interest costs associated with the early settlement of the debt.

Depreciation expense increased in 1998-99 based upon the revalued asset values and a review of useful lives. A further increase, totalling $0.746m, is noted in 2000-01 as a result of the abovementioned change in lease classification. In addition, an asset totalling $12.857m was recognised and increased amortisation expense by $1.228m. This was partially offset by a reduction in dredging depreciation, $0.181m, and wharves, jetties and breakwaters depreciation, $0.212m.

During 2001-02, the Corporation sold its Airport operation. A loss on sale was incurred totalling $0.394m. The sale resulted in a reduction of $0.385m in associated depreciation expenses for the Airport, which reflects the decrease in the depreciation expense of $0.314m in 2001-02.

Other operating expenditure has remained constant over the three-year period to 1999-00. In 2000-01, other operating expenditure decreased by $1.983m as a result of the change in lease classification. Lease repayments under the operating lease were expensed under operating expenditure. In 2000-01 and 2001-02, these payments are recorded as interest expense or offset the lease liability.

The net effect of the change in lease classification was an expense adjustment totalling $1.006m, which is recorded in non operating expenses for 2000-01. The balance also includes an asset revaluation decrement of $2.570m relating to the Corporation's airport. The revaluation was undertaken to bring the asset value in line with an independent valuation based upon the sale value of the asset.

The Non-operating expenses in 1997-98 include a revaluation decrement of $9.568m. The Board appointed an independent Valuer to review non-current assets and the Valuation Report was adopted and a revaluation undertaken as at 30 June 1998. The valuation basis adopted by the Corporation was Deprival Value, which was based upon the discounted future net cash flows expected from the non current assets. In 1999-00 a further revaluation decrement of $5.143m was recorded in Non-operating expenditure arising from the use of deprival value. The decrement was a direct result of the expected reduction in net revenue arising from the new service agreement with Brambles Shipping. Non-operating expenditure for 2001-02 includes the loss on the sale of the Airport, $0.394m and associated redundancy payments of $0.086m.

The impact of the Non-operating adjustments over the period in review has resulted in significant losses being incurred. The losses in 1997-98, $5.520m, and 1999-00, $2.584m, are the result of material asset decrements as detailed above. The loss of $2.535m in 2000-01 is attributable to the non-operating items relating to the $2.570m decrement in the airport revaluation and the reclassification of an operating lease to a finance lease amounting to $1.006m. In 2001-02 the Corporation, without the impact of any significant asset adjustments, recorded a profit from ordinary activities of $0.897m.

FINANCIAL POSITION

	1997-98 $'000s	1998-99 $'000s	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s
Cash	375	61	0	181	265
Receivables	1 561	1 849	2 044	1 127	874
Investments	6 300	6 800	9 000	7 108	15 273
Inventories	253	274	262	268	253
Other	23	53	73	39	81
Total Current Assets	**8 512**	**9 037**	**11 379**	**8 723**	**16 746**
Property, plant & equipment	35 283	36 668	29 787	29 614	24 591
Total Non-Current Assets	**35 283**	**36 668**	**29 787**	**29 614**	**24 591**
Payables	197	573	427	342	174
Borrowings	1 439	2 027	8 107	2 559	3 226
Provisions	669	715	748	598	606
Other	1 416	1 306	1 931	723	728
Total Current Liabilities	**3 721**	**4 621**	**11 213**	**4 222**	**4 734**
Borrowings	20 826	18 798	10 722	12 950	9 725
Provisions	57	35	38	53	69
Other	1 294	819	345	4 800	9 600
Total Non-Current Liabilities	**22 177**	**19 652**	**11 105**	**17 803**	**19 394**
Net Assets	**17 897**	**21 432**	**18 848**	**16 312**	**17 209**
Reserves	23 390	24 024	24 025	24 024	24 024
Retained profits	(5 493)	(2 592)	(5 177)	(7 712)	(6 815)
Total Equity	**17 897**	**21 432**	**18 848**	**16 312**	**17 209**

Comment

Cash has remained fairly constant, with an overdraft of $32 000 recorded in 1999-00. The Corporation deposits excess cash funds into investments to improve its interest return. The investments have increased in each period with the exception of 2000-01 and is attributable to the repayment of $7.156m in borrowings, partially offset by a balloon payment of $6.000m by Brambles Shipping as part of a new service agreement. In 2001-02 investments increased by $8.615m due to the receipt of a second $6.000m balloon payment from Brambles Shipping and the consideration from the sale of the Airport, $2.500m.

Receivables in 2000-01 have reduced from previous years. This is a result of the new service agreement with Brambles Shipping who are now paying a monthly service fee.

Property, plant and equipment has decreased by $11.232m over the five year period. As noted previously, the majority of the movement is the result of asset revaluation decrements of $9.658m in 1997-98 and $5.143m in 1999-00. The revaluation decrement in 2000-01 of $3.570m was offset by the reclassification of the Post-Panamax crane leased asset, which was recorded at a gross value of $12.858m less accumulated depreciation of $9.536m. In 2001-02, Property, plant and equipment reduced further as a result of the sale of the Airport, resulting in a reduction of $2.894m in the written down value of the assets.

With the exception of 1999-00, where borrowings totalling $8.107m were reclassified from a Non-current liability in anticipation of being repaid, Current liabilities have remained fairly stable over the period of review. The repayment of loans was enabled by the $6.000m payment received from Brambles Shipping and referred to earlier in this segment of the Report. The current balance for 2000-01 includes an additional $0.571m in finance lease payments. Other liabilities for 2000-01 have reduced by $1.208m. This balance in previous periods has reflected accrued operating lease payments. With the reclassification of the operating lease, the accrual has been reduced and reflects interest expenses accrued.

Non current borrowings have reduced over the period in line with loan and finance lease payments. The decrease accelerated in 1999-00, as noted above. However, in 2000-01 the balance increased by $3.295m with the reclassification of the operating lease to a finance lease.

For the period covering 1997-98 to 1999-00, other non current liabilities represented the profit on sale and leaseback of the Panamax crane. This was amortised over the life of the lease and was fully written off in 2000-01.

The other non current liabilities balance for 2000-01 represents the balloon payment from Brambles Shipping of $6.000m, less one year's amortisation. A second payment was received in 2001-02. The total revenue in advance was $12.000m, which is being amortised over the term of the agreement. At 30 June 2002, two years of the agreement had been completed and $2.400m amortised as revenue.

