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PARLIAMENT OF TASMANIA

REPORT OF THE AUDITOR-GENERAL

GOVERNMENT DEPARTMENTS AND PUBLIC BODIES 2002-2003

PART B - VOLUME TWO Government Businesses

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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.

The Egg Marketing Board ceased operations in 2001 and is in the process of being wound up.

On 21 March 2003 the Government announced its intention to sell the following government businesses:

- Civil Construction Services Corporation,
- Tasmanian Grain Elevators Board, and
- Stanley Cool Stores Board.

Government businesses have over $3.8bn in net assets, generate $2.0bn in operating revenues, employ over 3 600 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 Business 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) was 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 was contracted by the Treasurer to administer the NTER from 1 July 2001.

The major change for Tasmanian entities entering the NTER was 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 has 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 during 2001-02 should not be included in the calculation of dividends payable to the Government.

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 groups AA-, A, A-, BBB+, with rates set at 0.23%, 0.33%, 0.43% and 0.43% respectively.

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.

Dividend policy guidelines are presently under review.

PROVISION FOR DIVIDENDS

Accounting Standard AASB 1041 "Provisions, Contingent Liabilities and Contingent Assets" applicable from 1 July 2002 changed 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.

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 5%) 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.

RETURN ON EQUITY

Typically the cost of equity capital would range between 9% and 11.5% 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 6% to 7.5% (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 $2.8bn, employ over 1 700 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 75% 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.

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

At the time of the completion of the audit, the Government was negotiating the sale of the Corporation. This impending sale had an effect on the presentation of information within the Financial Statements. Details of any related changes due to the sale of the organisation are included within the comments below.

AUDIT OF THE 2002-03 FINANCIAL STATEMENTS

Signed financial statements were received on 5 September 2003, and an unqualified opinion was issued on the same day.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99 $'000s	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s	2002-03 $'000s
Operating revenue	20 488	19 529	26 527	27 108	25 312
Non-operating revenue	166	899	219	469	738
Total Revenue	**20 654**	**20 428**	**26 746**	**27 577**	**26 050**
Borrowing costs	0	15	96	208	237
Depreciation	579	642	873	1 025	1 208
Other operating expenses	19 896	19 176	27 580	25 774	24 043
Non-operating expenses	132	428	123	1 178	598
Total Expenses	**20 608**	**20 261**	**28 672**	**28 185**	**26 086**
Result from ordinary activities	**46**	**167**	**(1 926)**	**(608)**	**(36)**
Income tax expense	18	(26)	(569)	145	401
Result after taxation	**28**	**193**	**(1 357)**	**(753)**	**(437)**

Comment

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 $8.396m 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. Due to this significant loss, an income tax benefit of $0.569m for the year was recorded.

Operating revenue continued to increase in 2001-02, but there was a reduction in other operating expenses of $1.806m as a 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 made.

The improvement in the operating result for the 2002-03 year was due to increased margins being earned on construction and maintenance contracts, despite a decrease in the total number of jobs from the previous year. The result would have been even more profitable if not for the write-down of a doubtful debt of $0.275m at the end of the year.

The loss after taxation is impacted upon by the write-off of deferred tax losses of $0.389m. Due to the proposed sale of the Corporation, potential future income tax benefits due to the organisation for prior period tax losses could no longer be carried forward.

FINANCIAL POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	4 939	2 396	0	1 393	1 809
Receivables	1 034	876	3 052	2 507	1 300
Inventories	132	166	78	72	0
Other	1 226	1 007	1 275	1 251	1 378
Total Current Assets	**7 331**	**4 445**	**4 405**	**5 223**	**4 487**
Property, plant & equipment	5 811	6 627	7 787	8 212	8 588
Other	833	913	1 102	1 037	729
Total Non-Current Assets	**6 644**	**7 540**	**8 889**	**9 249**	**9 317**
Payables	1 761	1 347	2 239	2 183	2 079
Borrowings	0	102	903	481	706
Provisions	654	855	1 001	1 107	1 211
Other	91	69	214	642	136
Total Current Liabilities	**2 506**	**2 373**	**4 357**	**4 413**	**4 132**
Borrowings	0	459	1 179	3 015	3 046
Provisions	1 340	928	889	929	947
Total Non-Current Liabilities	**1 340**	**1 387**	**2 069**	**3 944**	**3 993**
Net Assets	**10 129**	**8 225**	**6 868**	**6 115**	**5 679**
Capital	10 031	8 031	8 031	8 031	8 031
Retained profits	98	194	(1 163)	(1 916)	(2 352)
Total Equity	**10 129**	**8 225**	**6 868**	**6 115**	**5 679**

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. This trend continued in 2002-03, while an increase in the provision for doubtful debts of $0.275m also reduced the receivables balance.

The increase in payables for 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 $0.800m in land and buildings following a revaluation. The use of hire purchase agreements to fund asset purchases has resulted in a substantial increase in 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

	1998-99	1999-00	2000-01	2001-02	2002-03
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	20 188	19 904	26 618	27 704	25 544
Payments to suppliers and employees	(20 835)	(19 708)	(28 755)	(25 419)	(23 584)
Interest received	169	191	27	36	61
Borrowing costs	0	0	(96)	(150)	(235)
Cash from operations	**(478)**	**387**	**(2 206)**	**2 171**	**1 786**
Payments for P, P & Equipment	(217)	(1 769)	(649)	(2 982)	(2 276)
Proceeds from sale of P, P & E	166	899	219	469	651
Cash used in investing activities	**(51)**	**(870)**	**(430)**	**(2 513)**	**(1 625)**
Repayment of borrowings	0	(45)	(245)	(222)	(537)
Dividends paid	0	(2 015)	(96)	0	0
Proceeds from borrowings	0	0	0	2 537	793
Cash from financing activities	**0**	**(2 060)**	**(341)**	**2 315**	**256**
Net increase in cash	**(529)**	**(2 543)**	**(2 977)**	**1 973**	**417**
Cash at the beginning of the period	5 468	4 939	2 396	(581)	1 392
Cash at end of the period	**4 939**	**2 396**	**(581)**	**1 392**	**1 809**

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, evidenced by the increase in receivables for the 2000-01 financial year. The increase in cash from operations in 2001-02 and 2002-3 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 2001-02 year is consistent with the increases noted in the Statement of Financial Position reported above, namely due to the purchase of heavy plant from Forestry Tasmania.

Proceeds from borrowings in 2001-02 include a loan of $2.494m used for the above-mentioned purchase from Forestry Tasmania.

FINANCIAL ANALYSIS

	Bench Mark	1998-99	1999-00	2000-01	2001-02	2002-03
Financial Performance						
Result from operations ($'000s)		13	(303)	(2 022)	101	(176)
EBIT ($'000s)		46	182	(1 830)	(400)	201
Operating margin	>1.0	1.00	0.98	0.93	1.00	0.99
Return on assets		0.3%	1.4%	-14.5%	-2.9%	1.4%
Return on equity		0.3%	2.1%	-18.0%	-11.6%	-7.4%
Financial Management						
Debt to equity		-	6.8%	30.3%	57.2%	66.1%
Debt to total assets		-	4.7%	15.7%	24.2%	27.2%
Interest cover	>3	-	12.15	(19.06)	(1.92)	0.85
Current ratio	>1	2.93	1.87	1.01	1.18	1.09
Cost of debt	7.5%	-	5.35%	7.26%	7.46%	6.54%
Debt collection	30 days	17	15	41	34	23
Creditor turnover	30 days	8	13	11	9	11
Returns to Government						
Dividends paid or payable ($'000s)		2 015	96	0	0	0
Dividend payout ratio	50%	7145.4%	49.7%	-	-	-
Dividend to equity ratio	6%	19.9%	1.0%	-	-	-
Income tax paid or payable ($'000s)		0	0	0	0	0
Effective tax rate	30%	-	-	-	-	-
Total return to the State ($'000s)		2 015	96	0	0	0
Total return to equity ratio		19.9%	1.0%	-	-	-
Other information						
Staff numbers FTEs		87	99	129	130	140
Average staff costs ($'000s)		45	49	48	53	47

Comment

The Corporation has recorded total operating losses of $3.638m over the past five-year period and has only been marginally profitable in the better 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 $7.893m in Property, plant and equipment over the last five years, coupled with dividend payments of $2.107m over the same period, offset by net borrowing movements of $3.752 m.

The debt collection result for 2001-02 and beyond is in line with previous comments made about the improvement in the collection of 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 2002-03 year was completed with satisfactory results.

1.2 EGG MARKETING BOARD

INTRODUCTION

The Egg Marketing Board was governed by the *Egg Industry Act 1988* and was 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 through a hen quota scheme, receipt 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. The *Egg Industry Act 2002* passed both Houses of Parliament in June 2002 and received Royal Assent on 12 July 2002. The members of the Board resigned effective 31 July 2002. However, the Act was not proclaimed until 16 June 2003 when sections 1, 2, 23, 25 and 26 and Schedule 1 were proclaimed. These sections repealed the *Egg Industry Act 1988* and make consequential amendments to other Acts removing the Egg Marketing Board from the *Government Business Enterprises Act 1995*, the *State Service Act 2000*, the *Ombudsman Act 1978* and the *Administrative Arrangements Order 2002*. This was undertaken to ensure that identified restrictions on competition in the Egg Industry Act 1998 were removed to meet National Competition Policy requirements.

The Board employed no staff during 2002-03. The main activities of the Board during the year were finalisation of matters concerning industrial claims brought by three former employees of the Board and closure of the Board's accounts and transfer of the residual funds to the Department of Primary Industries, Water and Environment.

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

AUDIT OF THE 2002-03 FINANCIAL STATEMENTS

Financial statements were received on 2 October 2003 and an unqualified audit report was issued on 9 October 2003.

The only transactions during 2002-03 consisted of interest received, $283, and administration costs, $916. The balance of the bank account, $33 210, was transferred to the Department of Primary Industries, Water and Environment on 5 February 2003.

1.3 FORESTRY TASMANIA

INTRODUCTION

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

The Responsible Minister is the Minister for Economic Development, Energy and Resources.

AUDIT OF THE 2002-03 FINANCIAL STATEMENTS

The Tasmanian Audit Office received signed financial statements of Forestry Tasmania on 5 September 2003 and an unqualified audit report was issued on 16 September 2003.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99 $'000s	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s	2002-03 $'000s
Operating revenue	95 796	116 225	169 870	159 183	148 616
Non-operating revenue	2 411	2 138	2 018	5 379	1 548
Total Revenue	**98 207**	**118 363**	**171 888**	**164 562**	**150 164**
Borrowing costs	321	321	48	757	829
Depreciation	7 020	7 827	8 564	8 556	6 786
Other operating expenses	80 055	99 072	136 226	128 980	146 056
Non-operating expenses	3 006	2 811	2 289	18 327	1 961
Total Expenses	**90 402**	**110 031**	**147 127**	**156 620**	**155 632**
Result from ordinary activities	**7 805**	**8 332**	**24 761**	**7 942**	**(5 468)**
Income tax expense	3 413	(5 097)	5 665	1 240	5 765
Result after taxation	**4 392**	**13 429**	**19 096**	**6 702**	**(11 233)**

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 represented the revenue overstatement in the 2000-01 year. This correction of a fundamental error was included within Non-operating expenses for 2001-02 above. It should be noted that the fundamental error had no impact on cash flows or dividends paid or payable to the shareholders in either the 2000-01 or 2001-02 financial years.

The reduced operating revenue figure for 2002-03 is due to a reduction in the net market value of the Forest Asset of $17.702m, which represents a turnaround of $38.025m from the previous year. The change resulted from Forestry revising some internal policies associated with specific inputs into the asset valuation process, including cost adjustments, changes in harvest volumes and an increase in the discount rate used for hardwood plantation crops. This $38.025m turnaround was offset by an increase of $24.001m in forest sales revenue during the year.

Apart from the fundamental error, Non-operating expenses in the 2001-02 year amounted to $6.074m. This amount equals the written down value of assets sold during the 2001-02 year, which had 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 2001-02 was due to a bank overdraft being maintained through the majority of the year. This was also the case during the current year, although the overdraft was extinguished in June 2003.

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 2001-02 was 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 also decreased by $3.332m in the 2001-02 year. The increase in other operating expenses for the 2002-03 year is mainly due to contractors expenses rising by $15.081m. This expense category includes items such as external plant hire, harvesting and transport costs and increase is in line with the increased forest sales revenue earned during the 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

	1998-99	1999-00	2000-01	2001-02	2002-03
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	6 994	21 882	3 229	11 126	11 393
Receivables	2 331	11 190	12 569	16 488	23 566
Inventories	3 506	4 294	5 918	5 827	6 302
Other	61 946	24 510	26 596	27 601	22 347
Total Current Assets	**74 777**	**61 876**	**48 312**	**61 042**	**63 608**
Property, plant & equipment	30 326	29 292	31 616	22 211	24 774
Investments	12 602	13 440	14 560	13 759	14 024
Other	494 567	737 278	784 912	739 542	735 683
Total Non-Current Assets	**537 495**	**780 010**	**831 088**	**775 512**	**774 481**
Payables	2 132	4 778	8 407	5 708	9 635
Borrowings	694	157	6 457	4 085	30
Provisions	11 930	17 850	20 093	19 655	19 608
Other	7 992	9 214	12 417	14 492	11 634
Total Current Liabilities	**22 748**	**31 999**	**47 374**	**43 940**	**40 907**
Borrowings	206	48	3	10 030	21 000
Provisions	56 900	53 685	59 061	62 365	67 024
Total Non-Current Liabilities	**57 106**	**53 733**	**59 064**	**72 395**	**88 024**
Net Assets	**532 418**	**756 154**	**772 962**	**720 219**	**709 158**
Capital	272 057	232 057	232 057	232 057	232 057
Reserves	256 941	515 935	519 405	443 829	444 153
Retained profits	3 420	8 162	21 500	44 334	32 948
Total Equity	**532 418**	**756 154**	**772 962**	**720 220**	**709 158**

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 increase noted during the current year to $23.566m was principally due to increased product sales and customers as at June 2003. The repayment of all debts are in line with Forestry Tasmania's credit policy.

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 payables figure for 2002-03 of $9.635m has increased mainly due to the reclassification of contractor expenses, which were shown as an accrual in previous years and hence part of other current liabilities above. The 2001-02 figure for contractor expenses of $2.700m, if reclassified in line with the current year's practice, would account for the majority of the movement in both payables and other current liabilities.

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, a process that continued in 2002-03 with a further $7.000m being borrowed.

CASH POSITION

	1998-99 $'000s	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s	2002-03 $'000s
Receipts from customers	99 382	109 709	126 829	126 184	149 019
Payments to suppliers and employees	(82 366)	(93 918)	(121 199)	(114 278)	(133 540)
Interest received	1 080	2 653	821	341	299
Borrowing costs	(251)	(123)	(73)	(757)	(829)
Taxation expense	(4 134)	(2 128)	0	0	0
Cash from operations	**13 711**	**16 193**	**6 378**	**11 490**	**14 949**
Proceeds from investments	5 056	0	0	1 600	0
Payments for P, P & Equipment	(35 472)	(32 189)	(24 617)	(12 359)	(18 269)
Proceeds from sale of P, P & E	30 977	74 139	2 018	5 379	1 548
Cash used in investing activities	**561**	**41 950**	**(22 599)**	**(5 380)**	**(16 721)**
Proceeds from borrowings	241	0	0	14 000	7 000
Repayment of borrowings	(740)	(400)	(157)	(42)	0
Dividends paid	(11 007)	(42 855)	(8 687)	(5 759)	(4 961)
Cash from financing activities	**(11 506)**	**(43 255)**	**(8 844)**	**8 199**	**2 039**
Net increase in cash	**2 766**	**14 888**	**(25 065)**	**14 309**	**267**
Cash at the beginning of the period	4 228	6 994	21 882	(3 183)	11 126
Cash at end of the period	**6 994**	**21 882**	**(3 183)**	**11 126**	**11 393**

Comment

The increase in Receipts from customers in 2000-01 is due to increased mill door sales of sawlog and pulpwood sales. 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 increases noted in the 2002-03 year for both receipts from customers and for payments to suppliers and employees is consistent with the increases noted within the financial performance table.

The decrease in payments for property and equipment for 2001-02 reflects reduced expenditure in that 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	1998-99	1999-00	2000-01	2001-02	2002-03
Financial Performance						
Result from operations ($'000s)		8 400	9 005	25 032	20 890	(5055)
EBIT ($'000s)		9 054	7 737	26 353	11 463	(1320)
Operating margin	>1.0	1.10	1.08	1.17	1.15	0.97
Return on assets		1.1%	1.1%	3.1%	1.3%	-0.2%
Return on equity		0.6%	2.1%	2.5%	0.9%	-1.6%
Financial Management						
Debt to equity		0.2%	0.0%	0.8%	2.0%	3.0%
Debt to total assets		0.1%	0.0%	0.7%	1.7%	2.5%
Interest cover	>3	4	3	10	3	- 0
Current ratio	>1	3.29	1.93	1.02	1.39	1.55
Cost of debt	7.5%	6.9%	6.9%	8.4%	8.4%	5.5%
Debt collection	30 days	32	43	43	38	46
Creditor turnover	30 days	15	25	29	22	32
Returns to Government						
Dividends paid or payable ($'000s)		7 302	48 687	5 759	4 961	3 608
Dividend payout ratio	50%	166.3%	362.6%	30.2%	74.0%	-32.1%
Dividend to equity ratio		1.0%	7.6%	0.8%	0.7%	0.5%
Income tax paid or payable ($'000s)		1 283	313	0	0	3 409
Effective tax rate	30%	16.4%	3.8%	0.0%	0.0%	-62.3%
Total return to the State ($'000s)		8 585	49 000	5 759	4 961	7 017
Total return to equity ratio		1.2%	7.6%	0.8%	0.7%	1.0%
Other information						
Staff numbers FTEs		591	559	564	532	542
Average staff costs ($'000s)		46	52	54	51	52

Comment

In the first four financial years of analysis, Forestry had obtained significant results from operations, averaging a result from operations of $15.832m per annum with return on equity peaking at 2.5% during the 2000-01 year. In the 2002-03 year, an operating loss of $5.055m was recorded, due principally to the reduction in the net market value of the Forest Asset of $25.377m, which, in compliance with Australian Accounting Standard AAS35 'Self Generating and Regenerating Assets', is required to be reported in the operational performance of the business.

The results from operations and the EBIT figures have both been significantly influenced by the changes in the net market value of the Forest Asset. If this valuation adjustment was not included in the analysis, Forestry would have recorded a result from operations of $20.322m and an EBIT of $24.057m. It is upon these figures that Forestry Tasmania calculated their dividend and taxation expense figures, which totalled the $7.017m return to the state in the 2002-03 financial year. The EBIT of $24.057 million is a 70% increase on the equivalent figure for the previous financial year.

The Return on assets and equity figures for the 2001-02 year 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 in the 2001-02 year would have increased to 2.8% and 2.1% respectively.

The return on assets and equity figures for the 2002-03 year are impacted by the EBIT value that includes the change in the net market value of the Forest Asset and do not reflect the returns provided by the commercial operations of the business.

Total returns to the State totals $75.322m 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 2002-03 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. One of the two units has recently been converted to operate on natural gas. It was commissioned in March 2003 and produces electricity for HEC, supplementing the hydro production. The second oil-fired unit is currently being 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 and Hydstra America Inc. Hydsys Pty Ltd was acquired by Hydstra Pty Ltd on 1 October 2001 and Hydstra America Inc was incorporated on 29 August 2002.

Located in Hobart, Canberra and San Diego USA, Hydstra Group (comprising Hydstra Pty Ltd, Hydsys Pty Ltd and Hydstra America Inc) 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.

Other subsidiary companies, 100% owned by the HEC, include Roaring 40s Wind Pty Ltd and Taswind Pty Ltd, both incorporate for the purpose of renewable development 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 Taswind Pty Ltd during 2002-03.

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

Environmental approval for the Basslink Interconnector 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 2002 and both Victorian and Federal Jurisdictional Approvals occurred in mid-September 2002.

The formal Notice to Proceed was signed in November 2002.

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

As at 30 June 2003 the Responsible Minister was the Minister for Economic Development, Energy and Resources.

AUDIT OF THE 2002-03 FINANCIAL STATEMENTS

Signed financial statements of HEC were received on 28 August 2003 and an unqualified audit report was issued on 29 August 2003.

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.

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	$'000s	$'000s	$'000s	$'000s	$'000s
Operating revenue	324 029	323 873	331 746	370 527	397 455
Non-operating revenue	0	0	0	0	0
Total Revenue	**324 029**	**323 873**	**331 746**	**370 527**	**397 455**
Borrowing costs	108 022	127 633	87 637	73 869	83 587
Depreciation	74 862	76 502	76 848	79 495	80 389
Other operating expenses	113 701	117 624	120 725	157 201	160 615
Non-operating expenses	652	438	252	(94)	4 764
Total Expenses	**297 237**	**322 197**	**285 462**	**310 471**	**329 355**
Result from ordinary activities	**26 792**	**1 676**	**46 284**	**60 056**	**68 100**
Income tax expense	24 201	(5 547)	31 060	(25 453)	34 453
Result after taxation	**2 591**	**7 223**	**15 224**	**85 509**	**33 647**

Comment

The increase in operating revenue during 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. In 2002-03 the increase was due primarily to increases in electricity sales revenue of $36.977m and an offsetting reduction, which was by external revenue generated by Bell Bay in 2001-02.

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. The increase in 2002-03 was due to a further debt-restructuring program. Average cost of debt at 30 June 2003 was 6.31%, a reduction from 7.08% at 30 June 2002.

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.

Non-operating expenses increased in 2002-03 due to losses from the sale of non-current assets.

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 $5.547m 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 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. The increase in the 2002-03 income tax expense reflects a steady improvement in profits overall.

FINANCIAL POSITION

	1998-99 $'000s	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s	2002-03 $'000s
Cash	249	274	2 035	1 617	1 840
Receivables	34 420	36 772	37 971	54 700	50 304
Investments	32 740	20 000	30 200	50 357	37 440
Inventories	4 254	6 180	3 323	647	547
Other	7 928	763	17 235	13 955	14 748
Total Current Assets	**79 591**	**63 989**	**90 764**	**121 276**	**104 879**
Receivables	140	0	0	0	0
Property, plant & equipment	3 112 562	3 180 746	3 245 157	3 335 057	3 383 607
Investments	0	0	816	16	20
Other	6 703	4 903	5 220	58 669	79 724
Total Non-Current Assets	**3 119 405**	**3 185 649**	**3 251 193**	**3 393 742**	**3 463 351**
Payables	45 896	35 484	35 924	72 926	73 602
Borrowings	317 738	136 384	209 763	189 641	277 350
Provisions	81 546	81 088	83 330	109 949	49 475
Other	230	602	334	841	4 243
Total Current Liabilities	**445 410**	**253 558**	**329 351**	**373 357**	**404 670**
Borrowings	728 846	900 175	826 791	846 913	759 204
Provisions	314 255	292 473	299 688	306 834	322 024
Other	0	2 000	242	0	19 028
Total Non-Current Liabilities	**1 043 101**	**1 194 648**	**1 126 721**	**1 153 747**	**1 100 256**
Net Assets	**1 710 485**	**1 801 432**	**1 885 885**	**1 987 914**	**2 063 304**
Reserves	1 548 549	1 677 335	1 794 882	1 839 322	1 881 066
Retained profits	161 936	124 097	91 003	148 592	182 238
Total Equity	**1 710 485**	**1 801 432**	**1 885 885**	**1 987 914**	**2 063 304**

Comment

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

The increase in receivables and payables in 2001-02 reflects revenues and costs associated with the conversion of Bell Bay Unit A to gas.

Other current assets substantially increased in 2000-01 due principally to a prepayment associated with a large contract. These assets have remained high as at June 2002 and June 2003 due to increases in FITB as mentioned above, and unamortised hedging costs.

Other non-current assets substantially increased in 2002 and 2003 due principally to increases in FITB as mentioned above, and unamortised hedging costs.

Provisions increased in 2001-02 due mainly to providing for future costs associated with the Bell Bay operation. Current provisions have decreased in 2002-03 due to a change in policy with respect to dividends in accordance with Accounting Standard AASB 1044 - Provisions, Contingent Liabilities and Contingent Assets.

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

Other current and non-current liabilities have increased in 2002-03 due to increases in deferred hedging costs.

Reserves have been steadily increasing over the years due mainly to increases in the asset revaluation reserve.

Reserves as at 30 June 2003 comprise a General Insurance Reserve of $9.900m and an Asset Revaluation Reserve of $1.871bn.

HEC has executed a financial instrument relating to the Basslink project to manage the financial market risks that arise from Basslink facility fee payments. 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, and the financial instrument involves HEC paying a fixed amount and receiving a variable amount.

The financial instrument has been transacted with a single counterparty. As at 30 June 2003 the notional principal amount for this instrument was $599.810m. During 2001-02 and 2002-03 supplementary interest rate swaps were entered into with other counterparties to mitigate the potential credit risk associated with a single counterparty. The instrument will be amortised over the period of the 25-year Basslink contract.

CASH POSITION

	1998-99 $'000s	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s	2002-03 $'000s
Receipts from customers	336 456	320 414	353 433	352 340	403 775
Payments to suppliers and employees	(109 167)	(125 724)	(163 980)	(118 977)	(161 358)
Interest received	384	336	300	429	671
Contributions to Consolidated Fund	(123)	(161)	(101)	(11)	0
Borrowing costs	(104 554)	(119 371)	(86 048)	(72 133)	(80 442)
Income Tax Equivalent Paid	(33 258)	(17 355)	(21 328)	(35 578)	(19 641)
Cash from operations	**89 738**	**58 139**	**82 276**	**126 070**	**143 005**
Payments for investments	0	0	0	(1 943)	0
Payments for P, P & Equipment	(30 652)	(22 092)	(26 503)	(55 577)	(95 905)
Proceeds from sale of P, P & E	1 385	5 754	2 634	577	1 496
Cash used in investing activities	**(29 267)**	**(16 338)**	**(23 869)**	**(56 943)**	**(94 409)**
Proceeds from borrowings	1 283 000	1 620 906	572 127	534 380	654 437
Repayment of borrowings	(1 222 767)	(1 557 282)	(558 944)	(525 655)	(640 231)
Repayment of Treasury Loans	(59 510)	(74 055)	(14 531)	(9 021)	(14 993)
Dividend Paid	(57 709)	(42 591)	(45 062)	(49 230)	(60 503)
T/f Money Market Investments	(2 500)	0	0	0	0
Cash from financing activities	**(59 486)**	**(53 022)**	**(46 410)**	**(49 526)**	**(61 290)**
Net increase in cash	**985**	**(11 221)**	**11 997**	**19 601**	**(12 694)**
Cash at the beginning of the period	30 474	31 459	20 238	32 373	51 974
Cash at end of the period	**31 459**	**20 238**	**32 235**	**51 974**	**39 280**

Comment

Receipts from customers increased in 2002-03 due mainly to increases in electricity sales revenue.

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. The increase in 2002-03 included debt-restructuring costs of approximately $11.000m and material costs of $17.000m.

Borrowing costs have generally been reducing due to lower interest rates and loan restructuring in 2000-01. An increase in 2002-03 reflects extra costs incurred due to further debt-restructuring programs.

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

Payments can fluctuate from year to year due to timing of payments.

Increased activity related to wind farm development at Woolnorth in the North-West of the State and a large capital upgrade program is the principal reason for an increase in payments for property, plant and equipment in 2001-02 and 2002-03.

In 1999-00, 2000-01 and 2002-03 HEC restructured its loan portfolio, resulting in larger than normal repayments and proceeds from borrowings.

An increase in dividend paid in 2002-03 reflects increasing profits.

FINANCIAL ANALYSIS

	Bench Mark	1998-99	1999-00	2000-01	2001-02	2002-03
Financial Performance						
Result from operations ($'000s)		27 444	2 114	46 536	59 962	72 864
EBIT ($'000s)		134 814	129 309	133 921	133 925	151 687
Operating margin	>1.0	1.09	1.01	1.16	1.19	1.22
Return on assets		3.7%	4.0%	4.1%	3.9%	4.3%
Return on equity		0.1%	0.4%	0.8%	4.4%	1.7%
Financial Management						
Debt to equity		61.2%	57.5%	55.0%	52.1%	50.2%
Debt to total assets		32.7%	31.9%	31.0%	29.5%	29.0%
Interest cover	>3	1.2	1.0	1.5	1.8	1.8
Current ratio	>1	0.18	0.25	0.28	0.32	0.26
Cost of debt	7.5%	8.8%	12.3%	8.5%	7.1%	8.1%
Debt collection	30 days	40	43	43	35	38
Creditor turnover	30 days	20	21	43	45	53
Returns to Government						
Dividends paid or payable ($'000s)		42 591	45 062	49 230	60 503	43 553
Dividend payout ratio	50%	1643.8%	623.9%	323.4%	70.8%	129.4%
Dividend to equity ratio		2.3%	2.6%	2.7%	3.1%	2.2%
Income tax paid or payable ($'000s)		16 116	9 764	23 591	31 346	29 355
Effective tax rate	30%	60.2%	582.6%	51.0%	52.2%	43.1%
Government guarantee fees		3 660	3 000	2 879	3 242	3 241
Total return to the State ($'000s)		58 707	54 826	72 821	91 849	72 908
Total return to equity ratio		3.1%	3.1%	3.9%	4.7%	3.6%
Other information						
Staff numbers FTEs		-	628	639	722	763
Average staff costs ($'000s)		-	74	75	80	83

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. The abnormally high return on equity in 2001-02 is due to a larger result after taxation that included an increase in FITB of $57.700m, resulting from entry into the National Taxation Equivalent Regime. Returns to the State however have been boosted by the special dividend of $40.000m each year. In 2002-03 the special dividend reduced to $26.500m and it is understood that this dividend will be further reduced over the coming years.

The interest cover ratio of between 1 and 1.8 over the past five years indicates that revenues are low compared to the borrowing costs required to service the loan portfolio. This ratio has been impacted by debt portfolio re-structures and continues to show an improving trend.

Over the past five years, current liabilities have consistently exceeded current assets resulting in a current ratio of substantially less than one. The key factor influencing this is the amount of short-term debt at balance date. This maturity level is consistent with the debt level approach articulated in the Treasury policy and approved by the Board.

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 at Woolnorth and the increased expenditure associated with the capital/upgrade program.

Due to the first-time implementation of AASB 1044 as noted above, no provision for dividends was made this year. Accordingly, the amount for dividends payable for 2002-03 has been taken from figures disclosed in notes to the accounts, whereas previous years' figures have been taken from the statement of financial position.

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 was 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.

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 increased activities associated with the entry into the national electricity market. 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.

OVERALL COMMENT

In earlier years retained profits of the organisation had been steadily decreasing, principally due to the special dividend of $40.000m that has been 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. The increase in 2002-03 is principally due to the introduction of a new Accounting Standard AASB 1044 -*Provisions, Contingent Liabilities and Contingent Assets* making the provisioning of dividends more restrictive. In consequence of this the dividend provision at 30 June 2002 of $60.503m has been adjusted against opening equity for the year.

Total equity has however increased each year due principally 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 2002-03 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.

The Responsible Minister is the Minister for Infrastructure.

AUDIT OF THE 2002-03 FINANCIAL STATEMENTS

Signed financial statements of MAIB were received on 29 August 2003 and an unqualified audit report was issued on 8 September 2003.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	$'000s	$'000s	$'000s	$'000s	$'000s
Operating revenue	92 129	119 847	117 558	92 760	120 846
Non-operating revenue	44	93	64	73	47
Total Revenue	**92 173**	**119 940**	**117 622**	**92 833**	**120 893**
Depreciation	159	431	541	534	539
Claims Expense	94 341	104 581	101 332	82 006	102 396
Other operating expenses	7 656	8 647	11 337	11 153	12 391
Non-operating expenses	115	236	90	94	56
Total Expenses	**102 271**	**113 895**	**113 300**	**93 787**	**115 382**
Result from ordinary activities	**(10 098)**	**6 045**	**4 322**	**(954)**	**5 511**
Income tax expense	(4 530)	2 979	704	(5 149)	(5 186)
Result after taxation	**(5 568)**	**3 066**	**3 618**	**4 195**	**10 697**

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. Premium revenue for 2002-03 was $90.266m, compared with $84.874m in 2001-02. The increase is attributable to the 6.5% premium increase applicable from 1 December 2002 and the 3.2% increase in the number of registered vehicles.

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 net market loss for 2002-03 was $7.601m.

The increase in depreciation expense from 1998-99 to 1999-00 of $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 of $19.326m was primarily due to a reduction in the cost of future care claims assessed by the actuary for prior years. The increase in claims expense in 2002-03 of $20.390m is mainly due to a decrease in the discount rates adopted by the actuary and a lower long-term gap between the discount and inflation rate used on liabilities exceeding ten years duration.

The income tax revenue of $5.186m in 2002-03 and $5.149m in 2001-02 is primarily due to exempt foreign income included in investment revenue.

FINANCIAL POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	100	1 557	1 165	1 759	2 586
Receivables	65	31	215	98	179
Investments	106 031	255 756	275 932	495 166	538 358
Other	398	331	332	360	418
Total Current Assets	**106 594**	**257 675**	**277 644**	**497 383**	**541 541**
Plant & equipment	1 436	1 969	1 507	1 137	753
Property & Investments	387 700	279 281	296 317	86 135	90 788
Other	13 233	9 983	9 045	13 902	18 632
Total Non-Current Assets	**402 369**	**291 233**	**306 869**	**101 174**	**110 173**
Payables	204	4 249	1 079	2 101	2 336
Provisions	108 145	114 915	124 208	129 009	133 353
Other	529	580	950	541	736
Total Current Liabilities	**108 878**	**119 744**	**126 237**	**131 651**	**136 425**
Provisions	345 041	372 587	399 890	405 236	442 946
Total Non-Current Liabilities	**345 041**	**372 587**	**399 890**	**405 236**	**442 946**
Net Assets	**55 044**	**56 577**	**58 386**	**61 670**	**72 343**
Retained profits	55 044	56 577	58 386	61 670	72 343
Total Equity	**55 044**	**56 577**	**58 386**	**61 670**	**72 343**

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 previous 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 2003 the FITB totalled $17.319m, which represents an increase from the prior year of $5.082m 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

	1998-99	1999-00	2000-01	2001-02	2002-03
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	83 968	89 794	99 220	103 767	122 859
Payments to suppliers and employees	(74 452)	(81 781)	(91 842)	(91 904)	(88 114)
Interest received	21 144	23 080	24 884	19 012	22 602
Cash from operations	**30 660**	**31 093**	**32 262**	**30 875**	**57 347**
Proceeds from investments					
Payments for investments	(24 960)	(31 750)	(31 867)	(29 465)	(55 387)
Payments for P, P & Equipment	(1 739)	(1 602)	(292)	(262)	(270)
Proceeds from sale of P, P & E	799	3 716	1 038	1 255	47
Cash used in investing activities	**(25 900)**	**(29 636)**	**(31 121)**	**(28 472)**	**(55 610)**
Dividends paid	(4 900)	0	(1 533)	(1 809)	(910)
Cash from financing activities	**(4 900)**	**0**	**(1 533)**	**(1 809)**	**(910)**
Net increase in cash	**(140)**	**1 457**	**(392)**	**594**	**827**
Cash at the beginning of the period	240	100	1 557	1 165	1 759
Cash at end of the period	**100**	**1 557**	**1 165**	**1 759**	**2 586**

Comment

The increase in receipts from customers in 2002-03 of $19.092m is primarily due to an increase in investment revenue, other than interest receipts. Revenue from dividends increased from $5.141m to $13.465m, while unrealised losses decreased from $31.195m to $17.498m.

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 $4.900m in dividends paid during 1998-99 included a $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 of $1.255m, included the disposal of the remaining property relating to the Douglas Parker Centre.

FINANCIAL ANALYSIS

	Bench Mark	1998-99	1999-00	2000-01	2001-02	2002-03
Financial Performance						
Result from operations ($'000s)		(10 027)	6 188	4 348	(933)	5 520
EBIT ($'000s)		(10 098)	6 045	4 322	(954)	5 511
Operating margin	>1.0	0.90	1.05	1.04	0.99	1.05
Return on assets		-2.0%	1.1%	0.8%	-0.2%	0.9%
Return on equity		-9.4%	5.5%	6.3%	7.0%	16.0%
Financial Management						
Debt to equity		-	-	-	-	-
Debt to total assets		-	-	-	-	-
Interest cover	>3	-	-	-	-	-
Current ratio	>1	0.97	2.14	2.18	3.78	3.97
Cost of debt	7.5%	-	-	-	-	-
Debt collection	30 days	-	-	-	-	-
Creditor turnover	30 days	-	-	-	-	-
Returns to Government						
Dividends paid or payable ($'000s)		3 000	1 533	1 809	910	1 601
Dividend payout ratio	50%	-53.9%	50.0%	50.0%	21.7%	15.0%
Dividend to equity ratio	6%	5.1%	2.7%	3.1%	1.5%	2.4%
Income tax paid or payable ($'000s)		0	0	0	0	0
Effective tax rate	30%	-	-	-	-	-
Total return to the State ($'000s)		3 000	1 533	1 809	910	1 601
Total return to equity ratio		5.1%	2.7%	3.1%	1.5%	2.4%
Other information						
Staff numbers FTEs		35	36	37	36	36
Average staff costs ($'000s)		40	45	51	50	55

Comment

Dividends totalling $8.853m have been provided and/or paid to the State Government relating to the 1998-99 to 2002-03 financial years. It is noted that the 2001-02 and 2002-03 dividends are 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 current ratio was below the benchmark in 1998-99 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.

A special dividend of $3.000m was payable to the State Government for the 1998-99 year. This 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 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 $21.935m as at 30 June 2003. A future income tax benefit of $17.319m (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 $4.826m (after tax $16.008m) for the 5 years to 2002-03. During this same period $8.853m 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 2002-03 audit was completed satisfactorily with no 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 2003 was $528.700m (2001-02, $490.200m). 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 Act). 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 Board of the Authority consists of 6 members as at 30 June 2003.

The Responsible Minister is the Premier, Minister for Tourism, Parks and Heritage.

AUDIT OF THE 2002-03 FINANCIAL STATEMENTS

The 2002-03 financial statements of the Authority were received on 23 September 2003 and revised financial statements were received on 22 October 2003. An unqualified audit report was issued on 27 October 2003.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	$'000s	$'000s	$'000s	$'000s	$'000s
Operating revenue	5 173	5 974	6 210	6 386	7 418
Non-operating revenue	4 173	2 421	1 010	2 025	2 296
Total Revenue	**9 346**	**8 395**	**7 220**	**8 411**	**9 714**
Depreciation	315	485	517	540	569
Other operating expenses	5 846	6 629	8 195	8 766	8 648
Non-operating expenses	158	0	9	0	0
Total Expenses	**6 319**	**7 114**	**8 721**	**9 306**	**9 217**
Result from ordinary activities	**3 027**	**1 281**	**(1501)**	**(895)**	**497**
Income tax expense	0	0	0	0	0
Result after taxation	**3 027**	**1 281**	**(1501)**	**(895)**	**497**

Comment

Operating revenue has continued to increase and generally reflects increasing visitor numbers. The recent 2002-03 financial year has seen entrance fee income rise by $0.642m and food and merchandise sales increase by $0.404m.

Non-operating revenue in 1998-99 included deficit funding of $3.700m and a write-back of the superannuation liability of $0.450m. In 1999-00, non-operating revenue included conservation funding of $2.100m and a further superannuation write-back of $0.265m, while in 2000-01 non-operating revenue included conservation funding amounting to $0.862m. Non-operating revenue in 2001-02 and 2002-03 includes $2.000m received from the State Government, representing instalments of an approved five-year $10.000m conservation-funding program to preserve its convict heritage for future generations.

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.

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. A similar amount for conservation expenditure has also been recorded in the 2002-03 year ($2.255m).

The Authority is receiving $10.000m over five years, which commenced in 2000-01, from the Tasmanian Government to fund conservation projects. These funds are to be acquitted in order to conserve the site in accordance with the Act and the Port Arthur Historic Site Conservation Plan 2000. The vast majority of conservation works are carried out on the heritage assets and ruins, which are not disclosed as assets of the Authority due to the difficult nature of identifying an appropriate value for such assets. As a result, all conservation funding is therefore shown as an operating expense and not capitalised.

Over the period of review the Authority has returned a positive result from operations totalling $2.409m, or an annual average result of $0.482m. 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 $9.349m, or an annual average deficit $1.870m. This result has been influenced by the construction of the new visitor centre $4.784m, jetty constructions $1.086m and other essential conservation works.

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

FINANCIAL POSITION

	1998-99 $'000s	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s	2002-03 $'000s
Cash	1 489	2 635	2 214	1 935	2 393
Receivables	185	91	76	118	122
Inventories	229	180	248	316	347
Other	60	93	117	43	27
Total Current Assets	**1 963**	**2 999**	**2 655**	**2 412**	**2 889**
Property, plant & equipment	9 416	9 575	9 022	9 216	9 389
Total Non-Current Assets	**9 416**	**9 575**	**9 022**	**9 216**	**9 389**
Payables	257	245	136	231	163
Borrowings	0	0	0	0	0
Provisions	563	591	933	1 449	1 536
Other	146	217	473	466	495
Total Current Liabilities	**966**	**1 053**	**1 542**	**2 146**	**2 194**
Borrowings	0	0	0	0	0
Provisions	1 549	1 376	1 491	1 733	1 859
Other	0	0	0	0	0
Total Non-Current Liabilities	**1 549**	**1 376**	**1 491**	**1 733**	**1 859**
Net Assets	**8 864**	**10 145**	**8 644**	**7 749**	**8 225**
Retained profits	8 864	10 145	8 644	7 749	8 225
Total Equity	**8 864**	**10 145**	**8 644**	**7 749**	**8 225**

Comment

As noted previously, Property, plant and equipment does not include any value attributed to the heritage assets and ruins as all conservation expenditure on these is expensed.

The reduction in Property, plant and equipment in 2000-01 is a result of depreciation charges for the year, during a year where there was little additional capital expenditure to add to the asset base. During 2000-01 there was a slight increase 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. There was a similar minor increase in property, plant and equipment in the 2002-03 financial year.

Both current and non-current provisions for 2002-03 have increased to ensure that the employee leave balances comply with AASB 1028 'Employee Benefits'. The adjustments involved the inclusion of on-costs, such as superannuation, and stating leave balances using salary rates that the authority expects to pay when leave entitlements are taken, rather than salary rates current as at balance date.

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. This has improved in the current year with the resultant $0.497m surplus from operations.

CASH POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	8 839	7 995	7 679	8 614	9 948
Payments to suppliers and employees	(5 774)	(6 326)	(8 022)	(8 315)	(8 885)
Interest received	67	84	163	145	134
Cash from operations	**3 132**	**1 753**	**(180)**	**444**	**1 197**
Payments for P, P & Equipment	(3 250)	(647)	(242)	(747)	(753)
Proceeds from sale of P, P & E	27	39	1	24	14
Cash used in investing activities	**(3 223)**	**(608)**	**(241)**	**(723)**	**(739)**
Net increase in cash	**(91)**	**1 145**	**(421)**	**(279)**	**458**
Cash at the beginning of the period	1 581	1 490	2 635	2 214	1 935
Cash at end of the period	**1 490**	**2 635**	**2 214**	**1 935**	**2 393**

Comment

The present strong cash position is a result of cash surpluses generated in 1999-00 and in 2002-03. The 1999-00 financial year includes the early receipt of $1.200m of funding for conservation purposes. Over the period under review, conservation and deficit funding provided by the State Government included in Receipts from customers amounts to $10.856m. Without that assistance the Authority's cash flow pattern would have been markedly different.

FINANCIAL ANALYSIS

	Bench Mark	1998-99	1999-00	2000-01	2001-02	2002-03
Financial Performance						
Result from operations ($'000s)		(988)	(1 140)	(2 502)	(2 920)	(1 799)
EBIT ($'000s)		3 027	1 281	(1 501)	(895)	497
Operating margin	>1.0	0.84	0.84	0.71	0.69	0.80
Return on assets		30.3%	10.7%	-12.4%	-7.7%	4.2%
Return on equity		41.2%	13.5%	-16.0%	-10.9%	6.2%
Financial Management						
Debt to equity		-	-	-	-	-
Debt to total assets		-	-	-	-	-
Interest cover	>3	-	-	-	-	-
Current ratio	>1	2.03	2.85	1.72	1.12	1.32
Cost of debt	7.5%	-	-	-	-	-
Debt collection	30 days	21	10	8	13	11
Creditor turnover	30 days	13	21	13	9	11
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 ($'000s)		0	0	0	0	0
Total return to equity ratio		-	-	-	-	-
Other information						
Staff numbers FTEs		87	74	82	80	80
Average staff costs ($'000s)		34	46	47	46	45

Comment

While the result from operating activities is a negative $9.349m for the five-year period, earnings before interest and tax are a positive $2.409m. This is predominately a result of the $10.856m of State Government funding being received for deficit funding and conservation works.