CASH POSITION

	1997-98 $'000s	1998-99 $'000s	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s
Receipts from customers	12 856	12 705	13 667	18 367	16 924
Payments to suppliers and employees	(8 508)	(8 130)	(7 921)	(9 498)	(7 759)
Interest received	280	330	399	466	526
Borrowing costs	(1 877)	(2 005)	(1 552)	(1 352)	(955)
Cash from operations	**2 751**	**2 900**	**4 593**	**7 983**	**8 736**
Proceeds from investments	3 900	4 100	1 800	5 270	3 856
Payments for investments	(4 900)	(4 600)	(4 000)	(3 378)	(12 020)
Payments for P, P & Equipment	(1 537)	(1 432)	(504)	(759)	(451)
Proceeds from sale of P, P & E	182	28	46	0	2 521
Cash used in investing activities	**(2 355)**	**(1 904)**	**(2 658)**	**1 133**	**(6 094)**
Repayment of borrowings	(175)	(1 310)	(2 027)	(8 903)	(2 559)
Cash from financing activities	**(175)**	**(1 310)**	**(2 027)**	**(8 903)**	**(2 559)**
Net increase in cash	**221**	**(314)**	**(92)**	**213**	**83**
Cash at the beginning of the period	154	375	61	(31)	182
Cash at end of the period	**375**	**61**	**(31)**	**182**	**265**

Comment

Receipts from customers have steadily increased since 1997-98, which reflects the increase in operating revenue. The increase in receipts from customers in 2000-01 and 2001-02 is attributable to the balloon payments of $6.000m in each year and the impact of GST. Without the balloon receipts, cash flows from customers would have decreased in 2000-01 and 2001-02 reflecting lower revenues from port operations. Payments to suppliers from 1999-00 to 2000-01 increased due to the impact of GST, approximately $1.500m each year, and carryover of significant unpaid creditors from 1999-00 to 2000-01. The reduced level of payments to suppliers and employees in 2001-02 reflects the reduced level of port operations mentioned above.

Cash used in investing activities has in the first three years reflected an increase in investment balances. In 2000-01, investment funds were required to repay loan debt and as a consequence there was a net inflow of cash. In 2001-02, the investment balance increased by $8.164m due to the receipt of the second balloon payment, $6.000m, and the consideration from the sale of the Airport, $2.500m.

The payments for property, plant and equipment represent outflows for general capital works. The expenditure in 1997-98 and 1998-99 relate to land purchases, land improvement (land reclamation), new fender for the Ro Ro berths and general wharf and pier improvement.
Cash used in financing activities reflects loan and finance lease repayments. As noted previously, the increase in 2000-01 relates to the accelerated repayment of borrowings.

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01	2001-02
Financial Performance						
Result from operations ($'000s)		466	946	2 059	696	1 377
EBIT ($'000s)		(3 419)	3 061	(961)	(913)	1 816
Operating margin	>1.0	1.04	1.08	1.17	1.06	1.14
Return on assets		-7.4%	6.8%	-2.2%	-2.3%	4.6%
Return on equity		-25.2%	5.4%	-12.8%	-14.4%	5.4%
Financial Management						
Debt to equity		124.4%	97.2%	99.9%	95.1%	75.3%
Debt to total assets		50.8%	45.6%	45.7%	40.5%	31.3%
Interest cover	>3	-1.6	1.5	-0.6	-0.6	2.0
Current ratio	>1	2.29	1.96	1.01	2.07	3.54
Cost of debt	7.5%	10.0%	9.3%	8.2%	9.4%	6.5%
Debt collection	30 days	45	51	54	36	29
Creditor turnover	30 days	12	39	28	17	19
Returns to Government						
Dividends paid or payable ($'000s)		0	0	0	0	0
Dividend payout ratio	50%	-	-	-	-	-
Dividend to equity ratio		-	-	-	-	-
Income tax paid or payable ($'000s)		0	0	0	0	0
Effective tax rate	30%	-	-	-	-	-
Total return to the State ($'000s)		0	0	0	0	0
Total return to equity ratio		-	-	-	-	-
Other information						
Staff numbers FTEs		59	50	49	48	44
Average staff costs ($'000s)		48	57	55	54	60

Comment

Over the past five years, the return from operations (ie: operating revenue less operating expenses) has totalled $5.544m or an annual average return of $1.108m. The deficit from ordinary activities before income tax and after adjusting for interest expense totalled $0.416m for the five years or an annual average of $0.083m.

The debt to equity ratio for the period 1998-99 to 2000-01 has remained constant, which is a result of deceasing borrowings, increased finance lease commitments and increasing accumulated deficits. The decrease in the ratio for 2001-02 has improved due to the lease liability nearing its completion and the decrease in loan debt achieved in 2000-01.

The interest cover ratio is below the benchmark figure due to operating losses in three of the five years. However, a significant improvement is noted in 2001-02 as a result of the Corporation's debt reduction policies.

The cost of debt performance indicator has been above the benchmark balance in the first four year under review and has been affected by the interest applicable to the finance leases, which is greater than the loan debenture rates. However, savings in interest expenditure of $0.703m on both loan and lease debt has resulted in a significant improvement.

The debt collection ratio, for the period 1997-98 to 1999-00, was significantly greater than 30 day benchmark. This reflects the high dollar value of invoices issued to customers and therefore outstanding at year-end. The corporation's actual experience with debt recovery indicates the majority of balances outstanding are recovered within a thirty-day period. The new service agreement with Brambles, which incorporates monthly service fees, has resulted in the improvement noted in the ratio for the 2000-01 and 2001-02 periods.

The creditor turnover ratio indicates the Corporation is clearing its creditors in a suitable time frame. The 39 day ratio in 1998-99 is the result of several additional creditor balances being incurred as at balance date.

The Corporation has not paid any dividends. Negotiations with Brambles Shipping on a new service agreement resulted in the shareholders waiving dividends in respect of the 1998-99 and 1999-00 financial periods. The Board has subsequent to 30 June 2002, declared a ex-gratia payment in the form of a dividend, totalling $0.225m.for 2001-02.

There have been no income tax equivalent payments or provision for income tax payable for the five year period due to operating losses and carried forward tax losses. At 30 June 2002, the Corporation had future income tax benefits not brought to accounts relating to tax losses totalling $2.172m.