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

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. In recent years the Government has provided additional support in recognition of the unique heritage value and economic benefits to the Tasmanian economy. 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.

The 2002-03 audit was completed satisfactorily, with no major issues outstanding.

1.7 PRINTING AUTHORITY OF TASMANIA

INTRODUCTION

The Printing Authority of Tasmania 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. It competes with the private sector for printing services to the public sector departments and other authorities, and is also permitted to do printing for prescribed bodies, which includes:

- 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.

The Responsible Minister is the Minister for Infrastructure.

AUDIT OF THE 2002-03 FINANCIAL STATEMENTS

Signed financial statements of the Authority were received on 8 August 2003 and an unqualified audit report was issued on 22 August 2003.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	$'000s	$'000s	$'000s	$'000s	$'000s
Operating revenue	7 758	7 968	8 747	8 436	8 489
Total Revenue	**7 758**	**7 968**	**8 747**	**8 436**	**8 489**
Depreciation	250	302	444	415	460
Other operating expenses	7 453	7 415	8 077	7 784	7 851
Total Expenses	**7 703**	**7 717**	**8 521**	**8 199**	**8 311**
Result from ordinary activities	**55**	**251**	**226**	**237**	**178**
Income tax expense/(benefit)	0	0	0	0	(240)
Result after taxation	**55**	**251**	**226**	**237**	**418**

Comment

Profits have been made over the five years under review, with better returns in 1999-2000, 2000-01 and 2001-02.

While operating revenue has remained fairly constant for the past three years, depreciation expenses have increased since 2000-01 due to a revaluation of equipment in that year, the purchase of equipment and the application of higher depreciation rates in conformity with the printing industry for some items.

With the incurrence of taxable income for the fourth year in a row and the recoupment of all prior year tax losses the Authority has now brought to account a future income tax benefit of $0.240m.

FINANCIAL POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	230	506	607	890	1 032
Receivables	605	603	703	531	430
Investments	395	569	1 019	1 067	1 523
Inventories	451	492	480	411	524
Other	41	28	28	56	65
Total Current Assets	**1 722**	**2 198**	**2 837**	**2 955**	**3 574**
Deferred tax equivalent					257
Property, plant & equipment	1 220	1 117	1 384	1 041	591
Total Non-Current Assets	**1 220**	**1 117**	**1 384**	**1 041**	**848**
Payables	717	866	1 026	754	820
Provisions	587	793	838	887	790
Other	447	400	506	398	424
Total Current Liabilities	**1 751**	**2 059**	**2 370**	**2 039**	**2 034**
Provisions	138	77	51	38	51
Total Non-Current Liabilities	**138**	**77**	**51**	**38**	**51**
Net Assets	**1 053**	**1 179**	**1 800**	**1 919**	**2 337**
Reserves	0	0	508	508	508
Retained profits	1 053	1 179	1 292	1 411	1 829
Total Equity	**1 053**	**1 179**	**1 800**	**1 919**	**2 337**

Comment

Increasing Cash and Investments reflects increases in working capital resulting from increasing profitable operations and better cash management of the Authority’s receivables, such as increased use of up-front payments from customers. Accordingly, some of the increased cash received has been transferred to Investments.

The increase in Inventories in 2002-03 was due to several large jobs in progress at the end of the year.

Plant and equipment increased in 2000-01 following a revaluation increment of $0.508m to manufacturing plant, as well as significant purchases of equipment. Decreases in both 2001-02 and 2002-03 are due to the depreciation of plant and equipment to their residual values.

Due to the incurrence of taxable income for the fourth year in a row and the recoupment of all prior year tax losses, the Authority this year brought to account a deferred tax equivalent of $0.257m.

The Authority is debt-free.

CASH POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	7 562	7 983	9 414	9 153	9 375
Payments to suppliers and employees	(7 732)	(7 383)	(8 618)	(8 728)	(8 742)
Interest received	36	49	83	91	93
Cash from operations	**(134)**	**649**	**879**	**516**	**726**
Payments for investments	(217)	(174)	(450)	(48)	(456)
Payments for P, P & Equipment	(25)	(199)	(203)	(72)	(10)
Cash used in investing activities	**(242)**	**(373)**	**(653)**	**(120)**	**(466)**
Dividends paid	0	0	(125)	(113)	(118)
Cash from financing activities	**0**	**0**	**(125)**	**(113)**	**(118)**
Net increase in cash	**(376)**	**276**	**101**	**283**	**142**
Cash at the beginning of the period	606	230	506	607	890
Cash at end of the period	**230**	**506**	**607**	**890**	**1 032**

Comment

The cash position of the Authority has been improving over the past three years as a result of increasing revenue and changed cash management procedures, while payments have remained steady over the same period.

Accordingly, some of the increased cash received has been transferred to investments, as noted above.

In 1999-00 and 2000-01 there were significant purchases of printing equipment.

FINANCIAL ANALYSIS

	Bench Mark	1998-99	1999-00	2000-01	2001-02	2002-03
Financial Performance						
Result from operations ($'000s)		55	251	226	237	178
EBIT ($'000s)		55	251	226	237	178
Operating margin	>1.0	1.01	1.03	1.03	1.03	1.03
Return on assets		1.9%	8.0%	6.0%	5.8%	4.2%
Return on equity	12.00%	5.2%	22.5%	15.2%	12.7%	19.6%
Financial Management						
Current ratio	>1	0.98	1.07	1.20	1.45	1.76
Debt collection	30 days	29	28	30	23	19
Creditor turnover	30 days	23	32	36	25	25
Returns to Government						
Dividends paid or payable ($'000s)		-	-	125	113	92
Dividend payout ratio	50%	-	-	55.3%	47.7%	22.0%
Dividend to equity ratio		-	-	8.4%	6.1%	4.3%
Income tax paid or payable ($'000s)		-	-	-	-	18
Effective tax rate	30%	-	-	-	-	10.1%
Total return to the State ($'000s)		0	0	125	113	110
Total return to equity ratio		-	-	8.4%	6.1%	5.2%
Other information						
Staff numbers FTEs		73	71	70	68	61
Average staff costs ($'000s)		40	40	42	44	51

Comment

The financial statements reflect the improving financial viability of the Authority.

The Income Tax Benefit of $0.240m in 2002-03 caused an increase in this year's Return on equity and lower Dividend payout and Dividend to equity ratios.

As the Authority has adopted AASB 1044 'Provisions, Contingent Liabilities and Contingent Assets' for the first time this year, we have included only the estimated dividend for 2002-03 as there was no formal provision made.

The number of employees reduced in 2002-03 through natural attrition, but there was a significant increase in salaries due to an award change, resulting in an increase in average employee costs.

OVERALL COMMENT

Due to the adoption of AASB 1044 this year, the Authority had not declared or provided for a dividend for 2002-03. However the Treasurer and Portfolio Minister have subsequently approved a dividend of $0.092m for 2002-03.

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.

AUDIT OF THE FINANCIAL STATEMENTS

Final signed statements for 2001-02 were received on 25 November 2002 and an unqualified report was issued on 27 November.

Incomplete signed statements for 2002-03 were received on 1 September 2003. Final signed statements were subsequently received on 30 October 2003 and an unqualified report was issued on 31 October 2003.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	$'000s	$'000s	$'000s	$'000s	$'000s
Operating revenue	1 355	1 522	2 124	1 389	1300
Non-operating revenue	0	231	0	300	626
Total Revenue	**1 355**	**1 753**	**2 124**	**1 689**	**1 925**
Borrowing costs	1 500	1 382	1 195	1 130	966
Depreciation	539	541	545	544	544
Other operating expenses	1 076	1 400	1 320	1 390	1310
Non-operating expenses	0	0	0	121	231
Total Expenses	**3 115**	**3 323**	**3 060**	**3 185**	**3 051**
Result from ordinary activities	**(1 760)**	**(1 569)**	**(936)**	**(1 496)**	**(1 126)**
Income tax expense	(221)	19	46	(240)	(73)
Result after taxation	**(1 539)**	**(1 588)**	**(982)**	**(1 256)**	**(1 053)**

Comment

In all years, substantial contributions from government have been recorded as equity rather than revenue.

Operating revenue increased in 1999-00 for three reasons:

- The Cressy Longford Scheme collected an Asset Renewal Levy, $19 868;
- The Commission sold trees from a plantation, $43 474; and
- Insurance claims totalled $97 139.

Operating revenue increased again in 2000-01 due to higher consumption of water because of the drought and sale of trees, offset by no Government subsidy being received. In 2001-02 operating revenue reverted to a more stable position.

In 2001-02 a change in accounting policy required the value of water stock be brought to account for the first time. The amount of $150 000 is included in non-operating revenue for the year.

An increase in non-operating revenue in 2002-03 is largely attributable to an adjustment of $572 340 to remove a dormant loan from Treasury and an adjustment to the superannuation liability after finding the Commission had been recording a liability for staff who were no longer in its employ.

Other operating expenses increased in 1999-00 because of major pump repairs and maintenance work for the South-East Irrigation Scheme and increased use of consultants.

The reduction in borrowing costs in 2002-03 is as a result of the Commission's continued debt reduction program.

The Commission's operations have resulted in both before and after tax losses in each of the years under review.

FINANCIAL POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	141	648	217	76	71
Receivables	428	518	812	430	379
Investments	1 043	793	703	759	502
Water Stock				186	171
Total Current Assets	**1 611**	**1 959**	**1 731**	**1 451**	**1 123**
Property, plant & equipment	36 250	35 768	35 803	35 756	44 426
Other	575	578	628	936	1 015
Total Non-Current Assets	**36 826**	**36 346**	**36 431**	**36 692**	**45 441**
Payables	128	327	176	238	279
Borrowings	300	2 866	1 790	2 307	2 633
Provisions	336	348	336	339	212
Total Current Liabilities	**764**	**3 541**	**2 302**	**2 884**	**3 124**
Borrowings	18 127	13 993	13 284	11 081	8 594
Provisions	316	369	407	441	236
Total Non-Current Liabilities	**18 442**	**14 362**	**13 691**	**11 522**	**8 830**
Net Assets	**19 231**	**20 402**	**22 169**	**23 737**	**34 610**
Reserves	17 901	17 861	17 725	17 725	26 853
Accumulated Funds	1 330	2 541	4 444	6 045	7 755
Total Equity	**19 231**	**20 402**	**22 169**	**23 770**	**34 608**

Comment

Cash increased in 1999-00 due to extra funds being received from the sale of trees from a plantation and transfer of funds from Investments.

Water stock was brought to account for the first time in 2001-02 as a result of a change in accounting policy.

Revaluation of non-current assets was undertaken in 2002-03 resulting in an increase in asset values and reserves of $9.102m.

Total Borrowings in 2000-01 decreased due to loan repayments. In 2001-02 borrowings, overall, decreased again due to $2.000m in early repayments. Borrowings in 2002-03 reduced further as a result of the Commission's continued debt reduction program.

Non-current provisions reduced in 2002-03 due to a superannuation liability adjustment mentioned earlier.

Equity has been increasing due to the treatment of the annual Government contribution as equity rather than as revenue.

CASH POSITION

	1998-99 $'000s	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s	2002-03 $'000s
Receipts from customers	1 397	1 605	1 268	1 727	1 060
Payments to suppliers and employees	(1 015)	(1 145)	(1 445)	(1 360)	(1 264)
Interest received	51	49	41	34	25
Borrowing costs	(1 500)	(1 382)	(1 195)	(1 063)	(877)
Taxation expense	0	(19)	0	0	0
other				(125)	64
Cash from operations	**(1 067)**	**(892)**	**(1 330)**	**(787)**	**(992)**
Payments for P, P & Equipment	(47)	(122)	(961)	(500)	(142)
Proceeds from sale of P, P & E	15	51	658	33	26
Cash used in investing activities	**(32)**	**(71)**	**(303)**	**(467)**	**(116)**
Capital contribution from Government	2 776	2 799	2 886	2 856	2 763
Proceeds from borrowings	1 000	200	2 866	300	494
Repayment of borrowings	(2 568)	(1 768)	(4 651)	(1 985)	(2 413)
Cash from financing activities	**1 208**	**1 231**	**1 101**	**1 171**	**844**
Net increase in cash	**109**	**268**	**(532)**	**(83)**	**(264)**
Cash at the beginning of the period	1 074	1 183	1 451	919	836
Cash at end of the period	**1 183**	**1 451**	**919**	**836**	**572**

Comment

In 1999-00 cash increased due to the sale of trees from a plantation and transfer of funds from Investments.

In 2000-01 a number of loans were refinanced. This is reflected in the large increase of proceeds from, and repayments of borrowings.

Net cash decreased in 2002-03 mainly due to a decrease in revenue from water rates and charges, and increase in repayment of borrowings.

Borrowing costs have been steadily decreasing, mainly due to the Commission's continued debt reduction program.

Whilst the capital contribution from Government continues cash flows should be sufficient to fund operating expenses, the purchase of property, plant and equipment, interest on debt and repayment of borrowings.

FINANCIAL ANALYSIS

	Bench Mark	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
Financial Performance							
Result from operations ($'000s)		(1 984)	(1 760)	(1 800)	(936)	(1 675)	(1 521)
EBIT ($'000s)		(409)	(261)	(188)	259	(366)	(160)
Operating margin	>1.0	0.37	0.43	0.46	0.69	0.45	0.46
Return on assets		-1.1%	-0.7%	-0.5%	0.7%	-1.0%	-0.4%
Return on equity	12%	-11.1%	-8.3%	-8.0%	-4.6%	-5.5%	-3.6%
Financial Management							
Debt to equity		111.1%	95.8%	82.6%	68.0%	56.3%	32.4%
Debt to total assets		51.2%	47.9%	44.0%	39.5%	35.1%	24.1%
Interest cover	>3	(0.3)	(0.2)	(0.1)	0.2	(0.3)	(0.2)
Current ratio	>1	0.96	2.11	0.55	0.75	0.50	0.36
Cost of debt	7.5%	7.6%	7.8%	7.8%	7.5%	7.9%	7.8%
Debt collection	30 days	74	45	72	100	113	109
Creditor turnover	30 days	29	32	31	57	69	84
Other information							
Staff numbers FTEs		5	5	6	7	7	4
Average staff costs ($'000s)		N/a	N/a	N/a	55	50	67

Comment

The financial performance indicators show a slight improvement over the reported years but losses have occurred in each of the years under review. The debt collection indicators for 2000-01 reflect the difficulties experienced in that year as a result of the drought conditions.

Average staff costs were not available for the years 1998-2000. In 2002-03 average staff costs have increased significantly. Whilst the number of FTE's decreased as at 30 June, employee costs for the year included salary payments to a number of staff who ceased employment during the year.

Debt collection figures in 2002-03 remain high due to a number of long outstanding debtors.

Outstanding creditors have steadily increased since 2000-01 with a corresponding increase in creditor turnover. In 2002-03 the increase is mainly attributable to a one-off liability to Department of Primary Industries, Water and Environment for salary and related expenses.

OVERALL COMMENT

The Commission treats its annual appropriation from the Government as a Capital Contribution to Equity rather than revenue, on the basis that such funding is made for the purpose of meeting capital costs of borrowing undertaken to fund the construction of the Commission's irrigation schemes and its designation by the Department of Treasury and Finance.

Borrowing costs have been steadily decreasing, mainly due to the Commission's continued debt reduction program.

The Commission has made losses in each year and these are likely to continue under current policies.

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 2003 the Responsible Minister was the Minister Assisting the Premier on Local Government.

AUDIT OF THE 2002-03 FINANCIAL STATEMENTS

Financial statements were received on 15 September 2003. The audit was incomplete as at 3 November 2003.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	$'000s	$'000s	$'000s	$'000s	$'000s
Operating revenue	1 428	1 683	1 764	1 621	1 775
Total Revenue	**1 428**	**1 683**	**1 764**	**1 621**	**1 775**
Depreciation	183	185	343	374	407
Other operating expenses	1 535	1249	1 461	1 418	1 459
Total Expenses	**1 718**	**1 434**	**1 804**	**1 792**	**1 866**
Result from ordinary activities	**(290)**	**249**	**(40)**	**(171)**	**(91)**
Income tax expense	(62)	89	5	(386)	1
Result after taxation	**(228)**	**160**	**(45)**	**215**	**(92)**

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. Revenue increased in 2002-03 due to the sale of garden crypts offset by a marked reduction in cemetery revenue and a virtually unchanged result from the crematorium.

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. Administrative and maintenance expenses increased further in 2002-03.

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. There was a negligible income tax expense in 2002-03 mainly due to the operating loss for the year.

FINANCIAL POSITION

	1998-99 $'000s	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s	2002-03 $'000s
Cash	13	93	36	144	136
Receivables	263	261	463	305	496
Investments	2 519	2 800	2 420	2 470	2 290
Other	55	3	3	16	14
Total Current Assets	**2 850**	**3 157**	**2 922**	**2 935**	**2 936**
Property, plant & equipment	5 431	5 398	5 379	5 294	5 473
Other	0	0	0	343	341
Total Non-Current Assets	**5 431**	**5 398**	**5 379**	**5 637**	**5 814**
Payables	53	103	69	57	166
Provisions	91	174	189	190	241
Other	21	0	70	124	184
Total Current Liabilities	**165**	**277**	**328**	**371**	**591**
Provisions	1 025	1 107	1 097	1 110	1 159
Total Non-Current Liabilities	**1 025**	**1 107**	**1 097**	**1 110**	**1 159**
Net Assets	**7 091**	**7 171**	**6 876**	**7 091**	**7 000**
Capital	1 252	1 252	1 002	1 002	1 002
Reserves	6 012	6 012	6 012	6 012	6 012
Retained profits	(173)	(93)	(138)	77	(14)
Total Equity	**7 091**	**7 171**	**6 876**	**7 091**	**7 000**

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. Receivables were again higher in 2002-03 due to amounts billed in relation to sale of crypts constructed in the new development.

Investments were higher in 1999-00 as a result of increased funds being available for investment from higher revenue and lower costs. Investments, while still quite high, have declined since that time.

Property, plant and equipment increased in 2002-03 due to capital works relating to 72 crypts, Wellington Chapel, and servicing of cremators.

Payables increased in 2002-03 due to creditors for construction of the new crypt development and the Wellington Chapel. Current and non-current provisions increased due to increases in amounts for leave and superannuation. The superannuation liability is established in accordance with annual actuarial assessments.

Other Non-Current Assets in 2001-02 and 2002-03 consisted of Future Income Tax Benefits.

Capital decreased in 2000-01 as the Trust was required to return the $0.250m capital contribution originally made by the State Government. There was a further reduction in 2002-03 due to the after tax loss for the year.

CASH POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	1 302	1 547	1490	1708	1856
Payments to suppliers and employees	(1 280)	(1 172)	(1 441)	(1 367)	(1 532)
Interest received	118	136	169	112	121
Cash from operations	**140**	**511**	**218**	**453**	**445**
Proceeds from investments	50	0	380	0	180
Payments for investments	0	(400)	0	(50)	0
Payments for P, P & Equipment	(126)	(166)	(342)	(338)	(651)
Proceeds from sale of P, P & E	26	16	17	43	17
Cash used in investing activities	**(50)**	**(550)**	**55**	**(345)**	**(454)**
Repayment of borrowings	0	0	(250)	0	0
Dividends paid	(12)	0	(80)	0	0
Cash from financing activities	**(12)**	**0**	**(330)**	**0**	**0**
Net increase in cash	**78**	**(39)**	**(57)**	**108**	**(9)**
Cash at the beginning of the period	54	132	93	36	145
Cash at end of the period	**132**	**93**	**36**	**144**	**136**

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.

The positive cash flow from operating activities is substantial because it takes no account of the non-cash depreciation expense.

The Trust has invested heavily in property, plant and equipment, principally, 72 crypts, the Wellington Chapel and servicing of the cremators.

FINANCIAL ANALYSIS

	Bench Mark	1998-99	1999-00	2000-01	2001-02	2002-03
Financial Performance						
Result from operations ($'000s)		(290)	249	(40)	(171)	(91)
EBIT ($'000s)		(290)	249	(40)	(171)	(91)
Operating margin	>1.0	0.83	1.17	0.98	0.90	0.95
Return on assets		-3.5%	3.0%	-0.5%	-2.0%	-1.1%
Return on equity		-3.2%	2.2%	-0.6%	3.1%	-1.3%
Financial Management						
Debt to equity		-	-	-	-	-
Debt to total assets		-	-	-	-	-
Interest cover	>3	-	-	-	-	-
Current ratio	>1	17.27	11.40	8.91	7.91	4.97
Debt collection	30 days	72	63	108	74	104
Creditor turnover	30 days	15	34	32	26	73
Returns to Government						
Dividends paid or payable ($'000s)		0	330	0	0	0
Dividend payout ratio	50%	-	206.3%	-	-	-
Dividend to equity ratio	6%	-	4.6%	-	-	-
Income tax paid or payable ($'000s)		0	0	5	(5)	1
Effective tax rate	30%	-	-	-12.4%	2.9%	-1.1%
Total return to the State ($'000s)		0	330	5	(5)	1
Total return to equity ratio		-	4.6%	0.1%	-0.1%	0.01%
Other information						
Staff numbers FTEs		17	16	16	14	0
Average staff costs ($'000s)		36	42	44	50	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. Revenues increased in 2002-03 but not sufficiently to return a profit.

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.

The 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 significant 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. Subsequently, the State has not benefited directly from its investment other than to obtain a return of $0.250m that was characterised as a loan repayment.

OVERALL COMMENT

The Trust's assets mainly consist of the two properties and associated buildings and equipment and $2.290m 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. The long term viability of the Trust may be affected by the increasing costs of maintaining the Cornelian Bay cemetery site with its limited potential to generate future increases in revenue and the Trust's dependency on interest income from its investments.

Its retention as a government business enterprise is somewhat anomalous given the limited capacity of the Trust to generate dividends and income tax returns to the state.