The average staff cost for 1998-99, $0.057m, was affected by a number of redundancy payments made to staff during the year. The average staff cost for 2001-02, $0.060m, resulted from staff reductions and included redundancy payments in respect of the disposal of the airport.

OVERALL COMMENT

The Corporation recorded a profit of $0.897m for the 2001-02 financial year. This year has been fairly stable in comparison with prior periods, which have included significant asset revaluation decrements, adjustments to lease classification and accelerated debt repayments.

With the sale of the Airport, the Corporation will concentrate on shipping and cold store activities and anticipates continued profits from its operations.

3.2 HOBART PORTS CORPORATION PTY LTD

INTRODUCTION

The Hobart Ports Corporation Pty Ltd (HPC) replaced the former Marine Board of Hobart and Circular Head by virtue of the enactment of the *Port Companies Act 1997*. That Act also provided for the former Marine Board of King Island, now entitled King Island Ports Corporation Pty Ltd (KIPC), to become a wholly-owned subsidiary of HPC. Information provided for the year ended 30 June 1998 includes operations of that former Board to 29 July 1997 combined with the operations of the new corporation from 30 July 1997. Exemptions from government taxes such as sales tax, land tax, and rates ceased at incorporation with additional costs of approximately $1.5m per annum being incurred during the past five years.

During 2001-02 HPC formed a wholly-owned subsidiary, Risdon Port Services Pty Ltd, which commenced operations on 1 November 2001 to provide stevedoring and maintenance operations at Risdon in Tasmania to Pasminco Limited under contractual arrangements.

The principal activities of HPC and its subsidiary companies are carried out under segments including Land Port facilities, Sea Port facilities (which includes stevedoring and fuel distribution), Airport facilities (which comprises a 98% ownership in an Associated company, Hobart International Airport Pty Ltd) and Corporate services operations.

AUDIT OF THE 2001-02 FINANCIAL STATEMENTS

Signed financial statements of HPC were received on 18 October 2002 and an unqualified audit report was issued on 21 October 2002.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	1998-99	1999-00	2000-01	2001-02
	$'000s	$'000s	$'000s	$'000s	$'000s
Operating revenue	12 246	14 894	15 777	21 797	31 711
Non-operating revenue	1 592	1 000	1 051	403	657
Total Revenue	**13 838**	**15 894**	**16 828**	**22 200**	**32 368**
Borrowing costs	374	686	685	668	634
Depreciation	1 509	2 072	1 211	1 480	1 519
Other operating expenses	9 990	12 182	13 142	18 445	23 902
Non-operating expenses	337	583	1 026	390	1 030
Total Expenses	**12 210**	**15 523**	**16 064**	**20 983**	**27 085**
Result from ordinary activities	**1 628**	**371**	**764**	**1 217**	**5 283**
Income tax expense	155	(102)	(37)	518	1 589
Result after taxation	**1 473**	**473**	**801**	**699**	**3 694**

Comment

Operating revenue increased in 1998-99 due principally to an increase in sales revenue over the previous year, $3.294m, approximately 50% of which was attributable to expansion of stevedoring operations. This increase was partially offset by decreases in interest income, $0.388m, and rental income, $0.259m.

Operating revenue further increased by $5.978m in 2000-01 due largely to a further expansion of stevedoring operations, $2.987m, coupled with increased rental income from the Elizabeth Street Pier redevelopment, $1.596m. During 2000-01, King Island Ports Corporation Pty Ltd (KIPC) commenced the business of petroleum production importation and distribution on King Island, and contributed $1.680m to group operating revenue.

The increase in Operating revenue in 2001-02, $9.914m, is due almost entirely to increases in Sea Port operations (which includes stevedoring activities), $3.859m, and increased sales (including fuel sales), $5.095m. Operating expenditure, which includes costs associated with the fore-mentioned increases in revenue, increased by $5.462m.

Non-operating income in 1997-98 includes the result of a debt owing by the former King Island Marine Board to the Department of Treasury and Finance written-off by that Department, $0.281m, and the fair value of land and buildings transferred from the Crown to KIPC, $0.980m. The remainder of the non-operating income each year represents the sales value on disposal of non-current assets, while the non-operating expenditure items generally reflect the carrying values of those assets.

HPC rationalised its staffing levels notwithstanding the investment in new revenue generating activities with redundancies of $0.550m being paid during the four-year period to 30 June 2001. Profit before tax has shown a sustained annual improvement over the period of the review.

Over the five-year period, HPC returned a positive result from ordinary activities amounting to $9.263m, of which $7.926m resulted from operating activities.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	1 735	1 696	2 191	2 281	2 766
Receivables	2 513	2 877	3 490	4 948	5 049
Investments	256	256	256	0	355
Inventories	5	26	30	56	223
Other	35	59	83	57	560
Total Current Assets	**4 544**	**4 914**	**6 050**	**7 342**	**8 953**
Property, plant & equipment	49 964	49 641	51 631	51 352	51 916
Investments	5 843	5 797	5 415	10 230	10 882
Other	594	1 079	1 007	866	898
Total Non-Current Assets	**56 401**	**56 517**	**58 053**	**62 448**	**63 696**
Payables	1 987	1 753	2 262	3 374	3 087
Borrowings	270	294	329	2 202	380
Provisions	1 054	1 566	1 528	1 714	3 505
Total Current Liabilities	**3 311**	**3 613**	**4 119**	**7 290**	**6 972**
Borrowings	10 305	10 010	9 681	12 095	12 215
Provisions	1 948	2 317	2 278	2 481	2 787
Other	0	0	0	0	186
Total Non-Current Liabilities	**12 253**	**12 327**	**11 959**	**14 576**	**15 188**
Net Assets	**45 381**	**45 491**	**48 025**	**47 924**	**50 489**
Reserves	45 222	45 158	47 402	47 132	49 746
Retained profits	159	333	623	792	743
Total Equity	**45 381**	**45 491**	**48 025**	**47 924**	**50 489**

Comment

Non-current assets of the former Marine Board of Hobart were taken over by HPC at cost and subsequently valued at directors valuation. During 1997-98 HPC invested $14.093m in property, plant and equipment, primarily sourced from cash investment funds taken over from the former Marine Board, $4.439m, and new borrowings, $7.400m.