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. Following the State Government's announcement of its intention to sell the Stanley Cool Stores, a divestment steering committee has been formed. The steering committee is comprised of five Government representatives and two representatives from the Stanley Cool Stores Board. Expressions of interests have been received and discussion with interested parties is proceeding.

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

AUDIT OF THE 2002-03 FINANCIAL STATEMENTS

Signed financial statements of Stanley Cool Stores Board were received on 5 September 2003 and an unqualified audit report was issued on 16 September 2003.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	$'000s	$'000s	$'000s	$'000s	$'000s
Operating revenue	594	634	594	602	636
Non-operating revenue	2	0	0	0	0
Total Revenue	**596**	**634**	**594**	**602**	**636**
Depreciation	44	44	44	44	50
Other operating expenses	252	315	328	379	383
Total Expenses	**296**	**359**	**372**	**423**	**433**
Result from ordinary activities	**300**	**275**	**222**	**179**	**203**
Income tax expense	115	89	98	44	71
Result after taxation	**185**	**186**	**124**	**135**	**132**

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 and 2002-03 years increased marginally from prior years, due predominantly to an increase in cold storage charges.

Depreciation expense increased from $0.044m in the first four years under review to $0.050m in 2002-03 due to the revaluation of land and buildings on 30 June 2002. 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. The income tax expense increased in 2002-03 predominantly due to an increase in before tax operating profit.

FINANCIAL POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash	151	159	138	108	151
Receivables	0	3	7	7	7
Investments	1 275	356	534	558	586
Inventories	16	18	11	10	11
Other	13	1	1	28	1
Total Current Assets	**1 455**	**537**	**691**	**711**	**756**
Property, plant & equipment	916	872	828	1 131	1 081
Total Non-Current Assets	**916**	**872**	**828**	**1 131**	**1 081**
Payables	24	38	42	56	40
Provisions	76	66	85	18	34
Other	44	0	44	0	0
Total Current Liabilities	**144**	**104**	**171**	**74**	**74**
Total Non-Current Liabilities	**0**	**0**	**0**	**0**	**0**
Net Assets	**2 227**	**1 305**	**1 348**	**1 768**	**1 763**
Reserves	1 408	1 408	1 408	1 755	1 755
Retained profits	819	(103)	(60)	13	8
Total Equity	**2 227**	**1 305**	**1 348**	**1 768**	**1 763**

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 had 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

	1998-99	1999-00	2000-01	2001-02	2002-03
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	528	510	659	600	666
Payments to suppliers and employees	(254)	(303)	(370)	(441)	(459)
Interest received	66	89	34	29	33
Borrowing costs					
Taxation expense	(107)	(99)	(86)	(132)	(34)
Cash from operations	**233**	**197**	**237**	**56**	**206**
Proceeds from investments	0	919	0	0	0
Payments for investments	(61)	0	(177)	(24)	(28)
Proceeds from sale of P, P & E					
Cash used in investing activities	**(61)**	**919**	**(177)**	**(24)**	**(28)**
Dividends paid	(92)	(1 108)	(81)	(62)	(135)
Cash from financing activities	**(92)**	**(1 108)**	**(81)**	**(62)**	**(135)**
Net increase in cash	**80**	**8**	**(21)**	**(30)**	**43**
Cash at the beginning of the period	71	151	159	138	108
Cash at end of the period	**151**	**159**	**138**	**108**	**151**

Comment

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.

Taxation expense payments for 2001-02 included five instalment payments. At 30 June 2002 the Board had an income tax receivable balance of $0.028m. This has been offset against income tax payments due during 2002-03 resulting in the lower than usual taxation expense payments for the year of $0.034m.

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

	1998-99	1999-00	2000-01	2001-02	2002-03
Financial Performance					
Result from operations ($'000s)	298	275	222	179	203
EBIT ($'000s)	300	275	222	179	203
Operating margin	2.01	1.77	1.60	1.42	1.47
Return on assets	12.9%	14.6%	15.2%	10.7%	11.0%
Return on equity	8.5%	10.5%	9.3%	8.7%	7.5%
Financial Management					
Debt to equity	-	-	-	-	-
Debt to total assets	-	-	-	-	-
Interest cover	-	-	-	-	-
Current ratio	10.10	5.16	4.04	9.61	10.22
Cost of debt	-	-	-	-	-
Debt collection	-	2	5	4	4
Creditor turnover	44	58	48	72	42
Returns to Government					
Dividends paid or payable ($'000s)	92	1 108	81	62	135
Dividend payout ratio	49.7%	595.7%	65.3%	45.9%	102.3%
Dividend to equity ratio	4.2%	62.7%	6.1%	4.0%	7.6%
Income tax paid or payable ($'000s)	115	90	99	44	71
Effective tax rate	38.3%	32.7%	44.6%	24.6%	35.0%
Total return to the State ($'000s)	207	1 198	180	106	206
Total return to equity ratio	9.5%	67.8%	13.6%	6.8%	11.7%
Other information					
Staff numbers FTEs	1.5	2.0	2.3	2.4	2.4
Average staff costs ($'000s)	36	38	37	36	37

Comment

Over the five-year period of the review, returns from the operations (i.e. operating revenue less operating expenses) have totalled $1.177m or an annual return of $0.235m. 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 2002-03 rate is similar to the prior year also due to the impact of the revaluation.

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. An increase in cash held at 30 June 2003 has maintained the higher current ratio.

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, 2002 and 2003 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

In the five years under review, the Board has recorded a total operating surplus after tax of $0.762m. Total returns to the State from both dividends and income tax amounted to $1.897m or an average return of $0.379m per year. The average return has been significantly affected by the payment of a special dividend to the State of $1.000m.

The 2002-03 audit was completed satisfactorily with no major issues outstanding.

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.

Until this financial year, the Board had undertaken the storage and sale of wheat on behalf of the Australian Wheat Board (AWB). These transactions are not included in the Board's financial statements. A handling fee per tonne was 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 Board's business is to be sold by tender.

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

AUDIT OF THE 2002-03 FINANCIAL STATEMENTS

An unqualified audit report was issued on 8 October 2003.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	$'000s	$'000s	$'000s	$'000s	$'000s
Operating revenue	5 169	5 799	7 796	7 432	12 395
Non-operating revenue	39	5	8	110	0
Total Revenue	**5 208**	**5 804**	**7 804**	**7 542**	**12 395**
Depreciation	184	185	172	182	179
Other operating expenses	4 987	5 348	7 406	6 912	11 702
Non-operating expenses	12	35	3	102	0
Total Expenses	**5 183**	**5 568**	**7 581**	**7 196**	**11 881**
Result from ordinary activities	**25**	**236**	**223**	**346**	**514**
Income tax expense	12	64	83	(260)	154
Result after taxation	**13**	**172**	**140**	**606**	**360**

Comment

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. Revenue from sales increased in 2002-03 due to the Board making sales in its own right rather than as agent for the AWB and high grain prices as the result of the mainland drought.

Income tax expense on operations for the 2001-02 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 able to claim the actual superannuation payments made.

FINANCIAL POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	447	176	433	599	362
Receivables	722	1 471	1 079	1 287	1 127
Investments	943	636	397	428	493
Inventories	812	435	1 184	908	1 368
Other	50	56	71	433	475
Total Current Assets	**2 974**	**2 774**	**3 164**	**3 655**	**3 825**
Property, plant & equipment	1 931	1 991	2 032	2 122	2 473
Total Non-Current Assets	**1 931**	**1 991**	**2 032**	**2 122**	**2 473**
Payables	569	282	529	598	728
Provisions	100	241	259	241	271
Total Current Liabilities	**669**	**523**	**788**	**839**	**999**
Provisions	1 328	1 169	1 270	1 252	1 375
Total Non-Current Liabilities	**1 328**	**1 169**	**1 270**	**1 252**	**1 375**
Net Assets	**2 908**	**3 073**	**3 138**	**3 686**	**3 924**
Reserves	2 520	2 590	2 660	2 730	2 930
Retained profits	388	483	478	956	994
Total Equity	**2 908**	**3 073**	**3 138**	**3 686**	**3 924**

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 was due principally to the timing of grain sales, with 90% of grain sales outstanding due within credit limits.

Inventories increased between 2001-02 and 2002-03 due to the Board taking on sales in its own right.

CASH POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	5 518	4 947	8 829	8 167	15 024
Payments to suppliers and employees	(4 991)	(5 316)	(8 531)	(7 600)	(14 484)
Interest received	83	92	106	75	105
Taxation expense	(4)	(13)	(102)	(124)	(198)
Cash from operations	**606**	**(290)**	**302**	**518**	**447**
Payments for P, P & Equipment	(317)	(285)	(215)	(374)	(481)
Proceeds from sale of P, P & E	36	5	8	109	0
Cash used in investing activities	**(281)**	**(280)**	**(207)**	**(265)**	**(481)**
Dividends paid	(80)	(7)	(76)	(58)	(121)
Finance lease payment					(17)
Cash from financing activities	**(80)**	**(7)**	**(76)**	**(58)**	**(138)**
Net increase in cash	**245**	**(577)**	**19**	**195**	**(172)**
Cash at the beginning of the period	1 144	1 389	812	831	1 026
Cash at end of the period	**1 389**	**812**	**831**	**1 026**	**854**

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. The large increase in 2002-03 is due to the changed relationship with the AWB as described previously.

Payments for property, plant and equipment reflect a gradual upgrade of the facilities.

FINANCIAL ANALYSIS

	Bench Mark	1998-99	1999-00	2000-01	2001-02	2002-03
Financial Performance						
Result from Operations ($'000s)		(2)	266	218	338	514
EBIT ($'000s)		25	236	223	346	514
Operating margin	>1.0	1.00	1.05	1.03	1.05	1.04
Return on assets		0.5%	4.9%	4.5%	6.3%	8.5%
Return on equity		0.4%	5.8%	4.5%	17.8%	9.5%
Financial Management						
Debt to equity		-	-	-	-	-
Debt to total assets		-	-	-	-	-
Interest cover	>3	-	-	-	-	-
Current ratio	>1	4.45	5.30	4.02	4.36	3.83
Cost of debt	7.5%	-	-	-	-	-
Debt collection	30 days	52	94	51	64	33
Creditor turnover	30 days	1	20	22	22	22
Returns to Government						
Dividends paid or payable ($'000s)		7	76	58	121	0
Dividend payout ratio	50%	53.8%	44.2%	41.4%	20.0%	-
Dividend to equity ratio		0.2%	2.5%	1.9%	3.5%	-
Income tax paid or payable ($'000s)		13	102	107	124	198
Effective tax rate	30%	52.0%	43.2%	48.0%	35.8%	38.5%
Total return to the State ($'000s)		20	178	165	245	198
Total return to equity ratio		0.7%	6.0%	5.3%	7.2%	5.2%
Other information						
Staff numbers FTEs		8	8	10	8	12
Average staff costs ($'000s)		62	72	66	75	61

Comment

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.

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 (rather than the benchmark of 30 days cited in the table). The 64 days was influenced by greater than average monthly grain sales during May and June 2002.

The Board paid a dividend for the year ended 30 June 2002 of $0.121m. A dividend in relation to 2002-03 had not been declared at the time of writing 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 of the Board has been reflected in the level of dividends paid and the low dividend to equity percentage. However, this has improved. The level of taxation returned to the government has also increased.

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

The Government has determined that the Board's operations will be sold.

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 2003 the Responsible Minister was the Minister for Racing, Sport and Recreation.

AUDIT OF THE 2002-03 FINANCIAL STATEMENTS

Initial signed financial statements of the Tasmanian International Velodrome Management Authority were received on 29 August 2003, with amended statements received 30 October 2003 and an unqualified audit report was issued on 31 October 2003.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	$'000s	$'000s	$'000s	$'000s	$'000s
Operating revenue	256	300	272	276	293
Non-operating revenue	185	248	275	275	269
Total Revenue	**441**	**548**	**547**	**551**	**562**
Depreciation	73	58	42	29	19
Other operating expenses	501	513	580	504	562
Total Expenses	**574**	**571**	**622**	**533**	**581**
Result from ordinary activities	**(133)**	**(23)**	**(75)**	**18**	**(19)**
Income tax expense	(21)	0	0	0	0
Result after taxation	**(112)**	**(23)**	**(75)**	**18**	**(19)**

Comment

Operating revenue has remained relatively stable in the five-year period under review and the Authority has recorded losses from Ordinary Activities in four of the past five 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 the last three years under review the Authority has also received additional funding from the Department of Economic Development (DED). 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

	1998-99	1999-00	2000-01	2001-02	2002-03
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	139	59	65	71	31
Receivables	17	19	8	12	18
Inventories	1	0	0	0	0
Other	8	15	18	30	30
Total Current Assets	**165**	**93**	**91**	**113**	**79**
Property, plant & equipment	269	240	227	202	453
Total Non-Current Assets	**269**	**240**	**227**	**202**	**453**
Payables	26	9	28	28	43
Provisions	56	64	64	66	79
Other	8	16	57	34	10
Total Current Liabilities	**90**	**89**	**149**	**128**	**132**
Borrowings					
Provisions	77	0	0	0	0
Total Non-Current Liabilities	**77**	**0**	**0**	**0**	**0**
Net Assets	**267**	**244**	**169**	**187**	**400**
Reserves	615	615	615	615	853
Retained profits	(348)	(371)	(446)	(428)	(453)
Total Equity	**267**	**244**	**169**	**187**	**400**

Comment

Since 1998-99, the Cash held by the Authority has gradually declined. As a result, additional funding has been required from the DED in the past three 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)".

Property, plant and equipment increased by $0.251m during 2002-03. The majority of the increase is due to a revaluation undertaken at 30 June 2003. The revaluation resulted in a net increment of $0.238m. A corresponding increase has been recognised in the Asset Revaluation Reserve.

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

	1998-99	**1999-00**	**2000-01**	**2001-02**	**2002-03**
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	430	478	662	578	672
Payments to suppliers and employees	(536)	(537)	(627)	(570)	(682)
Interest received	9	7	5	3	4
Cash from operations	**(97)**	**(52)**	**40**	**11**	**(6)**
Payments for P, P & Equipment	(32)	(28)	(41)	(5)	(47)
Proceeds from sale of P, P & E	0	0	7	0	13
Cash used in investing activities	**(32)**	**(28)**	**(34)**	**(5)**	**(34)**
Cash from financing activities	**0**	**0**	**0**	**0**	**0**
Net increase in cash	**(129)**	**(80)**	**6**	**6**	**(40)**
Cash at the beginning of the period	268	139	59	65	71
Cash at end of the period	**139**	**59**	**65**	**71**	**31**

Comment

Receipts from customers include deficit and other funding from government.

Receipts from customers and payments to suppliers increased significantly during 2000-01 and subsequent years due to the impact of GST. Cash held during the 2002-03 year decreased by $0.040m.

FINANCIAL ANALYSIS

	Bench Mark	1998-99	1999-00	2000-01	2001-02	2002-03
Financial Performance						
Result from operations ($'000s)		(318)	(271)	(350)	(257)	(288)
EBIT ($'000s)		(133)	(23)	(75)	18	(19)
Operating margin	>1.0	0.45	0.53	0.44	0.52	0.50
Return on assets		-24.8%	-6.0%	-23.0%	5.7%	-4.5%
Return on equity		-34.7%	-9.0%	-36.3%	10.1%	-6.5%
Financial Management						
Debt to equity		-	-	-	-	-
Debt to total assets		-	-	-	-	-
Interest cover	>3	-	-	-	-	-
Current ratio	>1	1.83	1.04	0.61	0.88	0.60
Cost of debt	7.5%	-	-	-	-	-
Debt collection	30 days	25	24	11	16	23
Creditor turnover	30 days	31	11	22	24	27
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 ($'000s)		0	0	0	0	0
Total return to equity ratio		-	-	-	-	-
Other information						
Staff numbers FTEs		6	7	7	7	7
Average staff costs ($'000s)		37	34	38	38	39

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 the funding received from DED 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 three years under review.

The debt collection ratio has been consistently below the benchmark of 30 days. The creditor turnover ratio has been below or consistent with benchmark for all years under review.

OVERALL COMMENT

The financial performance ratios reveal that the Authority has continued to incur operating losses over the period of the review. In past years the Silverdome has been the subject of several reviews, discussions, and various reports on scenarios for the future of the facility with no decisions made.

On 21st March 2002 the Government announced that "sale options for the Launceston Silverdome would be investigated". As a result of this announcement letters were forwarded to the Premier, Minister for Economic Development and Treasurer offering every assistance from Authority members and staff.

The Authority continues to be concerned with the on going maintenance issues of the Silverdome. At present only day-to-day and minor urgent works can be carried out under present funding arrangements. For example works such as the replacement of the skylight, PA System, modification of grandstand steps, replacement of track seating and external painting still remain beyond the Authority's financial capabilities in the current economic climate.

Audit notes that whilst the Authority is conscious that the Government wishes to make a decision on the future of the Silverdome before spending significant funds on the facility, the Authority has stated that several of these issues are occupational health and safety matters and should be considered with some priority.

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 2002-03 FINANCIAL STATEMENTS

The financial statements of the Corporation were received on 29 August 2003 and a qualified audit report was issued on 3 September 2003. That qualification relates to prior year figures for 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 (2001-02, $384.362m) have been redeemed since April 1992. As at 30 June 2003 the un-amortised loss totalled $0.051m ($0.640m), and net amount of $0.589m ($0.724), was expensed 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 $9.411m ($9.119m) before tax and the amount of $0.052m ($0.640m) 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

	1998-99	1999-00	2000-01	2001-02	2002-03
	$'000s	$'000s	$'000s	$'000s	$'000s
Operating revenue	360 739	409 467	454 726	394 361	406 447
Non-operating revenue	20	23	25	21	28
Total Revenue	**360 759**	**409 490**	**454 751**	**394 382**	**406 475**
Borrowing costs	352 482	396 743	437 002	380 715	392 217
Depreciation	145	143	124	106	107
Other operating expenses	3 633	7 439	9 899	5 143	5 303
Non-operating expenses	23	23	29	22	26
Total Expenses	**356 283**	**404 348**	**447 054**	**385 986**	**397 653**
Result from ordinary activities	**4 476**	**5 142**	**7 697**	**8 396**	**8 822**
Income tax expense	1 498	919	2 721	2 425	2 647
Result after taxation	**2 978**	**4 223**	**4 976**	**5 971**	**6 175**

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 in 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

	1998-99	1999-00	2000-01	2001-02	2002-03
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	(248)	775	(671)	77	103
Receivables	125 740	115 691	89 429	4 273	305
Investments	1 117 591	1 525 400	1 660 702	1 851 890	1 484 931
Other	61 084	151 131	251 918	63 881	37 767
Total Current Assets	**1 304 167**	**1 792 997**	**2 001 378**	**1 920 121**	**1 523 106**
Property, plant & equipment	17 735	17 687	17 647	17 860	18 287
Investments	3 356 098	3 312 033	3 032 701	3 543 443	3 530 727
Other	11 115	5 750	2 344	1 972	0
Total Non-Current Assets	**3 384 948**	**3 335 470**	**3 052 692**	**3 563 275**	**3 549 014**
Payables	95 264	109 188	86 865	4 383	185 581
Borrowings	1 465 980	1 975 950	2 511 078	2 788 365	2 530 009
Provisions	3 327	4 676	10 177	8 226	7 470
Other	409	35 695	54 221	34 994	15 529
Total Current Liabilities	**1 564 980**	**2 125 509**	**2 662 341**	**2 835 968**	**2 738 589**
Borrowings	3 098 889	2 982 159	2 377 291	2 635 096	2 323 531
Provisions	15 246	10 799	4 438	2 332	0
Total Non-Current Liabilities	**3 114 135**	**2 992 958**	**2 381 729**	**2 637 428**	**2 323 531**
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. There was increased borrowing activity in 2001-02 that included borrowings to fund the purchase of Spirit of Tasmania I and II.

CASH POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	3 500	3 366	6 012	4 608	5 010
Payments to suppliers and employees	(3 042)	(14 804)	(3 236)	(4 352)	(4 519)
Interest received	351 692	509 722	435 245	512 267	496 292
Borrowing costs	(356 711)	(476 451)	(499 339)	(470 257)	(428 859)
Taxation expense	0	0	(991)	(7 114)	(4 061)
Cash from operations	**(4 561)**	**21 833**	**(62 309)**	**35 152**	**63 863**
Proceeds from investments	(36 926)	(49 974)	(326 251)	(219 263)	(18 653)
Payments for investments	(10 782)	114 067	261 376	(211 634)	160 778
Payments for P, P & Equipment	(106)	(118)	(112)	(342)	(561)
Proceeds from sale of P, P & E	20	23	25	21	28
Cash used in investing activities	**(47 794)**	**63 998**	**(64 962)**	**(431 218)**	**141 592**
Proceeds from borrowings	(63 171)	(67 543)	26 131	117 192	192 271
Repayment of borrowings	220 342	176 694	(131 572)	137 414	(268 441)
Dividends paid	(2 351)	(2 978)	(4 223)	(4 976)	(5 971)
Cash from financing activities	**154 820**	**106 173**	**(109 664)**	**249 630**	**(82 141)**
Net increase in cash	**102 465**	**192 004**	**(236 935)**	**(146 436)**	**123 314**
Cash at the beginning of the period	67 505	169 970	361 974	125 039	(21 397)
Cash at end of the period	**169 970**	**361 974**	**125 039**	**(21 397)**	**101 917**

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	1998-99	1999-00	2000-01	2001-02	2002-03
Financial Performance						
Result from operations ($'000s)		4 476	5 142	7 697	8 396	8 822
Operating margin	>1.0	1.01	1.01	1.02	1.02	1.02
Return on equity		29.8%	42.2%	49.8%	59.7%	61.8%
Financial Management						
Current ratio	>1	0.83	0.84	0.75	0.68	0.56
Cost of debt	7.5%	6.8%	6.7%	6.0%	5.5%	5.5%
Returns to Government						
Dividends paid or payable ($'000s)		2 978	4 223	4 976	5 971	6 175
Dividend payout ratio	50%	100.0%	100.0%	100.0%	100.0%	100.0%
Dividend to equity ratio		29.8%	42.2%	49.8%	59.7%	61.8%
Income tax paid or payable ($'000s)		0	0	5 676	4 159	2 647
Effective tax rate	30%	0.0%	0.0%	73.7%	49.5%	30.0%
Total return to the State ($'000s)		2 978	4 223	10 652	10 130	8 822
Total return to equity ratio		29.8%	42.2%	106.5%	101.3%	88.2%
Other information						
Staff numbers FTEs		14	14	14	14	13
Average staff costs ($'000s)		85	86	88	95	134

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.