In June 1998 HPC purchased a 49% interest in Hobart International Airport Pty Ltd (HIA) for $0.269m and provided an interest free loan to that company totalling $5.574m. During 1999-00, HPC increased its shareholding in HIA to 68% at a cost of $0.423m and, during 2000-01, still further increased its holding to 98%. Conditions attaching to the various subsequent acquisitions required HPC to assume the loans of the disposing shareholders. Shareholder loans provided to HIA total $9.641m, of which $9.041m is interest free and is reflected in the non-current asset item, Investments. Associated with the latter acquisitions additional borrowings totalling $4.615m were provided on an interest free basis by HIA, part of which included the assumption of a debt by HPC, payable to a third party, $1.848m. This latter amount was repaid to that party during 2001-02.

Despite holding 98% of the issued Ordinary Shares in HIA, the operations of HIA are not consolidated into the accounts of HPC owing to the existence of a special agreement that requires the approval of the holder of 5000 B Class Shares, Toll Transport, to approve certain matters including those relating to declaration of dividends, financial and operating policies. The existence of such an agreement effectively prevents HPC from exercising control over HIA and permits HPC to equity account for its interest in the operating results of HIA. Since acquisition of its original shareholding, HPC's share of HIA's operating results has been a profit of $0.486m.

On 1 July 2000 HPC elected to deem the carrying values of its property plant and equipment to be cost in accordance with Australian Accounting Standard AASB 1041 "Revaluation of Non-Current Assets". Consequently, the balance standing to the credit of the asset revaluation reserve at that time, $2.304m, is not available for future asset write-downs. During 2001-02 the reserve was reduced to $2.008m by a transfer of realised asset gains to Retained Profits. There is no restriction on the distribution of the balance of this reserve.

CASH POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	12 954	15 277	15 879	23 224	32 595
Payments to suppliers and employees	(11 741)	(12 869)	(13 056)	(20 303)	(26 872)
Interest received	673	106	142	133	178
Borrowing costs	(443)	(664)	(671)	(680)	(578)
Taxation expense	0	(84)	0	0	(179)
Cash from operations	**1 443**	**1 766**	**2 294**	**2 374**	**5 144**
Proceeds from investments	4 457	103	440	806	224
Payments for investments	(6 098)	(252)	(245)	(3 425)	(414)
Payments for P, P & Equipment	(14 130)	(1 701)	(2 051)	(1 966)	(2 918)
Proceeds from sale of P, P & E	330	475	1 051	403	690
Cash used in investing activities	**(15 441)**	**(1 375)**	**(805)**	**(4 182)**	**(2 418)**
Proceeds from borrowings	7 400	0	0	2 767	500
Repayment of borrowings	(277)	(270)	(294)	(329)	(2 201)
Dividends paid	0	(160)	(700)	(540)	(540)
Cash from financing activities	**7 123**	**(430)**	**(994)**	**1 898**	**(2 241)**
Net increase in cash	**(6 875)**	**(39)**	**495**	**90**	**485**
Cash at the beginning of the period	8 610	1 735	1 696	2 191	2 281
Cash at end of the period	**1 735**	**1 696**	**2 191**	**2 281**	**2 766**

Comment

Receipts from customers (which includes the impact of GST) have increased markedly since 1997-98 due principally to the impact of stevedoring and fuel distribution operations, together with increased rental income referred to earlier in this segment of the Report.

The decrease in interest receipts since 1997-98 reflects the depletion of cash investments which, when coupled with new borrowings, was used to fund a capital works program. However, with the increased activity and diversification of operations, cash from operations have been increasing in recent years from $1.443m at 30 June 1998 to $5.144m at 30 June 2002.

Over the five year period, the existence of timing differences caused by different rates of depreciation for accounting and tax purposes has meant the HPC has paid only relatively low levels of income tax on revenue from ordinary activities. At 30 June 2002 HPC has a provision for deferred income tax amounting to $2.702m, an increase of $0.322m over that of the previous year.

In 2001-02 income tax payable amounts to $1.343m for the Group.

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01	2001-02
Financial Performance						
Result from operations ($'000s)		373	(46)	739	1 204	5 656
EBIT ($'000s)		2 002	1 057	1 449	1 885	5 917
Operating margin	>1.0	1.03	1.00	1.05	1.06	1.22
Return on assets		3.6%	1.7%	2.3%	2.8%	8.3%
Return on equity		3.3%	1.0%	1.7%	1.5%	7.5%
Financial Management						
Debt to equity		23.3%	22.7%	20.8%	29.8%	24.9%
Debt to total assets		17.4%	16.8%	15.6%	20.5%	17.3%
Interest cover	>3	5.4	1.5	2.1	2.8	9.3
Current ratio	>1	1.37	1.36	1.47	1.01	1.28
Cost of debt	7.5%	5.3%	6.6%	6.7%	5.5%	4.7%
Debt collection	30 days	54	49	56	66	46
Creditor turnover	30 days	48	31	51	39	24
Returns to Government						
Dividends paid or payable ($'000s)		160	700	540	540	975
Dividend payout ratio	50%	10.9%	148.0%	67.4%	77.3%	26.4%
Dividend to equity ratio		0.4%	1.5%	1.2%	1.1%	2.0%
Income tax paid or payable ($'000s)		86	0	0	69	1 343
Effective tax rate	30%	5.3%	-	-	5.7%	25.4%
Total return to the State ($'000s)		246	700	540	609	2 318
Total return to equity ratio		0.6%	1.5%	1.2%	1.3%	4.7%
Other information						
Staff numbers FTEs		59	57	130	119	106
Average staff costs ($'000s)		82	108	49	75	95

Comment

Over the five years of the review, the return from operations (ie: operating revenue less operating expenses) has totalled $7.926m (five years to 30 June 2001, $3.662m) or an annual average return of $1.585m ($0.732m). After adjusting for income tax on accounting profit and interest payable on borrowings the total return was $12.310m ($8.472m) or an annual average of $2.462m ($1.694m).

Returns on assets and equity have been consistently low over the period and are reflected in the low operating margin for the period prior to 2001-02.

Total debt due by HPC at 30 June 2002 amounts to $12.595m, of which $2.767m is interest free, a fact reflected in the cost of debt ratio of 4.7%.

Although dividends paid by HPC have approximated 37% of operating activities in recent years, both the dividend to equity and, because of the existence of timing differences and carried forward tax losses, total return to equity ratios remain lower than expected of a commercially operating entity.

Staff numbers do not include the impact of contract or casual labour used by HPC during any one year, which distorts average employee costs for the year.

OVERALL COMMENT

Although HPC has recorded substantial increases in operating revenue in recent years, until 2001-02 operating expenses also increased by similar levels so that the result from operations over the five-year period totalled $7.926m.

The operating expense increases were heavily impacted upon by Land Tax, Payroll Tax, full Council rates, Guarantee Loan Fees, and Federal Government levies, which now total some $1.5 million per annum. These were in a large part not applicable to the former Marine Board of Hobart.

Over the period since incorporation HPC has acquired a 98% ordinary shareholding in HIA and has provided $9.641m in loans to that company of which $9.041m is interest free. HPC's share of operating results of HIA has amounted to a profit of $0.486m to 30 June 2002.

Despite holding 98% of issued ordinary shares, the existence of a special agreement with the holder of Class B shares, Toll Transport, ensures that HPC can only influence, but not control the operations of HIA. Consequently the activities of the airport are not consolidated with those of HPC with only HPC's share of the profit or loss of HIA's activities for the year accounted for in HPC's accounting records.

Total returns to the State of both dividends and income tax over the five year period total $4.413m or an average return of $0.882m. All returns to the State referred to resulted from operations after incorporation. The percentage return to equity ratio indicates that returns to the State are less than those expected from a commercial operation. This return, however, has to be taken in context of the principal objective of HPC, as determined by the State Government, which is the facilitation of trade for the economic benefit of the State. HPC will continue to diversify its activities to meet this objective whilst maximising the return on assets where possible. The profit before tax trend continues to improve and should lead to acceptable returns to the State over time.

3.3 PORT OF DEVONPORT CORPORATION PTY LTD

INTRODUCTION

The Port Companies Act 1997 that came into effect on 30 July 1997, replaced the *Marine Act 1976* and associated legislation from that date and provided a framework for the establishment of State-owned port companies.

In accordance with this Act, the Port of Devonport Authority ceased operations on 29 July 1997. All assets, rights and liabilities vested in the former Authority were vested in the new port Corporation. The joint shareholders of the Corporation are the Treasurer and the Minister for Infrastructure. The shareholders were issued with ordinary shares of $1 each upon incorporation.

The Board is comprised of seven directors, whose appointment is approved by the shareholders of the Corporation.

Information provided in the tables below for 1997-98 include the operations of the former Authority to 29 July 1997 combined with the operations of the new Corporation from 30 July 1997.

AUDIT OF THE 2001-02 FINANCIAL STATEMENTS

The signed financial statements of the Corporation were received on 27 September 2002 and an unqualified audit report was issued on 2 October 2002.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	1998-99	1999-00	2000-01	2001-02
	$'000s	$'000s	$'000s	$'000s	$'000s
Operating revenue	9 752	9 776	10 388	10 748	10 359
Non-operating revenue	124	49	19	202	18
Total Revenue	**9 876**	**9 825**	**10 407**	**10 950**	**10 377**
Borrowing costs	558	681	627	522	514
Depreciation	1 373	2 409	1 850	1 919	1 809
Other operating expenses	6 127	5 599	5 711	5 707	7 357
Non-operating expenses	368	733	150	1 734	198
Total Expenses	**8 426**	**9 422**	**8 338**	**9 882**	**9 878**
Result from ordinary activities	**1 450**	**403**	**2 069**	**1 068**	**499**
Income tax expense	503	385	848	852	343
Result after taxation	**947**	**18**	**1 221**	**216**	**156**

Comment

Operating revenue steadily increased over the four years from 1997-98 to 2000-01. In 2001-02, operating revenue decreased by $0.389m to $10.359m due principally to a reduction in Airport revenue, $0.155m, resulting from a drop in passenger numbers and landings after Kendell Airlines was placed under administration in September 2001. Interest revenue also decreased by $0.128m due to a combination of a decrease in the weighted average interest rate and a reduction in funds held during the year.

Non-operating revenue in 1997-98, $0.124m, comprised the net gain on disposal of assets. Similarly, the non-operating revenue in 2000-01 of $0.202m comprised the net gain of disposal of assets of $0.126m and a gain on refinancing of debenture loans of $0.076m. During 2000-01, the Corporation refinanced its loan portfolio with Tascorp. As a result of the restructure, a net gain of $0.026m was recognised, which was accounted for as revenue of $0.076m and expenditure of $0.050m.

The increase in Other operating expenses in 2001-02, $1.650m, is primarily due to maintenance dredging undertaken in March and April 2002 amounting to $1.323m. Maintenance dredging is carried out approximately every three years at an estimated cost of $1.800m. The 2001-02 dredging program is due to be completed in late 2002. Also included in the item for that year are costs associated with the new Port Access Road in East Devonport, $0.427m, which mainly relate to the purchase of properties for the construction of the road, the responsibility for which was transferred to the State Government.

Non-operating expenses totalled $1.734m in 2000-01, and comprised losses on disposal of assets, $1.684m, and the loss on refinancing of debenture loans, $0.050m. The increased loss on disposal of assets is due to the write-off of buildings in East

Devonport. The Corporation purchased a number of properties in 2000-01 and subsequently demolished some of the buildings for future development of the area.

Depreciation expense for 1998-99, $2.409m, includes $0.522m resulting from depreciation adjustments upon the reassessment of the estimated useful lives of non-current assets.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	408	1	1	10 174	9 298
Receivables	1 412	1 481	1 390	2 078	1 645
Investments	11 789	8 516	9 188	0	0
Inventories	77	8	6	8	5
Other	96	200	300	104	122
Total Current Assets	**13 782**	**10 206**	**10 885**	**12 364**	**11 070**
Property, plant & equipment	26 858	34 127	33 870	32 599	33 556
Investments	550	550	550	0	0
Other	1 565	229	226	198	205
Total Non-Current Assets	**28 973**	**34 906**	**34 646**	**32 797**	**33 761**
Payables	83	212	143	208	333
Borrowings	1 058	1 030	1 039	1 543	0
Provisions	1 072	672	1 972	1 366	755
Other	653	331	218	562	551
Total Current Liabilities	**2 866**	**2 245**	**3 372**	**3 679**	**1 639**
Borrowings	6 543	7 526	6 543	5 975	7 472
Provisions	1 439	1 526	1 506	1 289	1 346
Total Non-Current Liabilities	**7 982**	**9 052**	**8 049**	**7 264**	**8 818**
Net Assets	**31 907**	**33 815**	**34 110**	**34 218**	**34 374**
Reserves	31 027	33 049	33 049	32 936	32 936
Retained profits	880	766	1 061	1 282	1 438
Total Equity	**31 907**	**33 815**	**34 110**	**34 218**	**34 374**

Comment

Non-current assets of the former Authority were taken over by the Corporation at cost. On 1 July 2000, the Corporation elected to deem the carrying values of its property, plant and equipment to be cost in accordance with Australian Accounting Standard AASB 1041 "Revaluation of Non-Current Assets". Consequently, the balance of the asset revaluation reserve at 30 June 2000, $0.113m, was written back against equity in accordance with the provisions of AASB 1041.