During the year the Treasurer granted TASCORP an exemption from the National Taxation Equivalent Regime (NTER). Under the Treasury Instruction issued, tax equivalence payments are calculated by applying the current corporate tax rate to accounting profit.

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 $39.156m to the state over the past five years, at an average of $6.526m per annum.

OVERALL COMMENT

Apart from the prior year qualification issue noted previously, the audit of the financial statements for the 2002-03 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 2002-03 FINANCIAL STATEMENTS

The financial statements of The Public Trustee were signed by a Director and the Chief Executive Officer on 5 September 2003 and an unqualified audit report was issued on 15 September 2003.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	$'000s	$'000s	$'000s	$'000s	$'000s
Operating revenue	3 592	3 259	3 885	4 245	4 390
Non-operating revenue	69	294	17	0	483
Total Revenue	**3 661**	**3 553**	**3 902**	**4 245**	**4 873**
Depreciation	108	91	92	87	82
Other operating expenses	3 459	3 364	3 566	4 174	4 040
Non-operating expenses	0	107	0	0	0
Total Expenses	**3 567**	**3 562**	**3 658**	**4 261**	**4 122**
Result from ordinary activities	**94**	**(9)**	**244**	**(16)**	**751**
Income tax expense	70	0	0	(1 488)	58
Result after taxation	**24**	**(9)**	**244**	**1 472**	**693**

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) approximated 80% of total Operating revenue (excluding revaluation write backs). Interest and rental revenue increased from $0.270m in 2001-02 to $0.283m in 2002-03 while its investment balance at 30 June for each of those years has risen from $2.850m to $3.611m.

The amount received/receivable by way of CSOs for 2002-03 amounted to $0.661m as in 2001-02 and $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 excluding revaluation write backs.

Non-operating revenues mainly relate to adjustments to the provisions for retirement benefits (in accordance with actuarial advice) and revaluation increments. The items in 1998-99 and 1999-00 both related to retirement benefit adjustments. The revenue component in 2002-03 was a revaluation increment that reversed a prior revaluation decrement in relation to properties owned by The Public Trustee.

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

The Public Trustee has not had any borrowing costs since the loan for the construction of the premises at Murray Street was repaid in 1998.

The item Income tax benefit (negative tax expense) in 2001-02 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. The impact on the Balance Sheet was to create a Future Income Tax Benefit (FITB) asset and a Deferred Income Tax Liability (DITL) of $1.552m and $0.043m respectively. The Public Trustee paid income tax of $0.134 in respect of its operations in 2002-03. Income tax had not previously been paid for a number of years.

FINANCIAL POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	1	1	1	1	1
Receivables	88	52	252	248	279
Investments	2 251	1 992	2 350	2 849	3 610
Other	0	6	31	166	78
Total Current Assets	**2 340**	**2 051**	**2 634**	**3 264**	**3 968**
Property, plant & equipment	3 459	3 409	3 327	3 311	3 733
Other	10	0	0	1 551	1 692
Total Non-Current Assets	**3 469**	**3 409**	**3 327**	**4 862**	**5 425**
Payables	420	243	343	381	440
Provisions	435	550	937	1 377	1 789
Other	0	0	0	21	83
Total Current Liabilities	**855**	**793**	**1 280**	**1 779**	**2 312**
Provisions	4 003	3 725	3 616	3 768	3 806
Other	0	0	0	43	45
Total Non-Current Liabilities	**4 003**	**3 725**	**3 616**	**3 811**	**3 851**
Net Assets	**951**	**942**	**1 065**	**2 536**	**3 230**
Retained profits	951	942	1 065	2 536	3 230
Total Equity	**951**	**942**	**1 065**	**2 536**	**3 230**

Comment

The base level of receivables increased in 2000-01 as a result of the higher level of CSO funding and a change in timing to payment in arrears. The final CSO payment in relation to 2002-03 was $0.240m. (2001-02, $0.239m.).

The Investment item represents The Public Trustee's invested funds in the Common Fund referred to earlier in this segment of the Report.

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 in 2001-02. Equity increased in 2002-03 due to the profit for the year.

CASH POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	3 616	3 240	3 662	4 115	4 449
Payments to suppliers and employees	(3 139)	(3 349)	(3 310)	(3 422)	(3 531)
Taxation expense	0	0	0	0	(134)
Cash from operations	**477**	**(109)**	**352**	**693**	**784**
Proceeds from investments	0	200	0	0	0
Payments for investments	(400)	0	(300)	(500)	(750)
Payments for P, P & Equipment	(26)	(149)	(51)	(72)	(23)
Proceeds from sale of P, P & E	0	0	57	0	0
Cash used in investing activities	**(426)**	**51**	**(294)**	**(572)**	**(773)**
Dividends paid	0	0	0	(122)	0
Cash from financing activities	**0**	**0**	**0**	**(122)**	**0**
Net increase in cash	**51**	**(58)**	**58**	**(1)**	**11**
Cash at the beginning of the period	201	252	193	251	250
Cash at end of the period	**252**	**194**	**251**	**250**	**261**

Comment

For the purposes of the report, the cash position includes cash on hand and the cash component of the investment in the Common Fund whereas cash for the purposes of the summarised financial position is solely cash on hand.

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	1998-99	1999-00	2000-01	2001-02	2002-03
Financial Performance						
Result from operations ($'000s)		25	(196)	227	(16)	268
EBIT ($'000s)		94	(9)	244	(16)	751
Operating margin	>1.0	1.01	0.94	1.06	1.00	1.07
Return on assets		1.7%	-0.2%	4.3%	-0.2%	8.6%
Return on equity		2.5%	-1.0%	24.3%	81.8%	24.0%
Financial Management						
Debt to equity		-	-	-	-	-
Debt to total assets		-	-	-	-	-
Interest cover	>3	-	-	-	-	-
Current ratio	>1	2.74	2.59	2.06	1.83	1.72
Cost of debt						
Debt collection	30 days					
Creditor turnover	30 days	23	16	31	31	50
Returns to Government						
Dividends paid or payable ($'000s)		12	0	122	0	347
Dividend payout ratio	50%	50.0%	-	50.0%	-	50.1%
Dividend to equity ratio		1.3%	-	12.2%	-	12.0%
Income tax paid or payable ($'000s)		0	0	0	21	197
Effective tax rate	30%	-	-	-	-131.3%	26.2%
Total return to the State ($'000s)		12	0	122	21	544
Total return to equity ratio		1.3%	-	12.2%	1.2%	18.9%
Other information						
Staff numbers FTEs		51	49	49	49	46
Average staff costs ($'000s)		37	38	51	61	61

Comment

The financial performance ratios reflect one-off events in years of high profitability. 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 receipt of the CSO has contributed to the larger positive returns on equity.

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 most of the past five years due to the marginal operating results. However, results in 2000-01 and especially the current year are encouraging.

The debt collection ratio is not applicable because most of the revenue is derived from internal billings in respect of fees for service.

Although creditor turnover appears high, it is due to an end of year accumulation of amounts owing for various administrative fees and does not represent any lag in payment of creditors.

Average staff costs have increased in recent years due to increases in awards. The calculated cost for 2001-02 reflects the inclusion of a one-off adjustment to the RBF provision.

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 and 2002-03, 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. The improved result after taxation in 2002-03 is partly due to the write back of the revaluation increment of $0.483m.

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 $894m, employ over 1 750 people, and generate an estimated $820m 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 2003 for the entities within this group were as follows:

Entity	Responsible Minister
Aurora Energy Pty Ltd	Minister for Economic Development, Energy and Resources
Metro Tasmania Pty Ltd	Minister for Infrastructure
TOTE Tasmania Pty Ltd	Minister for Racing, Sport and Recreation
Transend Networks Pty Ltd	Minister for Economic Development, Energy and Resources
TT-Line Company Pty Ltd	Minister for Tourism, Parks and Heritage

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 four business divisions as well as whole-of-business support services. These are Aurora Retail (electricity retailing), Network (distribution asset management), Network Services (assists network in overseeing resource allocation to network management) and Contract Services (customer contracting management and compliance)

Aurora holds a majority interest in Aurora Energy AAPT Pty Ltd (trading as TasTel) and has a fully owned subsidiary in Ezikey Group Pty Ltd promoting pre-payment metering systems. Both of these entities were formed in 2000-01. Aurora's other wholly owned subsidiary Aurora Gas Pty Ltd, formed in 2002 to enter the gas tender process has not been involved in any trading. All figures in the following tables and analysis are based upon the consolidation of these entities.

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

The Responsible Minister is the Minister for Infrastructure, Energy and Resources.

AUDIT OF THE 2002-03 FINANCIAL STATEMENTS

The Tasmanian Audit Office received signed financial statements from the Company on 24 September 2003 and an unqualified audit report was issued on 3 October 2003.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	$'000s	$'000s	$'000s	$'000s	$'000s
Operating revenue	542 078	552 273	573 007	586 973	630 469
Non-operating revenue	772	2 300	0	0	205
Total Revenue	**542 850**	**554 573**	**573 007**	**586 973**	**630 674**
Borrowing costs	38 658	41 912	34 307	28 432	28 799
Depreciation	37 292	39 183	40 673	44 783	46 203
Other operating expenses	436 472	440 359	460 517	473 226	508 911
Non-operating expenses	3 832	4 014	508	393	0
Total Expenses	**516 254**	**525 468**	**536 005**	**546 834**	**583 913**
Result from ordinary activities	**26 596**	**29 105**	**37 002**	**40 139**	**46 761**
Income tax expense	14 196	9 002	16 856	9 082	17 995
Result after taxation	**12 400**	**20 103**	**20 146**	**31 057**	**28 766**

Comment

Operating revenue has continued to increase steadily with sales revenue for both Business Customers (from $332m in 1998-99 to $392.000m in 2002-03) and General Sales (from $177m in 1998-99 to $215.000m in 2002-03). This has been partially offset by corresponding increases in Energy and Transmission costs over the same period (from $336m in 1998-99 to $415.000m in 2002-03).

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 Retirements Benefits Fund (RBF) non-contributory provision for superannuation.

Borrowing costs declined in 2001-02, partly due to loan restructuring in 2000-01 as part of debt management procedures. Costs for 2002-03 have remained low and include an additional $1.717m of debt management restructuring to take advantage of current favourable rates available for the future.

Increases in depreciation across the years of the analysis are driven by new additions bought into service and revaluation of existing assets.

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 $0.438m 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

	1998-99	1999-00	2000-01	2001-02	2002-03
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	37	10	8	235	854
Receivables	87 591	78 278	86 549	89 585	85 613
Investments	4 400	3 100	0	14 389	20 898
Inventories	4 988	3 905	3 559	3 414	3 288
Other	3 618	2 772	2 594	1 059	2 581
Total Current Assets	**100 634**	**88 065**	**92 710**	**108 682**	**113 234**
Property, plant & equipment	655 702	672 000	693 919	714 800	735 860
Investments	0	0	564	202	680
Other	5 465	4 601	4 902	12 437	14 012
Total Non-Current Assets	**661 167**	**676 601**	**699 385**	**727 439**	**750 552**
Payables	57 372	60 681	55 734	59 265	63 016
Borrowings	52 900	20 000	72 198	29 448	23 663
Provisions	25 785	31 045	36 434	40 878	32 678
Other	3 313	3 017	3 590	5 801	8 481
Total Current Liabilities	**139 370**	**114 743**	**167 956**	**135 392**	**127 838**
Borrowings	335 577	358 138	306 392	348 554	342 337
Provisions	59 924	53 702	54 578	54 456	54 490
Total Non-Current Liabilities	**395 501**	**411 840**	**360 970**	**403 010**	**396 827**
Net Assets	**226 930**	**238 083**	**263 169**	**297 719**	**339 121**
Capital	201 555	201 555	201 555	201 555	201 555
Reserves	19 175	20 277	35 459	51 518	63 771
Retained profits	6 200	16 251	26 155	44 646	73 795
Total Equity	**226 930**	**238 083**	**263 169**	**297 719**	**339 121**

Comment

Current Investments represents Aurora's money market account and fluctuates as part of normal operations. Non-current Investments represents equity held in TasTel at year-end. Other non-current assets increases in 2001-02 and 2002-03 are principally driven by increases in Future Income Tax Benefits.

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 while the outstanding balance remained stable at approximately $378.000m until a further restructure and $12.000m reduction in 2002-2003, reducing borrowings to $366.000m.

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

CASH POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	551 613	565 316	610 638	635 141	698 192
Payments to suppliers and employees	(455 995)	(440 074)	(508 006)	(520 144)	(561 727)
Interest received	701	1 292	939	504	1 257
Borrowing costs	(35 216)	(45 121)	(32 280)	(26 513)	(27 820)
Taxation expense	(6 738)	(11 835)	(13 532)	(16 718)	(18 868)
Cash from operations	**54 365**	**69 578**	**57 759**	**72 270**	**91 034**
Payments for investments	0	0	(800)	0	(660)
Payments for P, P & Equipment	(47 994)	(57 112)	(50 060)	(54 372)	(59 229)
Proceeds from sale of P, P & E	3 269	1 635	2 143	4 378	4 483
Cash used in investing activities	**(44 725)**	**(55 477)**	**(48 717)**	**(49 994)**	**(55 406)**
Proceeds from borrowings	117 400	163 700	38 639	71 075	79 137
Repayment of borrowings	(126 400)	(173 700)	(39 169)	(72 203)	(92 501)
Dividends paid	0	(6 200)	(10 052)	(10 244)	(12 567)
Cash from financing activities	**(9 000)**	**(16 200)**	**(10 582)**	**(11 372)**	**(25 931)**
Net increase in cash	**640**	**(2 099)**	**(1 540)**	**10 904**	**9 697**
Cash at the beginning of the period	2 523	3 163	1 064	(476)	10 428
Cash at end of the period	**3 163**	**1 064**	**(476)**	**10 428**	**20 125**

Comment

Aurora benefits from a regular supply of income from its electricity customers to meet its obligations to both suppliers and employees.

The number of customers has increased from 248 544 at 30 June 2002 to 250 893 customers at 30 June 2003. A major influence from 1 July 2000 is that both receipts from customers and payments to suppliers include the application of Goods and Services Tax on sales and purchases respectively.

Borrowing costs have declined in recent years in line with prior restructuring and lower debt servicing costs. The slight rise in 2002-03 is due to the inclusion of the $1.717m afore-mentioned debt restructuring costs.

Proceeds and repayments of borrowings mainly offset each other. However, there were reductions in total borrowings of $9.000m in 1998-99 and $10.000m in 1999-00. The portfolio has remained relatively stable, until a further reduction of $12.000m in 2002-2003. Other financing activity cash flows are for dividend payments based on operating profit as shown above.

FINANCIAL ANALYSIS

	Bench Mark	1998-99	1999-00	2000-01	2001-02	2002-03
Financial Performance						
Result from operations ($'000s)		29 656	30 819	37 510	40 532	46 556
EBIT ($'000s)		65 254	71 017	71 309	68 571	75 560
Operating margin	>1.0	1.06	1.06	1.07	1.07	1.08
Return on assets		8.7%	9.3%	9.2%	8.4%	8.9%
Return on equity		10.3%	8.6%	8.0%	11.1%	9.0%
Financial Management						
Debt to equity		171.2%	158.8%	143.9%	127.0%	107.9%
Debt to total assets		51.0%	49.5%	47.8%	45.2%	42.4%
Interest cover	>3	1.7	1.7	2.1	2.4	2.6
Current ratio	>1	0.72	0.77	0.55	0.80	0.89
Cost of debt	7.5%	7.8%	10.9%	9.1%	7.5%	7.7%
Debt collection	30 days	27	23	28	29	28
Creditor turnover	30 days	4	4	3	1	1
Returns to Government						
Dividends paid or payable ($'000s)		6 200	10 052	10 244	12 566	14 754
Dividend payout ratio	50%	50.0%	50.0%	50.8%	40.5%	51.3%
Dividend to equity ratio	6%	5.2%	4.3%	4.1%	4.5%	4.6%
Income tax paid or payable ($'000s)		14 196	9 002	16 856	9 082	17 995
Effective tax rate	30%	53.4%	30.9%	45.6%	22.6%	38.5%
Total return to the State ($'000s)		20 396	19 054	27 100	21 648	32 749
Total return to equity ratio		17.0%	8.2%	10.8%	7.7%	10.3%
Other information						
Staff numbers FTEs		859	841	810	820	845
Average staff costs ($'000s)		46	46	51	52	59

Comment

Aurora's operating result continues to be strong with a $6.024m (15.37%) increase over the previous financial year. The return on equity after tax ratio, dividend payout after tax ratio and effective tax rate in 2001-02 were 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. The effective tax rate was lower in 1999-00 due to the effects of reductions in the company tax rates on deferred tax balances.

Returns to the State remain stable, at half of operating profit after tax plus income tax.

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 effect of debt reductions and restructuring in 1998-99, 1999-00 and 2002-03 is evident in the declining debt to total assets and cost of debt ratios. Aurora's creditor turnover figure remains low as payments to its largest creditors for energy and transmission purchases are made when due and accruals are excluded from this ratio.

OVERALL COMMENT

As a result of strong operations in 2002-03 the Tasmanian Government will receive $37.078m comprising income tax equivalence, $17.995m, proposed dividend based on 50% of after tax profit, $14.754, payroll tax, $3.115m and debt guarantee fees, $1.214m.

The Tasmanian Government has a Community Service Agreement with Aurora to provide discounts to pensioners. In 2002-03 reimbursements for the community service and administration costs were $13.005m. Commencing from 1 July 2003 the Government has expanded this agreement to include eligible Commonwealth Health Care Cardholders in the two winter quarters.

The 2002-03 Audit has been 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.

The Responsible Minister is the Minister for Infrastructure.

AUDIT OF THE 2002-03 FINANCIAL STATEMENTS

The signed statements of Metro and Metro Coaches were received on 27 August 2003 and unqualified audit reports were issued on 5 September 2003.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	$'000s	$'000s	$'000s	$'000s	$'000s
Operating revenue	27 648	29 842	28 950	29 535	30 076
Non-operating revenue	2	40	44	70	(30)
Total Revenue	**27 650**	**29 882**	**28 994**	**29 605**	**30 046**
Borrowing costs	522	427	262	227	215
Depreciation	2 952	2 992	2 790	2 975	3 128
Other operating expenses	26 441	25 700	25 995	25 990	26 623
Total Expenses	**29 915**	**29 119**	**29 047**	**29 192**	**29 966**
Result from ordinary activities	**(2 265)**	**763**	**(53)**	**413**	**80**
Income tax expense	0	0	0	0	0
Result after taxation	**(2 265)**	**763**	**(53)**	**413**	**80**

Comment

The Government Prices Oversight Commission (GPOC) determines the maximum prices that Metro can charge. There was an increase in prices in 2000-01, the first price change since 1996-97, at which time Metro entered into a new three-year Community Service Agreement with the Government. The funding provided under the agreement was designed to enable Metro to achieve a break-even operating result. It includes provision for concession travel and the provision of non-commercial services. Metro receives the majority of its revenue from this contract, which amounted to $19.990m in 2002-03. This funding is not separately identified in the Operating revenue.

Operating revenue has been growing gradually, despite a small decline in patronage.

Non-operating revenue relates to sales of property, plant and equipment and can vary from year to year.

Borrowing costs have been reducing with 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.

Since then Other operating expenses have remained relatively stable, with a small increase in 2002-03 due to increasing fuel costs.

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

FINANCIAL POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	379	175	1 329	3 704	4 599
Receivables	611	380	1 068	863	652
Investments	1 076	2 673	3 092	2 695	5 688
Inventories	820	700	696	742	795
Other	318	260	431	497	560
Total Current Assets	**3 204**	**4 188**	**6 616**	**8 501**	**12 294**
Property, plant & equipment	30 778	27 800	26 834	26 039	24 538
Investments	3 040	2 599	1 990	2 630	0
Other	159	143	127	304	288
Total Non-Current Assets	**33 977**	**30 542**	**28 951**	**28 973**	**24 826**
Payables	1 348	1 497	1 975	2 726	2 018
Borrowings	5 923	514	71	4	169
Provisions	3 142	3 828	3 995	4 474	5 511
Total Current Liabilities	**10 413**	**5 839**	**6 041**	**7 204**	**7 698**
Borrowings	901	3 179	3 034	3 030	2 861
Provisions	10 189	9 804	9 431	10 052	9 775
Total Non-Current Liabilities	**11 090**	**12 983**	**12 465**	**13 082**	**12 636**
Net Assets	**15 678**	**15 908**	**17 061**	**17 188**	**16 786**
Capital	15 494	15 498	15 501	15 502	15 503
Reserves	0	0	1 207	1 192	1 017
Retained profits	184	410	353	494	266
Total Equity	**15 678**	**15 908**	**17 061**	**17 188**	**16 786**

Comment

Receivables increased significantly in 2000-01 due to a number of factors:

- An additional $0.187m in debtors (representing higher advertising and charter invoices at year end, sale of bus and receivable from DIER for contract payment adjustment in 2001, but not in the 2000 financial year);
- Superannuation receivable of $0.193m for employees transferring to Metro; and
- Accrued income for the diesel fuel rebate (new in 2001) and fuel subsidy of $0.069m and DEET revenue of $0.134m.

The cash position increased in 2001-02 and by a lesser amount in 2002-03 due to funds set aside for the purchase of buses.

Metro undertook a change in strategy for Investments in 2002-03, moving from a private fund manager to Tascorp. This is represented in the statements by a movement in the investment assets from non-current to current.

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.

Current and Non-Current Provisions increased in 2001-02 due to a superannuation provision increase as advised by the State Actuary of $0.609m, an increase in Non-Current leave liabilities of $0.126m and an increase in the workers' compensation provision of $0.138m.