The movements in cash and investment balances from 1999-00 to 2000-01 are due to the reclassification of financial information as a result of the application of the new Australian Accounting Standard AASB 1040 "Statement of Financial Position". Current and non-current investments at 30 June 2000, $9.738m, were reclassified as cash assets in accordance with the definitions contained in AASB 1040.

The increase in Property, plant and equipment from 1997-98 to 1998-99, $7.269m, is mainly attributable to work on the Sayers Point capital dredging project. The project, which commenced in 1997-98, was completed in September 1998 at a total cost of $8.300m. The project extended the vessel swinging basin and was funded by borrowings of $4.000m and cash held by the Corporation.

The decrease in current borrowings from 30 June 2001 to 30 June 2002, $1.543m, is offset by a similar increase in the non-current liability. The movement between current and non-current liabilities is due to the refinancing of a loan in July 2002.

The balance of Reserves increased by $2.023m from 30 June 1998 to 30 June 1999 due to transfers to reserves, $1.910m, and an asset revaluation increment of $0.113m. The transfers to reserves represented a proportion of the reversal of maintenance provisions, which were previously recognised as a liability by the Corporation. In accordance with the provisions of the Australian Accounting Standards Board's Urgent Issues Group Consensus Views UIG 26 "Accounting for Major Cyclical Maintenance", the Corporation reversed the balance of maintenance provisions for capital dredging and airport re-sheeting against retained profits. The adjustment to retained profits, net of any tax effect, was $2.217m.

CASH POSITION

	1997-98 $'000s	1998-99 $'000s	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s
Receipts from customers	9 245	9 544	9 978	10 795	11 049
Payments to suppliers and employees	(5 779)	(7 153)	(5 419)	(6 518)	(7 955)
Interest received	654	525	550	517	754
Borrowing costs	(571)	(696)	(642)	(357)	(516)
Taxation expense	(227)	(512)	(794)	(1 137)	(816)
Cash from operations	**3 322**	**1 708**	**3 673**	**3 300**	**2 516**
Proceeds from investments	0	3 273	0	1 355	1 058
Payments for investments	(699)	0	(672)	(1 789)	0
Payments for P, P & Equipment	(4 374)	(6 040)	(1 837)	(2 488)	(3 352)
Proceeds from sale of P, P & E	304	138	114	282	114
Cash used in investing activities	**(4 769)**	**(2 629)**	**(2 395)**	**(2 640)**	**(2 180)**
Proceeds from borrowings	2 000	2 000	0	26	0
Repayment of borrowings	(874)	(1 058)	(1 017)	(55)	0
Dividends paid	0	(440)	(304)	(621)	(108)
Cash from financing activities	**1 126**	**502**	**(1 321)**	**(650)**	**(108)**
Net increase in cash	**(321)**	**(419)**	**(43)**	**10**	**228**
Cash at the beginning of the period	728	407	(12)	(55)	(45)
Cash at end of the period	**407**	**(12)**	**(55)**	**(45)**	**183**

Comment

Receipts from customers have steadily increased since 1997-98, which reflects the increase in operating revenue. Payments to suppliers and employees in 1998-99 include the impact of redundancy payments and maintenance dredging. Increases in receipts from customers and payments to suppliers from 1999-00 to 2000-01 are due to the impact of GST.

The decrease in Borrowing costs paid during 2000-01 is attributable to the debt restructure and the resulting changes to payment amounts and dates referred to earlier in this segment of the Report.

The Payments for property, plant and equipment in 1997-98 and 1998-99, \$4.374m and \$6.040m respectively, include payments relating to the Sayers Point Capital Dredging Project. The project was partly funded by cash held by the Corporation, reflected by the proceeds from investments in 1998-99 of \$3.273m.

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01	2001-02
Financial Performance						
Result from operations ($'000s)		1 694	1 087	2 200	2 600	679
EBIT ($'000s)		2 008	1 084	2 696	1 590	1 013
Operating margin	>1.0	1.21	1.13	1.27	1.32	1.07
Return on assets		4.9%	2.5%	5.9%	3.5%	2.3%
Return on equity		3.1%	0.1%	3.6%	0.6%	0.5%
Financial Management						
Debt to equity		23.8%	25.3%	22.2%	22.0%	21.7%
Debt to total assets		17.8%	19.0%	16.7%	16.6%	16.7%
Interest cover	>3	3.6	1.6	4.3	3.0	2.0
Current ratio	>1	4.81	4.55	3.23	3.36	6.75
Cost of debt	7.5%	7.9%	8.4%	7.8%	6.9%	6.9%
Debt collection	30 days	57	58	52	64	58
Creditor turnover	30 days	8	26	15	22	24
Returns to Government						
Dividends paid or payable ($'000s)		440	304	621	108	78
Dividend payout ratio	50%	46.5%	1688.9%	50.9%	50.0%	50.0%
Dividend to equity ratio		1.4%	0.9%	1.8%	0.3%	0.2%
Income tax paid or payable ($'000s)		503	206	827	1 057	304
Effective tax rate	30%	34.7%	51.1%	40.0%	99.0%	60.9%
Total return to the State ($'000s)		943	510	1 448	1 165	382
Total return to equity ratio		3.1%	1.6%	4.3%	3.4%	1.1%
Other information						
Staff numbers FTEs		47	42	42	41	41
Average staff costs ($'000s)		50	60	56	56	59

Comment

Over the past five years, the return from operations (i.e. operating revenue less operating expenses) has totalled $8.260m, representing an annual average return of $1.652m. The result from ordinary activities before income tax and after adjusting for interest expense totalled $8.391m for the five years or an annual average of $1.678m.

The Debt to equity and Debt to total assets ratios have been fairly consistent over the past three years. The Cost of debt decreased from 7.8% in 1999-00 to 6.9% in 2000-01 following the loan restructure undertaken in July 2000.