Total borrowings decreased from $6.824m in 1998-99 to $3.693.000m in 1999-00 due to debt repayments to Tascorp, $2.500m, and the Department of Treasury and Finance, $0.631m. An amount of $2.792m relating to 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

	1998-99 $'000s	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s	2002-03 $'000s
Receipts from customers	26 775	29 159	28 700	29 969	30 848
Payments to suppliers and employees	(37 773)	(25 010)	(26 132)	(25 274)	(27 931)
Interest received	651	335	387	384	458
Borrowing costs	(522)	(427)	(262)	(227)	(215)
Cash from operations	**(10 869)**	**4 057**	**2 693**	**4 852**	**3 160**
Proceeds from investments	12 650	2 500	500	0	5 547
Payments for investments	(591)	(3 656)	(335)	(298)	(5 910)
Payments for P, P & Equipment	(2 036)	(1 047)	(858)	(2 899)	(2 608)
Proceeds from sale of P, P & E	255	1 073	275	791	996
Cash used in investing activities	**10 278**	**(1 130)**	**(418)**	**(2 406)**	**(1 975)**
Proceeds from borrowings	0	2 792	0	2 792	0
Repayment of borrowings	(51)	(5 923)	(588)	(2 863)	(4)
Dividends Paid	0	0	(533)	0	(286)
Cash from financing activities	**(51)**	**(3 131)**	**(1 121)**	**(71)**	**(290)**
Net increase in cash	**(642)**	**(204)**	**1 154**	**2 375**	**895**
Cash at the beginning of the period	1 021	379	175	1 329	3 704
Cash at end of the period	**379**	**175**	**1 329**	**3 704**	**4 599**

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 above. These payments were funded from investments.

Payments for Property, plant and equipment included the purchase of seven buses in 2001-02 and six buses 2002-03.

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

Dividends are paid to Treasury based on the prior year's profit results.

The higher amounts of cash at the end of 2001-02 and 2002-03 represents the cash committed for bus purchases.

Proceeds from and payments for investing activities reflect the change in investment strategy.

No borrowings were necessary in 2002-03.

FINANCIAL ANALYSIS

	Bench Mark	1998-99	1999-00	2000-01	2001-02	2002-03
Financial Performance						
Result from operations ($'000s)		(2 267)	723	(97)	343	110
EBIT ($'000s)		(1 743)	1 190	209	640	295
Operating margin	>1.0	0.92	1.02	1.00	1.01	1.00
Return on assets		-4.0%	3.3%	0.6%	1.8%	0.8%
Return on equity		-13.5%	4.8%	-0.3%	2.4%	0.5%
Financial Management						
Debt to equity		43.5%	23.2%	18.2%	17.7%	18.1%
Debt to total assets		18.4%	10.6%	8.7%	8.1%	8.2%
Interest cover	>3	(3. 34)	2. 79	0. 80	2. 82	1. 37
Current ratio	>1	0.31	0.72	1.10	1.18	1.60
Cost of debt	7.5%	7.6%	8.1%	7.7%	7.4%	7.1%
Debt collection	30 days	8	5	13	11	8
Creditor turnover	30 days	32	26	32	51	39
Returns to Government						
Dividends paid or payable ($'000s)		0	533	0	286	0
Dividend payout ratio	50%	-	69.9%	-	69.2%	-
Dividend to equity ratio		-	3.4%	-	1.7%	-
Income tax paid or payable ($'000s)		0	0	0	0	0
Effective tax rate	30%	-	-	-	-	-
Total return to the State ($'000s)		0	533	0	286	0
Total return to equity ratio		-	3.4%	-	1.7%	-
Other information						
Staff numbers FTEs		376	378	371	367	363
Average staff costs ($'000s)		43	42	46	50	51

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 debt to equity and debt to total assets ratios have been generally declining, as Metro has reduced its borrowings.

The interest cover ratios have remained relatively low as a result of low levels of profitability for the company.

The increase in the current ratio in 2002-03 was due to the move from non-current to current investments.

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. Therefore, Returns to the State continue to be well below that which would be expected from commercial undertakings.

The decrease in creditor turnover in 2001-02 was due to the inclusion of the liability for the purchase of two buses.

The 2002-03 profit after tax and the result from operations and earnings before interest are lower than 2001-02, which included the receipt of $0.336m from the Retirement Benefits Fund Board relating to superannuation benefits of employees that had transferred to Metro. The lower interest cover ratio is due to the lower result from operations with little change in borrowing costs.

OVERALL COMMENT

The current financial position of Metro is considered to be sound.

The 2002-03 Audits of Metro and Metro Coaches were completed with satisfactory results.

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 comprises six 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 2003 the Responsible Minister was the Minister for Racing, Sport and Recreation.

AUDIT OF THE 2002-03 FINANCIAL STATEMENTS

Signed statements were received on 17 October 2003 and an unqualified audit report was issued on 21 October 2003.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	$'000s	$'000s	$'000s	$'000s	$'000s
Wagering revenue	25 190	26 215	30 830	36 595	40 879
Interest received	183	231	305	316	423
Other revenue	1 123	1 729	3 350	4 777	7 492
Non-operating revenue	0	401	0	0	0
Total Revenue	**26 496**	**28 576**	**34 485**	**41 688**	**48 794**
Borrowing costs	0	0	154	214	340
Depreciation and amortisation	1 537	2 221	2 326	2 784	3 243
Other operating expenses	15 679	25 938	31 109	37 390	43 784
Non-operating expenses	0	260	1	0	0
Total Expenses	**17 216**	**28 419**	**33 590**	**40 388**	**47 367**
Result from ordinary activities	**9 280**	**157**	**896**	**1 300**	**1 427**
Income tax expense	0	0	362	497	234
Result after taxation	**9 280**	**157**	**533**	**803**	**1 193**

Comment

The five-year comparatives refer to the TAB for the period 1998-99 to 4 March 2001, the Company from 5 March 2001 to 30 June 2001 and the Company for 2001-02 and 2002-03. 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 of 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.

In 2002-03, wagering revenue rose by $4.284m and other revenue rose by $2.715m. These were offset by increases in most operating expenses including increases in prize money and incentives ($1.383m) wagering and pooling expense ($1.668m), racing administration expense ($1.250m), commission expense ($0.722m) and depreciation ($0.459m). Profit before tax increased marginally from $1.300m in 2001-02 to $1.427m in 2002-03. Tax equivalent decreased from $0.497 to $0.233m due to the $0.288m write-back of the provision for deferred income tax balance relating to the calculation of the opening tax balances in 2000-01.

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 however, since 2001 the Racing Services Division of the Company has been funded via the payment of an annual indexed Product Fee and 25% of earnings before depreciation, taxation, interest and amortisation. Residual profits after the payments to the Racing Services Division are paid to the shareholders as dividends.

FINANCIAL POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	1 920	2 957	994	2 002	2 854
Receivables	391	1 055	1 144	1 520	2 406
Investments	2 239	2 632	4 909	6 498	7 411
Inventories	0	0	0		
Other	386	555	973	517	382
Total Current Assets	**4 936**	**7 200**	**8 019**	**10 537**	**13 053**
Property, plant & equipment	11 773	17 001	16 791	14 291	13 261
Investments	0	0	0		
Other	935	861	833	1 434	1 536
Total Non-Current Assets	**12 708**	**17 862**	**17 624**	**15 725**	**14 797**
Payables	687	2 244	2 054	1 849	2 770
Borrowings	0	1 052	0	0	0
Provisions	775	1 269	1 669	2 546	1 095
Other	2 255	2 103	2 583	2 980	3 470
Total Current Liabilities	**3 717**	**6 669**	**6 306**	**7 375**	**7 335**
Borrowings	0	1 732	2 784	2 819	3 232
Provisions	104	1 157	929	1 000	1 031
Other	0	0	0	0	0
Total Non-Current Liabilities	**104**	**2 889**	**3 713**	**3 819**	**4 263**
Net Assets	**13 823**	**15 503**	**15 623**	**15 068**	**16 252**
Capital	12 709	9 892	9 892	14 382	14 602
Reserves	1 114	5 511	5 505	383	162
Retained profits	0	100	226	303	1 488
Total Equity	**13 823**	**15 503**	**15 623**	**15 068**	**16 252**

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.

Receivables increased during the current year due to the sale of several properties where the contract was signed prior to the year end but settlement did not take place until after year end.

There is no provision for dividend due to a change in accounting standards whereby dividends declared after the end of the financial year are no longer shown as provisions. TOTE will pay a dividend in relation to 2002-03 of $1.193m.

CASH POSITION

	1998-99 $'000s	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s	2002-03 $'000s
Receipts from customers	221 529	215 107	163 512	184 146	204 131
Other receipts	465	403	400	3 694	6 502
Interest received	190	238	290	322	422
Payments to customers	(184 474)	(178 825)	(131 457)	(149 667)	(162 107)
Payments to suppliers and employees	(15 503)	(25 561)	(30 132)	(34 169)	(43 174)
Borrowing costs	(4)	(109)	(169)	(196)	(160)
Other payments	(20 628)	(10 693)	(183)	(87)	(785)
Cash from operations	**1 573**	**560**	**2 261**	**4 043**	**4 829**
Proceeds from investments	1 285	1 764	2 633	47	423
Payments for investments	(513)	0	(41)	(10)	(440)
Payments for P, P & Equipment	(952)	(1 576)	(2 410)	(2 369)	(4 461)
Proceeds from sale of P, P & E	135	252	503	1 282	2 230
Cash used in investing activities	**(45)**	**441**	**685**	**(1 050)**	**(2 248)**
Transfer from Racing Tasmania	0	36	0	0	0
Dividends paid	0	0	0	(407)	(803)
Cash from financing activities	**0**	**36**	**0**	**(407)**	**(803)**
Net increase in cash	**1 528**	**1 037**	**2 945**	**2 586**	**1 778**
Cash at the beginning of the period	392	1 920	2 957	5 902	8 488
Cash at end of the period	**1 920**	**2 957**	**5 902**	**8 488**	**10 266**

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. This increase plus proceeds from the sale of assets contributed to an increase in cash held at the end of the reporting period. There was a further increase in 2002-03.

The increase in Other receipts in 2001-02 is largely due to Sky Channel Fees and the further increase in 2002-03 is due to the sale of properties.

Payments for Property, plant and equipment in 2002-03 increased to $4.460m due to capital expenditure on the Internet wagering site and the network refurbishment program. A loan of $0.423m was made to the Tasmanian Racing Club. Overall the cash position improved which resulted from the increased cash surplus from operations being partly offset by increased payments for Property, plant and equipment.

FINANCIAL ANALYSIS

	Bench Mark	1998-99	1999-00	2000-01	2001-02	2002-03
Financial Performance						
Result from operations ($'000s)		9 280	157	896	1 300	1 427
EBIT ($'000s)		9 280	157	1 050	1 460	1 582
Operating margin	>1.0	1.54	1.00	1.03	1.03	1.03
Return on assets		51.4%	0.7%	4.1%	5.6%	5.8%
Return on equity		67.1%	1.1%	3.4%	5.2%	7.6%
Financial Management						
Debt to equity		-	18.0%	17.8%	18.7%	19.9%
Debt to total assets		-	11.1%	10.9%	10.7%	11.6%
Interest cover	>3	-	-	7	9	10
Current ratio	>1	1.33	1.08	1.27	1.43	1.78
Cost of debt	7.5%	-	-	5.5%	5.8%	5.8%
Debt collection	30 days	6	15	14	38	18
Creditor turnover	30 days	23	41	29	22	27
Returns to Government						
Dividends paid or payable ($'000s)		0	0	407	803	1 193
Dividend payout ratio	50%	-	-	76.3%	100.0%	100.0%
Dividend to equity ratio	6%	-	-	2.6%	5.2%	7.6%
Income tax paid or payable ($'000s)		0	0	362	497	522
Effective tax rate	30%	-	-	40.4%	38.2%	36.6%
Total return to the State ($'000s)		0	0	769	1 300	1 715
Total return to equity ratio		-	-	4.9%	8.5%	11.0%
Other information						
Staff numbers FTEs		103	98	102	112	115
Average staff costs ($'000s)		45	60	51	56	58

Comment

Result from operations, EBIT and Operating margin in 1999-00 reflect the changes in operations, as discussed earlier in this segment of the Report. In addition, Equity increased with these changes and this has resulted in a lower Return on Equity.

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 have to 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 the network rationalisation, together with the additional costs associated with the assumption of Racing Tasmania (RBFB superannuation provisions of non transferring employees).

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

The profit in 2001-02 resulted in TOTE making a provision for a dividend, as well as incurring income tax expense. Equity dropped marginally due to a drop 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. In 2002-03 equity increased due to the change in accounting policy whereby the provision for dividend is not brought to account at year end.

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, resulting in dividend provision and income tax expense, and a slight decrease in equity resulting from a decrease in the asset revaluation reserve following land and building revaluations.

The changes for TOTE in 2002-03 resulted from increases in both sales and other revenues offset by increases in expenses with a marginal increase in the result from ordinary activities with taxation expense falling. The equity position increased due to the extra retained profits which resulted from the change in Australian accounting policy whereby the dividend for 2002-03 is not booked at the end of the 2003 financial year. The cash position of the company strengthened ahead of some large capital projects in 2003-04.

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 seven directors manages the Company.

The Shareholder Ministers are the Minister for Economic Development, Energy and Resources and the Treasurer.

AUDIT OF THE 2002-03 FINANCIAL STATEMENTS

Signed statements were received on 30 September 2003 and an unqualified audit report was issued on 2 October 2003.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	$'000s	$'000s	$'000s	$'000s	$'000s
Operating revenue	66 265	69 698	77 939	81 027	83 113
Total Revenue	**66 265**	**69 698**	**77 939**	**81 027**	**83 113**
Borrowing costs	382	338	1 006	1 153	981
Depreciation	14 080	15 457	17 454	21 314	22 537
Other operating expenses	17 098	19 592	27 899	29 780	32 267
Non-operating expenses	49	91	9 173	143	173
Total Expenses	**31 609**	**35 478**	**55 532**	**52 390**	**55 958**
Result from ordinary activities	**34 656**	**34 220**	**22 407**	**28 637**	**27 155**
Income tax expense	14 668	11 821	12 341	8 963	10 789
Result after taxation	**19 988**	**22 399**	**10 066**	**19 674**	**16 366**

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. For 2002-03 the increase was due to both the System Controller Fee and the fees associated with the use of the transmission system.

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 or TWEM) 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. In 2002-03, there were increases in transmission use of system and system controller revenues, and also in relation to System Controller increases in these operating costs. This was the first full year of the TWEM project reflecting an increase in activity. Non-operating expenses in 2000-01 were largely due to write-offs of decommissioned assets of $9.431m.

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. From 2001-02 operations have included 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 impact was a $1.200m reduction in profit.

FINANCIAL POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	1	0	0	0	0
Receivables	10 215	9 191	9 744	9 075	9 389
Investments	0	0	530	0	3 946
Inventories	727	489	489	481	425
Other	48	70	1 102	112	264
Total Current Assets	**10 991**	**9 750**	**11 865**	**9 668**	**14 024**
Property, plant & equipment	394 913	426 708	451 682	580 736	586 251
Other	470	394	623	2 817	3 357
Total Non-Current Assets	**395 383**	**427 102**	**452 305**	**583 553**	**589 608**
Payables	8 973	10 138	10 806	9 344	12 221
Borrowings	14 140	9 400	5 052	1 760	4 994
Provisions	16 499	15 971	16 387	12 972	5 038
Other	983	180	902	198	38
Total Current Liabilities	**40 595**	**35 689**	**33 147**	**24 274**	**22 291**
Borrowings	0	9 945	10 418	15 490	20 510
Provisions	14 636	17 311	25 248	30 196	34 422
Total Non-Current Liabilities	**14 636**	**27 256**	**35 666**	**45 686**	**54 932**
Net Assets	**351 143**	**373 907**	**395 357**	**523 261**	**526 409**
Capital	336 549	336 549	336 549	336 549	336 549
Reserves	4 600	16 164	37 639	155 707	142 489
Retained profits	9 994	21 194	21 169	31 005	47 371
Total Equity	**351 143**	**373 907**	**395 357**	**523 261**	**526 409**

Comment

Investments were high at 30 June in 2002-03 due to the capital expenditure program being lower than forecast.

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 directors' 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 (2002-03: 2.7%), 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.

In 2002-03 the Treasurer engaged Meritec Pty Ltd to undertake an independent review of the company's assets as at 30 June 2001, bringing about a revaluation decrement of $21.828m. When combined with the abovementioned escalation, there was a net revaluation decrement of $13.218m. The continuing capital works program brought about additions of $40.439m in 2002-03.

Payables were lower in 2001-02 due to a concerted effort to minimise year-end creditors that year.

Total Borrowings increased by $5.205m in 1999-00, by $1.780m in 2001-02, and by $8.254m in 2002-03 to provide for the Company's capital expenditure program, designed to improve the reliability of the State's transmission system.

Short-term borrowings increased in 2002-03 as a term loan will fall due within the next 12 months.

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. Provisions increased by $0.902m in 2001-02 and by $1.026m in 2002-03 due to the retention of longer serving staff. The remaining amount is the income tax provision. No provision was made for dividends in 2002-03 in accordance with Accounting Standard AASB 1044 - Provisions, Contingent Liabilities and Contingent Assets.

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.

Refer to the above comments in relation to the 2002-03 Reserve movements.

CASH POSITION

	1998-99 $'000s	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s	2002-03 $'000s
Receipts from customers	60 520	70 588	87 434	89 551	90 994
Payments to suppliers and employees	(21 572)	(17 427)	(32 749)	(38 544)	(35 741)
Interest received	145	0	45	44	190
Borrowing costs	(96)	(555)	(1 124)	(1 203)	(1 186)
Taxation expense	(6 500)	(11 290)	(8 295)	(10 293)	(6 197)
Cash from operations	**32 497**	**41 316**	**45 311**	**39 555**	**48 060**
Proceeds from transfer of system controller functions	0	0	2 046	0	0
Payments for P, P & Equipment	(47 591)	(35 975)	(32 073)	(32 359)	(43 076)
Proceeds from sale of P, P & E	66	90	197	221	542
Cash used in investing activities	**(47 525)**	**(35 885)**	**(29 830)**	**(32 138)**	**(42 534)**
Proceeds from borrowings	14 140	10 073	5 689	2 553	10 177
Repayment of borrowings	0	(4 740)	(9 930)	0	(5 706)
Dividends paid	0	(9 994)	(11 199)	(10 091)	(9 837)
Cash from financing activities	**14 140**	**(4 661)**	**(15 440)**	**(7 538)**	**(5 366)**
Net increase in cash	**(888)**	**770**	**41**	**(121)**	**160**
Cash at the beginning of the period	1	(887)	(117)	(76)	(197)
Cash at end of the period	**(887)**	**(117)**	**(76)**	**(197)**	**(37)**

Comment

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

The company 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	1998-99	1999-00	2000-01	2001-02	2002-03
Financial Performance						
Result from operations ($'000s)		34 705	34 311	31 580	28 780	27 328
EBIT ($'000s)		35 038	35 067	23 863	30 261	28 862
Operating margin	>1.0	2.10	1.97	1.68	1.55	1.49
Return on assets		8.6%	8.3%	5.3%	5.7%	4.8%
Return on equity		5.7%	6.2%	2.6%	4.3%	3.1%
Financial Management						
Debt to equity		4.0%	5.2%	3.9%	3.3%	4.8%
Debt to total assets		3.5%	4.4%	3.3%	2.9%	4.2%
Interest cover	>3	91.7	41.4	16.4	18.6	16.9
Current ratio	>1	0.27	0.27	0.36	0.40	0.63
Cost of debt	7.5%	5.4%	5.1%	8.4%	9.9%	8.0%
Debt collection	30 days	1	0	5	4	8
Creditor turnover	30 days	0	1	4	0	63
Returns to Government						
Dividends paid or payable ($'000s)		9 994	11 199	10 091	9 837	8 183
Dividend payout ratio	50%	50.0%	50.0%	100.2%	50.0%	50.0%
Dividend to equity ratio	6%	2.8%	3.1%	2.6%	2.1%	1.6%
Income tax paid or payable ($'000s)		11 860	9 483	8 855	7 001	7 653
Effective tax rate	30%	34.2%	27.7%	39.5%	24.4%	28.2%
Total return to the State ($'000s)		21 854	20 682	18 946	16 838	15 836
Total return to equity ratio		6.2%	5.7%	4.9%	3.7%	3.0%
Other information						
Staff numbers FTEs		52	52	91	113	125
Average staff costs ($'000s)		68	78	83	82	87

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 movements 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 decrease in the 2002-03 ratios is due to the revaluation decrement discussed above.

The Interest cover while lower in the past three years was still significantly above the 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 three 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.

Due to the first-time implementation of AASB 1044 as noted above, no provision for dividends was made this year. Accordingly, the amount for dividends payable for 2002-03 has been taken from figures disclosed in notes to the accounts, whereas previous years' figures have been taken from the statement of financial position.

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 were employed during 2001-02 and 2002-03 mainly 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.

Operations in 2001-02 and 2002-03 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, The Board has recommended to the Shareholders a dividend of $8.183m for 2002-03.

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.

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 2003 the Responsible Minister was the Premier and 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

As noted in my Report No 2 for 2001-02, the audit report for 2001-02 was still in progress. An unqualified audit report was subsequently issued on 20 November 2002.

AUDIT OF THE 2002-03 FINANCIAL STATEMENTS

Signed financial statements were received on 15 September 2003 and an unqualified audit report was issued on 30 September 2003.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	$'000s	$'000s	$'000s	$'000s	$'000s
Operating revenue	80 607	77 507	81 829	86 129	134 111
Non-operating revenue	0	4	13	107	61 407
Total Revenue	**80 607**	**77 511**	**81 842**	**86 236**	**195 518**
Borrowing costs	4 045	3 267	2 696	1 958	12 673
Depreciation	5 748	6 040	5 970	6 304	13 994
Other operating expenses	63 409	67 968	67 808	68 317	103 503
Non-operating expenses	28	0	0	30 940	62 736
Total Expenses	**73 230**	**77 275**	**76 474**	**107 519**	**192 906**
Result from ordinary activities	**7 377**	**236**	**5 368**	**(21 283)**	**2 612**
Income tax expense	0	0	0	0	0
Result after taxation	**7 377**	**236**	**5 368**	**(21 283)**	**2 612**

Comment

The majority of the Company's revenue is generated from ferry operations. In the four-year period covering 1998-99 to 2001-02, the Company provided a regular service between Devonport and Melbourne and the summer catamaran service between George Town and Melbourne.

In 2001-02 revenue increased by $4.300m over that of the prior year, resulting principally from increased passenger revenue of $3.769m. 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. It was during this 2001-02 year that the decision was made to discontinue the catamaran service between George Town and Melbourne.

In 2002-03 the Company's operating revenue increased by $47.296m as a result of the operation of the new dual vessel service, which commenced in September 2002. Although the revenue cannot be compared to the previous periods under review, it is noted that the level of revenue exceeded the budgetary expectations of the Company.

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.

Non-operating revenue and expenses for 2002-03 include the proceeds from the sale of the Spirit of Tasmania, $61.249m and the carrying value of the Spirit of Tasmania at the time of disposal, $62.732m. These transactions reflect a loss on disposal of $1.487m.

Borrowing costs decreased significantly over the four-year period to 2001-02, due to a reduction of $31.443m in borrowings (excluding new borrowings in 2002) over that period.

The Company drew down new borrowings of $291.461m, relating to the purchase of the two new vessels, in June 2002. However, as the vessels did not commence operations until 2002-03, the new loans did not impact upon borrowing costs until this year. Hence, interest on the loans has now been brought to account as an expense, resulting in borrowing cost increasing by $10.715m, to $12.673m for the 2002-03 year.

Other operating expenses and Depreciation have been consistent with the services provided by the Company over the four year covering 1998-99 to 2001-02.

Depreciation expense increased in 2002-03 by $7.690m to $13.994m. The increase is directly attributable to the two new vessels, which have been depreciated for a 10-month period.

However, in the 2002-03 year, other operating expenses have increased, in conjunction with revenue, as result of the new dual vessel service. Although, the expenditure cannot be compared to the previous periods under review, it is noted that, in most cases, expenditure met budgetary expectations.

The Company has successfully reported operating profits in each of the years under review. Profits were reduced in 1999-00 due to costs of $5.430m being incurred due to the Spirit of Tasmania 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.

In the first period of operating the dual vessel service during 2002-03, the Company recorded a profit of $2.612m, which includes the loss on disposal of the Spirit of Tasmania of $1.487m.

FINANCIAL POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	11 642	3 010	12 039	7 814	94
Receivables	5 395	5 179	4 743	3 261	11 906
Inventories	449	550	581	492	803
Other	369	799	583	62 769	429
Total Current Assets	**17 855**	**9 538**	**17 946**	**74 336**	**13 232**
Property, plant & equipment	109 602	105 769	101 655	304 806	392 518
Other	0	0	0	0	0
Total Non-Current Assets	**109 602**	**105 769**	**101 655**	**304 806**	**392 518**
Payables	5 466	5 708	6 999	12 461	16 216
Borrowings	12 360	2 526	16 971	112 511	53 060
Provisions	3 781	3 909	3 639	3 436	5 063
Other	5 153	4 881	5 176	5 810	5 154
Total Current Liabilities	**26 760**	**17 024**	**32 785**	**134 218**	**79 493**
Borrowings	42 573	39 810	22 587	201 536	151 931
Provisions	1 445	1 558	1 946	2 388	2 557
Other	0	0	0	0	87 394
Total Non-Current Liabilities	**44 018**	**41 368**	**24 533**	**203 924**	**241 882**
Net Assets	**56 679**	**56 915**	**62 283**	**41 000**	**84 375**
Capital	94 568	94 568	94 568	94 568	135 822
Retained profits	(37 889)	(37 653)	(32 285)	(53 568)	(51 447)
Total Equity	**56 679**	**56 915**	**62 283**	**41 000**	**84 375**

Comment

The Company has maintained a strong cash position over the four-year period to 2001-02, with the 1999-00 balance lower than other periods due to significant loan repayments made. 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.

As at 30 June 2003, the Company had Cash of $0.094m, although the current Borrowings balance includes a bank overdraft of $1.082m. The significant reduction in cash assets reflects the Company's determination to internally fund capital works, as an alternative to borrowing. Further analysis has been conducted below under Cash Position section.

Receivables for 2002-03 has increased by $8.645m due to the Company accruing loan interest, $5.519m, which is to be paid by the Department of Treasury and Finance as the Government's contribution to the purchase of one of the new vessels. In addition, the Company had a number of material freight debtors at 30 June 2003, which have subsequently been received.

Other current assets for 2001-02 include a balance of $61.691m, which represented the written down value of the Spirit of Tasmania. The transfer of the previously recorded Non-current asset was made due to the impending sale of the vessel in the 2002-03 financial year. The amount of the written-down value had taken into account the $30.887m recoverable amount write down as noted above within non-operating expenses.

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 were 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.

The 2002-03 balance of Property, plant and equipment has increased to $392.518m. The increase is attributable to additional capital works on the new vessels, $9.194m and new works-in-progress during 2002-03 of $88.361m. The majority of the new work-in-progress reflects costs associated with the acquisition of a third vessel to service the Launceston-Sydney route, which has an expected project cost of $105.000m. These increases have been offset by a reduction of $13.994m, representing depreciation.

The balance of payables increased by $5.462m during 2001-02 as a result of accrued expenses relating to the purchase of the two new vessels. In particular, accrued Greece dry docking expenses totalled $2.109m. Other accruals included additional loan interest accrued, $0.687m and an increase in the withholding tax liability,

$0.545m. The balance of Payables increased by a further $3.755m in 2002-03 due to an increase in accrued loan interest, totalling $5.271m and additional creditors relating to increased running costs of operating the two vessels. These increased payables are offset by the once-off accruals noted previously that were directly related to the new vessels purchases.

Total loan debt over the five-year period has increased from $54.933m in 1998-99 to $204.991m in 2002-03. The debt balance was increased by new borrowings in June 2002, totalling $291.461m, for the purchase of the two new vessels. During 2002-03, loan debt was reduced $109.056m. This reduction was due to the State Government's commitment to assist in the repayment of one of the vessels, with a contribution of $41.254m, in addition to the proceeds from the sale of the Spirit of Tasmania, totalling $61.249m, being used to retire debt.

The balance of Other non-current liabilities, $87.394m represents a commitment towards the purchase of the third vessel, with an estimated project cost of $105.000m.

Capital increased in 2002-03 by $41.254m as a result of a capital contribution by the State Government previously noted above. The contribution was used to repay loan debt on one of the new vessels.

CASH POSITION

	1998-99 $'000s	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s	2002-03 $'000s
Receipts from customers	79 266	78 406	90 201	96 565	137 781
Payments to suppliers and employees	(63 678)	(69 755)	(74 917)	(76 263)	(115 080)
Interest received	549	469	387	468	87
Borrowing costs	(4 175)	(3 652)	(2 722)	(1 271)	(6 409)
Cash from operations	**11 962**	**5 468**	**12 949**	**19 499**	**16 379**
Payments for P, P & Equipment	(2 866)	(1 537)	(1 229)	(298 321)	(17 703)
Proceeds from sale of P, P & E	163	34	87	107	61 406
Cash used in investing activities	**(2 703)**	**(1 503)**	**(1 142)**	**(298 214)**	**43 703**
Proceeds from borrowings	227	0	0	291 461	0
Repayment of borrowings	(7 382)	(12 597)	(2 778)	(16 971)	(110 138)
Contribution from owners	0	0	0	0	41 254
Cash from financing activities	**(7 155)**	**(12 597)**	**(2 778)**	**274 490**	**(68 884)**
Net increase in cash	**2 104**	**(8 632)**	**9 029**	**(4 225)**	**(8 802)**
Cash at the beginning of the period	9 538	11 642	3 010	12 039	7 814
Cash at end of the period	**11 642**	**3 010**	**12 039**	**7 814**	**(988)**

Comment

The Company has maintained strong cash flows from operations over the period under review. Cash flow from operations in 1999-00 was below 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, which corresponded to a reducing debt balance.

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.

Payments for Property, plant and equipment in 2002-03, $17.703m includes additional capital works on the two new vessels of $9.194m, leasehold improvement additions of $1.554m and new plant and equipment purchases and expenditure on new works-in-progress.

The cash flows relating to the repayment of loans is consistent with the previous comments made regarding the borrowings balances within the Financial Position section. The largest amount, being the payments in 2002-03 totalling $110.138m, were made possible by proceeds from the sale of property, plant and equipment, $61.406m and the contribution from owners, $41.254m.

As noted previously, the cash position of the Company has reduced significantly during 2002-03 to a net cash deficit of $0.988m. This position is mainly attributable to loan repayments and capital expenditure on the two new vessels. However, based upon expected strong cash flows from operations and the ability to obtain short-term financing, the Company does not expect any significant liquidity problems.

FINANCIAL ANALYSIS

	Bench Mark	1998-99	1999-00	2000-01	2001-02	2002-03
Financial Performance						
Result from operations ($'000s)		7 405	232	5 355	9 550	3 941
EBIT ($'000s)		11 422	3 503	8 064	(19 325)	15 285
Operating margin	>1.0	1.10	1.00	1.07	1.12	1.03
Return on assets		9.0%	2.9%	6.9%	-7.7%	3.9%
Return on equity		14.2%	0.4%	9.0%	-41.2%	4.2%
Financial Management						
Debt to equity		96.9%	74.4%	63.5%	766.0%	243.0%
Debt to total assets		43.1%	36.7%	33.1%	82.8%	50.5%
Interest cover	>3	2.8	1.1	3.0	(9. 87)	1.2
Current ratio	>1	0.67	0.56	0.55	0.55	0.17
Cost of debt	7.5%	6.9%	6.7%	6.7%	5.2%	5.8%
Debt collection	30 days	25	25	21	14	32
Creditor turnover	30 days	16	19	24	34	25
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 ($'000s)		0	0	0	0	0
Total return to equity ratio		-	-	-	-	-
Other information						
Staff numbers FTEs		343	347	345	366	417
Average staff costs ($'000s)		46	47	49	49	61

Comment

A review of the Financial Performance indicates that the Company has returned a profit from operations for every year under review. The lowest result from operations, $0.232m in 1999-00, was a direct result of the Spirit of Tasmanian breakdown and the associated loss incurred, $5.430m.

Consistent with the results from ordinary activities analysed earlier, the returns on assets and equity ratios have been volatile during the period of review. 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.

In 2002-03, the first period of the dual vessel service, the Company recorded a 4.2% return based upon a surplus of $15.285m from ordinary activities before tax and interest expense.

For the three-year period from 1998-99 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. However, the impact of the purchase of the two new vessels and the associated loan debt had a significant impact on the debt ratio analysis in the 2001-02 year. The debt to equity ratio for 2001-02 reflects the new borrowings in June 2002, totalling $291.461m. In addition, equity was reduced by $21.283m, due mainly to the $30.887m write down in the valuation of the Spirit of Tasmania. The debt to equity and debt to total asset ratios have improved in 2002-03 with the repayment of $109.056m of loan debt.

In the three-year period from 1998-99 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. With a profit from ordinary activities in 2002-03, the company improved its interest cover ratio to a level back near the benchmark.

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.

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 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 significant tax losses in relation to the write down of the Spirit of Tasmania's valuation and its subsequent sale. Consequently, the taxation calculations do not result in any taxation payments being required.

Average staff costs have been fairly stable over the four-year period to 2001-02. There has been a significant increase in 2002-03 as a result of the application of on-costs on employee benefits and general pay increases during the period.

OVERALL COMMENT

The Company has, during 2002-03, successfully implemented the dual vessel service between Devonport and Melbourne. In addition, the Spirit of Tasmania was sold and its proceeds used to offset loan debt.

The company has purchased a third vessel to operate a service between Devonport and Sydney, which will commence in January 2004. It is expected the project will cost the Company $105.000m.

The 2002-03 audit was completed satisfactorily with no major issues outstanding.

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 Business 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 2003 the responsible Minister was the Minister for Infrastructure, who with the Treasurer held the shares in the companies.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	Burnie	Devonport	Hobart	Launceston
	$'000s	$'000s	$'000s	$'000s
Operating revenue	10 706	11 472	36 001	9 801
Non-operating revenue	18	12	987	0
Total Revenue	**10 724**	**11 484**	**36 988**	**9 801**
Borrowing costs	735	507	617	867
Depreciation	2 580	1 916	1 903	1 372
Other operating expenses	6 284	6 316	27 387	6 394
Non-operating expenses	0	215	958	71
Total Expenses	**9 599**	**8 954**	**30 865**	**8 704**
Result from ordinary activities	**1 125**	**2 530**	**6 123**	**1 097**
Income tax expense	0	869	1 452	370
Result after taxation	**1 125**	**1 661**	**4 671**	**727**

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 its ability to generate revenue considerably greater than the other ports. Each of the ports generated results from ordinary activities that represented at least 10% of total revenue.

FINANCIAL POSITION

	Burnie $'000s	Devonport $'000s	Hobart $'000s	Launceston $'000s
Cash	272	8 664	4 996	2 779
Receivables	948	1 924	5 641	1 628
Investments	13 619	0	55	0
Inventories	258	9	254	465
Other	60	152	90	199
Total Current Assets	**15 157**	**10 749**	**11 036**	**5 071**
Property, plant & equipment	22 736	36 101	51 876	35 113
Investments	0	0	12 118	0
Other	0	237	920	3 357
Total Non-Current Assets	**22 736**	**36 338**	**64 914**	**38 470**
Payables	419	319	3 196	523
Borrowings	2 673	0	409	1 012
Provisions	558	1 287	2 324	473
Other	649	857	0	1 428
Total Current Liabilities	**4 299**	**2 463**	**5 929**	**3 436**
Borrowings	7 052	7 472	11 807	9 483
Provisions	77	1 318	2 912	4 285
Other	8 400	0	166	0
Total Non-Current Liabilities	**15 529**	**8 790**	**14 885**	**13 768**
Net Assets	**18 065**	**35 834**	**55 136**	**26 337**
Reserves	24 025	32 936	52 400	24 451
Retained surpluses	(5 960)	2 898	2 736	1 886
Total Equity	**18 065**	**35 834**	**55 136**	**26 337**

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. Interest generated from the investment is used to assist in loan repayments.

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.

The Launceston Port has a significant balance of $3.357m in Other non-current assets, which represents Future Income Tax Benefits relating to carried forward tax losses of $10.551m.

Devonport Port does not make any loan repayments, as indicated by the nil balance in current liability Borrowings. The use of interest-only loans has been implemented in accordance with a specific debt management policy.

Burnie Port has disclosed a non-current liability of $8.400m representing $12.000m revenue in advance from Brambles Shipping, less three-years' amortisation. The amount will be amortised over the ten-year life of the service agreement.

The retained deficit of $5.960m for Burnie Port is the result of several revaluation decrements relating to port and airport assets, totalling $17.300m over the four-year period to 2001-02.

CASH POSITION

	Burnie $'000s	Devonport $'000s	Hobart $'000s	Launceston $'000s
Receipts from customers	9 694	11 894	37 444	11 218
Payments to suppliers and employees	(7 051)	(7 271)	(29 948)	(8 179)
Interest received	678	442	218	118
Borrowing costs	(766)	(504)	(730)	(878)
Taxation expense	0	(453)	(1 906)	0
Cash from operations	**2 555**	**4 108**	**5 078**	**2 279**
Proceeds from investments	4 817	510	325	0
Payments for investments	(3 162)	0	(17)	0
Payments for P, P & Equipment	(734)	(4 819)	(2 788)	(1 602)
Proceeds from sale of P, P & E	27	155	987	133
Cash used in investing activities	**948**	**(4 154)**	**(1 493)**	**(1 469)**
Proceeds from borrowings	0	0	0	0
Repayment of borrowings	(3 226)	0	(380)	(907)
Dividends paid	(270)	(78)	(975)	(662)
Cash from financing activities	**(3 496)**	**(78)**	**(1 355)**	**(1 569)**
Net increase in cash	**7**	**(124)**	**2 230**	**(759)**
Cash at the beginning of the period	265	183	2 766	3 538
	272	**59**	**4 996**	**2 779**

Comment

The Hobart and Burnie Ports recorded inflows from operations, which were sufficient to meet the cash requirements of their investing and financing activities. The Hobart Port, in particular recorded a significant increase in its cash position. This is reflected by its strong operating result in the 2002-03 financial year.

Devonport Port recorded a loss of cash, totalling $0.124m, which is not considered significant considering Devonport's cash balance does not include $8.605m in investments reclassified at year-end.

Launceston Port recorded the largest reduction in cash position of $0.759m, but funded $1.602m in payments for property, plant and equipment and repaid $0.907m in loan debt.

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

Cash balances for Burnie Port do not include $13.619m held as a current investment.

FINANCIAL ANALYSIS

	Bench Mark	Burnie	Devonport	Hobart	Launceston
Financial Performance					
Result from operations ($'000s)		1 107	2 733	6 094	1 168
EBIT ($000s)		1 860	2 530	6 740	1 097
Operating margin	>1.0	1.12	1.31	1.20	1.14
Return on assets		4.7%	5.5%	9.1%	4.5%
Return on equity		6.4%	4.7%	8.8%	2.8%
Financial Management					
Debt to equity		53.8%	20.9%	22.2%	39.8%
Debt to total assets		25.7%	15.9%	16.1%	24.1%
Interest cover	>3	2.5	5.0	10.9	1.3
Current ratio	>1	3.53	4.36	1.86	1.48
Cost of debt	7.5%	6.3%	6.8%	6.2%	7.5%
Debt collection	30 days	32	61	48	61
Creditor turnover	30 days	39	29	17	44
Returns to Government					
Dividends paid or payable ($000s)		383	902	875	662
Dividend payout ratio	50%	34.0%	54.3%	18.7%	91.1%
Dividend to equity ratio		2.2%	2.6%	1.7%	2.5%
Income tax paid or payable ($000s)		0	876	1 557	0
Effective tax rate	30%	-	34.6%	25.4%	-
Total return to the State ($000s)		383	1 778	2 432	662
Total return to equity ratio		2.2%	5.1%	4.6%	2.5%
Other information					
Staff numbers FTEs		41	40	121	33
Average staff costs ($'000s)		58	61	103	62

Comment

Each of the Ports recorded positive returns on its assets and equity. With the exception of Hobart Port the returns 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.

All the Ports have made dividend returns to the State Government. Only the Hobart and Devonport Ports paid any significant tax during the year and with their dividends, boasted total returns to the State to 4.6% and 5.1% of equity, respectively.

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 low in comparison to the shareholders' 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.

AUDIT OF THE 2002-03 FINANCIAL STATEMENTS

The signed financial statements of the Corporation were received on 19 September 2003 and an unqualified audit report was issued on 25 September 2003.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	$'000s	$'000s	$'000s	$'000s	$'000s
Operating revenue	13 501	14 114	11 513	10 931	10 706
Non-operating revenue	480	500	345	18	18
Total Revenue	**13 981**	**14 614**	**11 858**	**10 949**	**10 724**
Borrowing costs	1 997	1 623	1 622	919	735
Depreciation	2 351	2 220	2 966	2 652	2 580
Other operating expenses	8 207	8 212	6 229	6 001	6 284
Non-operating expenses	362	5 143	3 576	480	0
Total Expenses	**12 917**	**17 198**	**14 393**	**10 052**	**9 599**
Result from ordinary activities	**1 064**	**(2 584)**	**(2 535)**	**897**	**1 125**
Result after taxation	**1 064**	**(2 584)**	**(2 535)**	**897**	**1 125**

Comment

Operating revenue decreased from 1999-00 to 2000-01 by $2.601m due to a new service agreement with Brambles Shipping and the loss of the AAA Consortium. The decrease in operating revenue in 2002-03 of $0.225m is mainly due to the absence of airport passenger levies and landing charges following the sale of the Airport in 2001-02.

Non-operating revenue in the three years to 30 June 2001 included 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.

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 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 resulted in the interest expense in 2000-01 remaining constant. Borrowing costs decreased in 2001-

02 by $0.703m due to loan interest expense reducing by $0.196m as a result of significant loan principal repayments in 2000-01; lease interest expense decreasing by $0.200m; and the 2000-01 expense balance including additional interest costs associated with the early settlement of the debt.

The increase in depreciation expense in 2000-01 of $0.746m is mainly attributable to the abovementioned change in lease classification. An asset totalling $12.857m was recognised and amortisation expense increased by $1.228m as a result. 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.

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. From 2000-01 onwards, these payments are recorded as interest expense or as a reduction against the lease liability.

Non-operating expenditure in 1999-00 of $5.143m relates to a revaluation decrement 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 2000-01 includes the net effect of the change in lease classification of $1.006m, and 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. 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 five-year period has resulted in significant losses being incurred in 1999-00 and 2000-01. The loss in 1999-00, $2.584m, is 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 the past two years, the Corporation, without the impact of any significant asset adjustments, has recorded profits from ordinary activities of $0.897m and $1.125m respectively.

FINANCIAL POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	61	0	181	265	272
Receivables	1 849	2 044	1 127	874	948
Investments	6 800	9 000	7 108	15 273	13 619
Inventories	274	262	268	253	258
Other	53	73	39	81	60
Total Current Assets	**9 037**	**11 379**	**8 723**	**16 746**	**15 157**
Property, plant & equipment	36 668	29 787	29 614	24 591	22 736
Total Non-Current Assets	**36 668**	**29 787**	**29 614**	**24 591**	**22 736**
Payables	573	427	342	174	419
Borrowings	2 027	8 107	2 559	3 226	2 673
Provisions	715	748	598	606	558
Other	1 306	1 931	723	728	649
Total Current Liabilities	**4 621**	**11 213**	**4 222**	**4 734**	**4 299**
Borrowings	18 798	10 722	12 950	9 725	7 052
Provisions	35	38	53	69	77
Other	819	345	4 800	9 600	8 400
Total Non-Current Liabilities	**19 652**	**11 105**	**17 803**	**19 394**	**15 529**
Net Assets	**21 432**	**18 848**	**16 312**	**17 209**	**18 065**
Reserves	24 025	24 025	24 025	24 025	24 025
Retained profits	(2 593)	(5 177)	(7 713)	(6 816)	(5 960)
Total Equity	**21 432**	**18 848**	**16 312**	**17 209**	**18 065**

Comment

Cash has remained fairly constant, with an overdraft of $0.032m recorded in 1999-00. The Corporation deposits excess cash funds into investments to improve its interest return. The balance of investments decreased in 2000-01 by $1.892m due 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.

The decrease in receivables in 2000-01 of $0.253m is a result of the new service agreement with Brambles Shipping which is now paying a monthly service fee.

Property, plant and equipment have decreased by $13.932m over the five-year period. As noted previously, the majority of the movement is the result of asset revaluation decrements of $5.143m in 1999-00 and $3.570m in 2000-01. The revaluation decrement in 2000-01 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. Other current liabilities reduced by $1.208m from 1999-00 to 2000-01. Prior to 2000-01, the balance reflected accrued operating lease payments. With the reclassification of the operating lease, the accrual has been reduced and reflects accrued interest expense.

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 $2.228m with the reclassification of the operating lease to a finance lease.