The debt collection ratio has consistently remained greater than 30 days over the period of the review and reflects the high dollar value of invoices issued to customers and therefore outstanding at year-end.

Since incorporation, and except for 1998-99, the dividend payout ratio has represented approximately 50% of the Corporation's after tax profit. In 1998-99 the ratio was significantly higher due to the Corporation recording a profit from ordinary activities after tax of only $0.018m. The profit for that year was adjusted by abnormal expenditure, $0.847m, comprising depreciation adjustments, $0.522m, and the scrapping of fixed assets, $0.325m.

The average staff costs is based on total staff costs, including superannuation contributions, divided by the number of FTEs at the end of the relevant financial year. The average staff cost for 1998-99, $0.060m, is affected by a number of redundancy payments made to staff during the year.

OVERALL COMMENT

Total returns to the State from both dividends and income tax paid or payable over the five-year period total $4.448m or an average return of $0.890m per annum.

3.4 PORT OF LAUNCESTON PTY LTD

INTRODUCTION

The *Port Companies Act 1997,* which came into effect on 30 July 1997, replaced the *Marine Act 1976* and associated legislation from that date and provided a framework for the establishment of State owned port companies.

In accordance with this Act, the Port of Launceston Pty Ltd replaced the former Port of Launceston Authority. In addition, the Flinders Island Marine Board was replaced by the Flinders Island Ports Company Pty Ltd, which became a wholly owned subsidiary of the Port of Launceston Company. Under the Act, the former entities ceased operations on 29 July 1997, with all assets, rights and liabilities vesting in the new Companies. The joint shareholders of the Companies are the Treasurer and the Minister for Infrastructure. Upon incorporation, the then shareholders were issued with ordinary shares of $1 each.

The Board of the Port of Launceston Pty Ltd is comprised of six directors, whose appointment is made by the shareholders of the Company.

Information provided in the tables below for the year ended 30 June 1998 include operations of that former Authority to 29 July 1997 combined with the operations of the new Company (including the Flinders Island subsidiary) from 30 July 1997.

Any future reference to Company relates to the economic entity, which includes the Flinders Island subsidiary.

AUDIT OF THE 2001-02 FINANCIAL STATEMENTS

Signed financial statements were received on 3 September 2002, and an unqualified audit report was issued on 20 September 2002.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1997-98	1998-99	1999-00	2000-01	2001-02
	$'000s	$'000s	$'000s	$'000s	$'000s
Operating revenue	7 669	7 667	9 851	9 135	9 122
Non-operating revenue	119	501	385	326	85
Total Revenue	**7 788**	**8 168**	**10 236**	**9 461**	**9 207**
Borrowing costs	1 432	1 397	1 194	1 066	944
Depreciation	1 526	1 467	1 376	1 338	1 375
Other operating expenses	5 286	5 086	6 205	6 596	5 945
Non-operating expenses	2 697	30	29	0	0
Total Expenses	**10 941**	**7 980**	**8 804**	**9 000**	**8 264**
Result from ordinary activities	**(3 153)**	**188**	**1 432**	**461**	**943**
Income tax expense	(758)	(285)	259	180	299
Result after taxation	**(2 395)**	**473**	**1 173**	**281**	**644**

Comment

The Company has been trading profitably for the four-year period from 1998-99 to 2001-02. The 1997-98 negative Result from ordinary activities, $3.153m, was due mainly to increased Non-operating expenses, of which $2.056m related to a change in depreciation policy for Harbour Improvements.

The increase in Operating revenue in 1999-00, $2.184m, was principally due to the inclusion of $2.000m relating to the settlement of a writ issued by the Company. Increased expenses of $0.826m partially offset this increased revenue and was mainly attributable to maintenance undertaken on port access roads during the financial year.

Had the writ settlement proceeds been excluded from the 1999-00 operating revenue, the revenue would have increased by $1.284m during the 2000-01 year. The major reasons for the increased revenue are a combination of the decision by the AAA Consortium to operate exclusively from Bell Bay, increased exports by most of the Port’s major customers, and increased revenue from maintenance contracts. In 2001-02 the port was able to maintain its operating revenue in line with that recorded in 2000-01.

Other operating expenses have increased with the servicing of the AAA Consortium and other contracts. However, the expenses in 2000-01 included additional maintenance costs in finalising the port access roads upgrade.

Non-operating revenues and expenses, except for 1997-98, relate to profits and losses incurred from the sale of assets.

Borrowing costs have decreased by $0.488m over the period and reflect the reduction in borrowings.

FINANCIAL POSITION

	1997-98	1998-99	1999-00	2000-01	2001-02
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	272	713	50	1 745	3 538
Receivables	1 200	1 076	1 187	1 693	1 607
Investments	915	520	3 259	0	0
Inventories	271	257	555	530	557
Other	2	148	79	460	45
Total Current Assets	**2 660**	**2 714**	**5 130**	**4 428**	**5 747**
Property, plant & equipment	40 243	38 815	36 205	35 609	34 995
Other	0	3 805	3 226	3 358	3 386
Total Non-Current Assets	**40 243**	**42 620**	**39 431**	**38 967**	**38 381**
Payables	267	321	62	469	767
Borrowings	2 130	1 386	1 729	809	907
Provisions	408	610	440	780	498
Other	372	322	534	677	1 195
Total Current Liabilities	**3 177**	**2 639**	**2 765**	**2 735**	**3 367**
Borrowings	14 354	13 922	12 193	11 382	10 494
Provisions	91	3 622	3 278	3 611	3 956
Total Non-Current Liabilities	**14 445**	**17 544**	**15 471**	**14 993**	**14 450**
Net Assets	**25 281**	**25 151**	**26 325**	**25 667**	**26 311**
Reserves	829	24 454	24 454	24 454	24 454
Retained profits	24 452	697	1 871	1 213	1 857
Total Equity	**25 281**	**25 151**	**26 325**	**25 667**	**26 311**

Comment

The movements in cash and investment balances from 1999-00 to 2000-01 are due to the reclassification of financial information as a result of the application of the new Australian Accounting Standard AASB 1040 “Statement of Financial Position”. Investments as at 30 June 2000 of $3.259m were reclassified as cash assets in accordance with the definitions contained in AASB 1040.

The increase in the cash balance from 2000-01 to 2001-02 of $1.793m is detailed in the Cash Position section of this Report.

Other current assets for 2000-01 included $0.415m relating to accrued income on the sale of industrial land. These funds were received in the 2001-02 year.

Property, plant and equipment has decreased by $5.248m over the period of review and represents general asset movements and the continuing depreciation of assets.

The increase in other non-current assets and non-current provisions from 1998-99 is due to tax assets and liabilities no longer being disclosed on a net basis. This change in disclosure is in accordance with Australian Accounting Standard AASB 1020 "Accounting for Income Tax (Tax-effect Accounting)".

The increase in Payables in 2001-02, $0.298m, results from a material outstanding creditor relating to the construction of a woodchip conveyor system that is currently in progress.

The amount of borrowings outstanding has decreased from $16.484m at 30 June 1998 to $11.401m at 30 June 2002 due to regular loan repayments and no new borrowings since 1998-99.

Equity on Formation Reserve of $24.078m was created in 1998-99 out of the previous years retained profits. The balance of this reserve represents the combined equity of the former Authority and Marine Board at the date of incorporation.

CASH POSITION

	1997-98 $'000s	1998-99 $'000s	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s
Receipts from customers	7 416	7 596	9 724	9 434	10 213
Payments to suppliers and employees	(5 206)	(4 996)	(6 222)	(6 946)	(6 473)
Interest received	88	49	137	161	98
Borrowing costs	(1 445)	(1 404)	(1 322)	(1 143)	(954)
Cash from operations	**853**	**1 245**	**2 317**	**1 506**	**2 884**
Proceeds from investments	10 109	394	0	17	0
Payments for investments	(8 800)	0	(2 739)	0	0
Payments for P, P & Equipment	(2 957)	(690)	(879)	(841)	(739)
Proceeds from sale of P, P & E	1 435	669	2 174	117	774
Cash used in investing activities	**(213)**	**373**	**(1 444)**	**(707)**	**35**
Proceeds from borrowings	0	512	0	0	0
Repayment of borrowings	(722)	(1 689)	(1 386)	(1 730)	(791)
Dividends paid	0	0	(150)	(604)	(335)
Cash from financing activities	**(722)**	**(1 177)**	**(1 536)**	**(2 334)**	**(1 126)**
Net increase in cash	**(82)**	**441**	**(663)**	**(1 535)**	**1 793**
Cash at the beginning of the period	354	272	713	3 280	1 745
Cash at end of the period	**272**	**713**	**50**	**1 745**	**3 538**

Comment

The balance of cash held by the Company decreased by $1.535m during 2000-01 and is mainly attributable to the increased repayment of borrowings and the payment of a dividend to the State Government of $0.604m for the 1999-00 year. The difference between the closing balance of cash for 1999-00, $0.050m, and the opening balance for 2000-01, $3.280m, is due to the reclassification between cash and investments following the application of AASB 1040 referred to earlier in this segment of the Report.

The increase in Cash in 2001-02, $1.793m, is due primarily to an increase in operating receipts, $0.779m, combined with a reduction in Payments to suppliers and employees, $0.473m. The reduction in Payments to suppliers and employees results from an increase in the Payables balance, $0.298m, and increase in accrued expenses, $0.518m.

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01	2001-02
Financial Performance						
Result from operations ($'000s)		(575)	(283)	1 076	135	858
EBIT ($'000s)		(1 721)	1 585	2 626	1 527	1 887
Operating margin	>1.0	0.93	0.96	1.12	1.02	1.10
Return on assets		-3.8%	3.6%	5.8%	3.5%	4.3%
Return on equity		-9.0%	1.9%	4.6%	1.1%	2.5%
Financial Management						
Debt to equity		65.2%	60.9%	52.9%	47.5%	43.3%
Debt to total assets		38.4%	33.8%	31.2%	28.1%	25.8%
Interest cover	>3	-1.2	1.1	2.2	1.4	2.0
Current ratio	>1	0.84	1.03	1.86	1.62	1.71
Cost of debt	7.5%	8.5%	8.8%	8.2%	8.2%	8.0%
Debt collection	30 days	59	52	57	69	65
Creditor turnover	30 days	37	43	6	38	39
Returns to Government						
Dividends paid or payable ($'000s)		0	150	604	335	0
Dividend payout ratio	50%	-	31.7%	51.5%	119.2%	-
Dividend to equity ratio	6%	-	0.6%	2.3%	1.3%	-
Income tax paid or payable ($'000s)		0	0	0	0	0
Effective tax rate	30%	-	-	-	-	-
Total return to the State ($'000s)		0	150	604	335	0
Total return to equity ratio		-	0.6%	2.3%	1.3%	-
Other information						
Staff numbers FTEs		45	45	39	38	38
Average staff costs ($'000s)		59	53	57	56	59

Comment

The Company has recorded operating profits in the past three years. In addition, the Company has recorded strong results from ordinary activities before income tax and after adjusting for interest expense since 1998-99.

These results clearly have a positive impact on the operating margin, which is now above the benchmark.

It is noted that the returns on equity and assets have improved over the past four financial years. However, the return on equity remains below the expected commercial benchmark.

A review of the Debt to equity and the Debt to total assets ratios reveal a constant improvement over the five-year period, and relates to the continued reduction in the borrowings.

The debt collection ratio has been consistently over the benchmark of 30 days. The company has a relatively small number of larger debtors and has adopted strict recovery procedures. The Company has no significant doubtful debts and recovered over $0.700m of June debtors in July 2002.

The creditor turnover ratio has, in a number of cases, been above the benchmark. The Company has a policy to settle outstanding creditors within 30 days. The policy is being adhered with.

Since returning to profitable trading in 1998-99, the Company has paid and/or provided for dividends to the State Government totalling $1.089m. In relation to the 2001-02 financial period, the Board have yet to determine or recommend a dividend. Although, it is expected a dividend will be paid.

No income tax equivalent payments have been made due to the existence of carried forward tax losses.

The average staff costs for 1997-98 was affected by the payment of redundancies to employees during the year. The average costs for 2001-02 reflect a general increase in wages costs over the five-year period.

OVERALL COMMENT

Total returns to the State from both dividends and income tax paid or payable over the four-year period total $1.089m or an average return of $0.272m per annum. A dividend payment for 2001-02 has not yet been determined and will increase the Company's return to the State. Government guidelines would require a dividend of 70% of pre-tax profits.

The audit of the accounts for the 2001-02 financial year was completed satisfactorily with no major issues noted.