For the period 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 2003, three years of the agreement had been completed and $3.600m amortised as revenue.

CASH POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	12 705	13 667	18 367	16 924	9 694
Payments to suppliers and employees	(8 130)	(7 921)	(9 498)	(7 759)	(7 051)
Interest received	330	399	466	526	678
Borrowing costs	(2 005)	(1 552)	(1 352)	(955)	(766)
Cash from operations	**2 900**	**4 593**	**7 983**	**8 736**	**2 555**
Proceeds from investments	4 100	1 800	5 270	3 856	4 817
Payments for investments	(4 600)	(4 000)	(3 378)	(12 020)	(3 162)
Payments for P, P & Equipment	(1 432)	(504)	(759)	(451)	(734)
Proceeds from sale of P, P & E	28	46	0	2 521	27
Cash used in investing activities	**(1 904)**	**(2 658)**	**1 133**	**(6 094)**	**948**
Repayment of borrowings	(1 310)	(2 027)	(8 903)	(2 559)	(3 226)
Dividends paid	0	0	0	0	(270)
Cash from financing activities	**(1 310)**	**(2 027)**	**(8 903)**	**(2 559)**	**(3 496)**
Net increase in cash	**(314)**	**(92)**	**213**	**83**	**7**
Cash at the beginning of the period	375	61	(31)	182	265
Cash at end of the period	**61**	**(31)**	**182**	**265**	**272**

Comment

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 increased in 2000-01 by approximately $1.500m due to the impact of GST and the 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. The decrease in both receipts from customers and payments to suppliers in 2002-03 is primarily due to the sale of the Airport in 2001-02.

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.

Cash used in financing activities reflects borrowing and dividend payments. As noted previously, the increase in 2000-01 relates to the accelerated repayment of borrowings. A dividend of $0.270m was paid in 2002-03 relating to the 2001-02 financial year.

FINANCIAL ANALYSIS

	Bench Mark	1998-99	1999-00	2000-01	2001-02	2002-03
Financial Performance						
Result from operations ($'000s)		946	2 059	696	1 359	1 107
EBIT ($'000s)		3 061	(961)	(913)	1 816	1 860
Operating margin	>1.0	1.08	1.17	1.06	1.14	1.12
Return on assets		6.8%	-2.2%	-2.3%	4.6%	4.7%
Return on equity		5.4%	-12.8%	-14.4%	5.4%	6.4%
Financial Management						
Debt to equity		97.2%	99.9%	95.1%	75.3%	53.8%
Debt to total assets		45.6%	45.7%	40.5%	31.3%	25.7%
Interest cover	>3	1.53	(0.59)	(0.56)	1.98	2.53
Current ratio	>1	1.96	1.01	2.07	3.54	3.53
Cost of debt	7.5%	7.6%	7.6%	6.8%	6.3%	6.3%
Debt collection	30 days	51	54	36	29	32
Creditor turnover	30 days	39	28	17	19	39
Returns to Government						
Dividends paid or payable ($'000s)		0	0	0	270	383
Dividend payout ratio	50%	-	-	-	30.1%	34.0%
Dividend to equity ratio		-	-	-	1.6%	2.2%
Income tax paid or payable ($'000s)		0	0	0	0	0
Effective tax rate	30%	-	-	-	-	-
Total return to the State ($'000s)		0	0	0	270	383
Total return to equity ratio		-	-	-	1.6%	2.2%
Other information						
Staff numbers FTEs		50	49	48	44	41
Average staff costs ($'000s)		57	55	54	60	58

Comment

Over the past five years, the return from operations (ie: operating revenue less operating expenses) has totalled $6.167m or an annual average return of $1.233m. The deficit from ordinary activities before income tax and after adjusting for interest expense totalled $4.863m for the five years or an annual average of $0.973m.

The debt to equity ratio has decreased from 95.1% in 2000-01 to 53.8% in 2002-03 due to the lease liability nearing its completion and the decrease in loan debt achieved in 2000-01.

The interest cover ratio improved in 2001-02 as a result of the Corporation's debt reduction policies. The cost of debt ratio has also decreased from 7.6% in 1998-99 to 6.3% in 2002-03.

The debt collection ratio for 1998-99 and 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 from 2000-01 onwards.

The creditor turnover ratio indicates the Corporation is clearing its creditors in a suitable time frame. The 39-day ratio in 1998-99 and 2002-03 is the result of several additional creditor balances being incurred as at balance date.

No dividends were paid or payable in relation to the first three years under review. 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 paid a total dividend of $0.270m during 2002-03 in respect to the 2001-02 year. Subsequent to the 30 June 2003, the directors recommended a dividend of $0.383m for 2002-03.

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 2003, the Corporation had future income tax benefits not brought to accounts relating to tax losses totalling $2.319m.

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 $1.125m for the 2002-03 financial year. The past two years have 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.

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 2002-03 FINANCIAL STATEMENTS

Signed financial statements of HPC were received on 17 September 2003 and an unqualified audit report was issued on 18 September 2003.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	$'000s	$'000s	$'000s	$'000s	$'000s
Operating revenue	14 894	15 777	21 797	31 711	36 001
Non-operating revenue	1 000	1 051	403	657	987
Total Revenue	**15 894**	**16 828**	**22 200**	**32 368**	**36 988**
Borrowing costs	686	685	668	634	617
Depreciation	2 072	1 211	1 480	1 519	1 903
Other operating expenses	12 182	13 142	18 445	23 902	27 387
Non-operating expenses	583	1 026	390	1 030	958
Total Expenses	**15 523**	**16 064**	**20 983**	**27 085**	**30 865**
Result from ordinary activities	**371**	**764**	**1 217**	**5 283**	**6 123**
Income tax expense	(102)	(37)	518	1 589	1 452
Result after taxation	**473**	**801**	**699**	**3 694**	**4 671**

Comment

Operating revenue increased by $5.978m in 2000-01 due largely to an 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, was 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.

The increase in total operating revenue in the current year 2002-03 came mainly from the port itself but revenues increased at King Island and the Risdon Port Services subsidiaries.

Operating expenses in the current year increased in the categories of salaries and employee benefits ($2.396m), depreciation and amortisation ($0.386m), cost of goods sold ($0.310m), property costs ($0.385m) and administration ($0.303m).

The non-operating income in each year generally 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.

Profit before tax has shown a sustained annual improvement over the period of the review and at $6.122m for 2002-03, HPC has now achieved a commercial rate of return on net assets.

FINANCIAL POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	1 696	2 191	2 281	2 766	4 996
Receivables	2 877	3 490	4 948	5 049	5 641
Investments	256	256	0	355	55
Inventories	26	30	56	223	254
Other	59	83	57	560	90
Total Current Assets	**4 914**	**6 050**	**7 342**	**8 953**	**11 036**
Property, plant & equipment	49 641	51 631	51 352	51 916	51 876
Investments	5 797	5 415	10 230	10 882	12 118
Other	1 079	1 007	866	898	920
Total Non-Current Assets	**56 517**	**58 053**	**62 448**	**63 696**	**64 914**
Payables	1 753	2 262	3 374	3 087	3 196
Borrowings	294	329	2 202	380	409
Provisions	1 566	1 528	1 714	3 505	2 324
Total Current Liabilities	**3 613**	**4 119**	**7 290**	**6 972**	**5 929**
Borrowings	10 010	9 681	12 095	12 215	11 807
Provisions	2 317	2 278	2 481	2 787	2 912
Other	0	0	0	186	166
Total Non-Current Liabilities	**12 327**	**11 959**	**14 576**	**15 188**	**14 885**
Net Assets	**45 491**	**48 025**	**47 924**	**50 489**	**55 136**
Reserves	45 158	47 402	47 132	49 746	52 400
Retained profits	333	623	792	743	2 736
Total Equity	**45 491**	**48 025**	**47 924**	**50 489**	**55 136**

Comment

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 joint venture 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 a joint venture agreement prevents HPC from consolidating HIA and permits HPC to equity account for its interest in the operating results of HIA. HPC's share of HIA's operating results in the current year was a profit of $1.236m (2002, $0.651m).

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. The balance of the asset revaluation reserve was further reduced to nil in the current year by a transfer of $2.008m to retained profits.

CASH POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	15 277	15 879	23 224	32 595	37 444
Payments to suppliers and employees	(12 869)	(13 056)	(20 303)	(26 872)	(29 948)
Interest received	106	142	133	178	218
Borrowing costs	(664)	(671)	(680)	(578)	(730)
Taxation expense	(84)	0	0	(179)	(1906)
Cash from operations	**1 766**	**2 294**	**2 374**	**5 144**	**5 078**
Proceeds from investments	103	440	806	224	325
Payments for investments	(252)	(245)	(3 425)	(414)	(17)
Payments for P, P & Equipment	(1 701)	(2 051)	(1 966)	(2 918)	(2 788)
Proceeds from sale of P, P & E	475	1 051	403	690	987
Cash used in investing activities	**(1 375)**	**(805)**	**(4 182)**	**(2 418)**	**(1 493)**
Proceeds from borrowings	0	0	2 767	500	0
Repayment of borrowings	(270)	(294)	(329)	(2 201)	(380)
Dividends paid	(160)	(700)	(540)	(540)	(975)
Cash from financing activities	**(430)**	**(994)**	**1 898**	**(2 241)**	**(1 355)**
Net increase in cash	**(39)**	**495**	**90**	**485**	**2 230**
Cash at the beginning of the period	1 735	1 696	2 191	2 281	2 766
Cash at end of the period	**1 696**	**2 191**	**2 281**	**2 766**	**4 996**

Comment

Receipts from customers have increased markedly since 1998-99 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.

In the early part of 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 2003 HPC has a provision for deferred income tax amounting to $2.702m ($2.654m, 2002).

In 2002-03 income tax payable to the State Treasury on the current year’s profit amounts to $1.577m for the Group (2002, $1.343m).

FINANCIAL ANALYSIS

	Bench Mark	1998-99	1999-00	2000-01	2001-02	2002-03
Financial Performance						
Result from operations ($'000s)		(46)	739	1 204	5 656	6 094
EBIT ($'000s)		1 057	1 449	1 885	5 917	6 740
Operating margin	>1.0	1.00	1.05	1.06	1.22	1.20
Return on assets		1.7%	2.3%	2.8%	8.3%	9.1%
Return on equity		1.0%	1.7%	1.5%	7.5%	8.8%
Financial Management						
Debt to equity		22.7%	20.8%	29.8%	24.9%	22.2%
Debt to total assets		16.8%	15.6%	20.5%	17.3%	16.1%
Interest cover	>3	1.5	2.1	2.8	9.3	10.9
Current ratio	>1	1.36	1.47	1.01	1.28	1.86
Cost of debt	7.5%	12.6%	13.3%	5.5%	6.3%	6.2%
Debt collection	30 days	49	56	66	46	48
Creditor turnover	30 days	31	51	39	24	17
Returns to Government						
Dividends paid or payable ($'000s)		700	540	540	975	875
Dividend payout ratio	50%	148.0%	67.4%	77.3%	26.4%	18.7%
Dividend to equity ratio		1.5%	1.2%	1.1%	2.0%	1.7%
Income tax paid or payable ($'000s)		0	0	69	1 343	1 557
Effective tax rate	30%	-	-	5.7%	25.4%	25.4%
Total return to the State ($'000s)		700	540	609	2 318	2 432
Total return to equity ratio		1.5%	1.2%	1.3%	4.7%	4.6%
Other information						
Staff numbers FTEs		57	130	119	114	121
Average staff costs ($'000s)		108	49	75	89	103

Comment

HPC recorded substantial increases in operating revenue prior to 2001-2 but experienced similar increases in operating expenses. 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 $1.500m per annum. These were in a large part not applicable to the former Marine Board of Hobart.

Returns on assets and equity were consistently low over the early part of the period under review and are reflected in the low operating margin for the period prior to 2001-02. However, profitability increased markedly in 2001-02 and 2002-03 due to the equity accounted profit from the airport and the recently introduced stevedoring operations.

Total debt due by HPC at 30 June 2003 amounts to $12.260m ($12.595m, 2002), of which $2.768m is interest free, as it is due to an associated company. The cost of debt for the interest-bearing portion has remained quite stable at 6.3%.

The dividend payout ratio was quite high in the earlier years but much lower on the higher profits more recently. The Board has determined a final dividend of $0.875m in relation to the 2002-03 financial year. Income tax was zero or small in the earlier years due to timing differences and carried forward tax losses. The current situation shows a more normal effective tax rate. Total return to equity ratios have improved considerably notwithstanding that. This return 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.

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

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 $0.651m in 2001-02 and $1.236m in 2002-03.

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 assets, liabilities, revenues and expenses 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.

The future profitability of HPC will depend on the outcome of current negotiations concerning the possible transfer of assets from HPC but the trend continues to improve.

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.

AUDIT OF THE 2002-03 FINANCIAL STATEMENTS

The signed financial statements of the Corporation were received on 26 September 2003 and an unqualified audit report was issued on 30 September 2003.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	$'000s	$'000s	$'000s	$'000s	$'000s
Operating revenue	9 776	10 388	10 748	10 359	11 472
Non-operating revenue	49	19	202	18	12
Total Revenue	**9 825**	**10 407**	**10 950**	**10 377**	**11 484**
Borrowing costs	681	627	522	514	507
Depreciation	2 409	1 850	1 919	1 809	1 916
Other operating expenses	5 599	5 711	5 707	7 357	6 316
Non-operating expenses	733	150	1 734	198	215
Total Expenses	**9 422**	**8 338**	**9 882**	**9 878**	**8 954**
Result from ordinary activities	**403**	**2 069**	**1 068**	**499**	**2 530**
Income tax expense	385	848	852	343	869
Result after taxation	**18**	**1 221**	**216**	**156**	**1 661**

Comment

Operating revenue steadily increased over the three years from 1998-99 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.

Operating revenue increased by $1.113m, to $11.472m in 2002-03. The increase is attributable to additional user charges, totalling $0.770m, paid by the TT-Line Company Pty Ltd for the operations of a dual vessel service and $0.185m from the operations of the new cold store on Saleyard Road.

Non-operating revenue comprised the net gain on disposal of assets. 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 was completed in early 2003. 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

	1998-99 $'000s	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s	2002-03 $'000s
Cash	1	1	10 174	9 298	8 664
Receivables	1 481	1 390	2 078	1 645	1 924
Investments	8 516	9 188	0	0	0
Inventories	8	6	8	5	9
Other	200	300	104	122	152
Total Current Assets	**10 206**	**10 885**	**12 364**	**11 070**	**10 749**
Property, plant & equipment	34 127	33 870	32 599	33 556	36 101
Investments	550	550	0	0	0
Other	229	226	198	205	237
Total Non-Current Assets	**34 906**	**34 646**	**32 797**	**33 761**	**36 338**
Payables	212	143	208	333	319
Borrowings	1 030	1 039	1 543	0	0
Provisions	672	1 972	1 366	755	1 287
Other	331	218	562	551	857
Total Current Liabilities	**2 245**	**3 372**	**3 679**	**1 639**	**2 463**
Borrowings	7 526	6 543	5 975	7 472	7 472
Provisions	1 526	1 506	1 289	1 346	1 318
Total Non-Current Liabilities	**9 052**	**8 049**	**7 264**	**8 818**	**8 790**
Net Assets	**33 815**	**34 110**	**34 218**	**34 374**	**35 834**
Reserves	33 049	33 049	32 936	32 936	32 936
Retained profits	766	1 061	1 282	1 438	2 898
Total Equity	**33 815**	**34 110**	**34 218**	**34 374**	**35 834**

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". 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 2001-02 to 2002-03, $2.545m, is mainly attributable to work on the new

Saleyard Road cold store building, $1.266m and work to upgrade TT-Line facilities. The upgrade included a walkway extension $0.428m, terminal entrance modifications $0.353m and a top deck loading ramp $0.205m.

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 Corporation moved to holding interest only loans.

The majority of current Provisions include employee entitlements, dividends payable and income tax equivalents. The balance for 1999-00 and 2000-01 includes significant tax and dividend payable balances, which correspond to strong operating profits.

In 2001-02, the Corporation adopted AASB 1044 "Provisions, Contingent Liabilities and contingent Assets" and did not recorded a liability for the proposed annual dividend. Consequently, the proposed dividends for 2001-02 and 2002-03 have not been recorded as a provision.

The majority of the Non-current provisions liability represents a provision for deferred tax equivalents. The remainder of the balance is long service leave.

Other current liabilities reflect accrued expenses. The balance for 2002-03 has increased by $0.306m because the Corporation accrued several material capital creditors for works being undertaken at the Saleyard Road cold store and the top deck-loading ramp situated at the TT-Line berth.

Retained earnings have increased by $2.132m over the five-year period. The increase represents profits from operations less dividend and tax equivalent payments. The Corporation have adhered to the Shareholders' requirement to pay 70% of pre-tax profits in either tax equivalent payments or dividends.

CASH POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	9 544	9 978	10 795	11 049	11 894
Payments to suppliers and employees	(7 153)	(5 419)	(6 518)	(7 955)	(7 271)
Interest received	525	550	517	754	442
Borrowing costs	(696)	(642)	(357)	(516)	(504)
Taxation expense	(512)	(794)	(1 137)	(816)	(453)
Cash from operations	**1 708**	**3 673**	**3 300**	**2 516**	**4 108**
Proceeds from investments	3 273	0	1 355	1 058	510
Payments for investments	0	(672)	(1 789)	0	0
Payments for P, P & Equipment	(6 040)	(1 837)	(2 488)	(3 352)	(4 819)
Proceeds from sale of P, P & E	138	114	282	114	155
Cash used in investing activities	**(2 629)**	**(2 395)**	**(2 640)**	**(2 180)**	**(4 154)**
Proceeds from borrowings	2 000	0	26	0	0
Repayment of borrowings	(1 058)	(1 017)	(55)	0	0
Dividends paid	(440)	(304)	(621)	(108)	(78)
Cash from financing activities	**502**	**(1 321)**	**(650)**	**(108)**	**(78)**
Net increase in cash	**(419)**	**(43)**	**10**	**228**	**(124)**
Cash at the beginning of the period	407	(12)	(55)	(45)	183
Cash at end of the period	**(12)**	**(55)**	**(45)**	**183**	**59**

Comment

Receipts from customers have steadily increased since 1998-99, 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 Taxation expense payments have varied over the five-year period because the amount is determined from the operating profit, which has fluctuated.

The Payments for property, plant and equipment in 1998-99, $6.040m, 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.

The Corporation borrowed funds in 1998-99, $2.000m to assist in the capital works relating to the Sayers Point Capital Dredging Project. As noted previously, since the restructuring of the loan debt portfolio in 2000-01, the Corporation has adopted interest only loans and has not been required to repay any principal balances during 2001-02 or 2002-03.

FINANCIAL ANALYSIS

	Bench Mark	1998-99	1999-00	2000-01	2001-02	2002-03
Financial Performance						
Result from operations ($'000s)		1 087	2 200	2 600	679	2 733
EBIT ($'000s)		1 084	2 696	1 590	1 013	2 530
Operating margin	>1.0	1.13	1.27	1.32	1.07	1.31
Return on assets		2.5%	5.9%	3.5%	2.3%	5.5%
Return on equity		0.1%	3.6%	0.6%	0.5%	4.7%
Financial Management						
Debt to equity		25.3%	22.2%	22.0%	21.7%	20.9%
Debt to total assets		19.0%	16.7%	16.6%	16.7%	15.9%
Interest cover	>3	1.6	4.3	3.0	2.0	5.0
Current ratio	>1	4.55	3.23	3.36	6.75	4.36
Cost of debt	7.5%	8.4%	7.8%	6.9%	6.9%	6.8%
Debt collection	30 days	58	52	64	58	61
Creditor turnover	30 days	26	15	22	24	29
Returns to Government						
Dividends paid or payable ($'000s)		304	621	108	78	902
Dividend payout ratio	50%	1688.9%	50.9%	50.0%	50.0%	54.3%
Dividend to equity ratio		0.9%	1.8%	0.3%	0.2%	2.6%
Income tax paid or payable ($'000s)		206	827	1 057	304	876
Effective tax rate	30%	51.1%	40.0%	99.0%	60.9%	34.6%
Total return to the State ($'000s)		510	1 448	1 165	382	1 778
Total return to equity ratio		1.6%	4.3%	3.4%	1.1%	5.1%
Other information						
Staff numbers FTEs		42	42	41	41	40
Average staff costs ($'000s)		60	56	56	59	61

Comment

Over the past five years, the return from operations (i.e. operating revenue less operating expenses) has totalled $9.299m, representing an annual average return of $1.860m. The result from ordinary activities before income tax and after adjusting for interest expense totalled $8.913m for the five years or an annual average of $1.782m.

Returns on assets and on equity have fluctuated with the Corporation's profits over the five-year period.

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 cost of debt has been static since the loan restructure.

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. The costs from 1999-00 to 2002-03 have increased in line with annual payroll increases.

OVERALL COMMENT

Total returns to the State from both dividends and income tax paid or payable over the five-year period total $5.283m or an average return of $1.056m per annum.

The 2002-03 audit was completed satisfactorily with no major issues outstanding.

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.

AUDIT OF THE 2002-03 FINANCIAL STATEMENTS

Signed financial statements were received on 25 August 2003, and an unqualified audit report was issued on 17 September 2003.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1998-99	1999-00	2000-01	2001-02	2002-03
	$'000s	$'000s	$'000s	$'000s	$'000s
Operating revenue	7 667	9 851	9 135	9 122	9 801
Non-operating revenue	501	385	326	85	0
Total Revenue	**8 168**	**10 236**	**9 461**	**9 207**	**9 801**
Borrowing costs	1 397	1 194	1 066	944	867
Depreciation	1 467	1 376	1 338	1 375	1 372
Other operating expenses	5 086	6 205	6 596	5 945	6 394
Non-operating expenses	30	29	0	0	71
Total Expenses	**7 980**	**8 804**	**9 000**	**8 264**	**8 704**
Result from ordinary activities	**188**	**1 432**	**461**	**943**	**1 097**
Income tax expense	(285)	259	180	299	370
Result after taxation	**473**	**1 173**	**281**	**644**	**727**

Comment

The Company has been trading profitably for the five-year period under review. 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. The Port has continued to improve operating revenue in 2002-03 with increases of $0.400m in wharfage and $0.200m in woodchip exports.

Non-operating revenues and expenses relate to profits and losses incurred from the sale of assets.

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. The increase in 2002-03 operating expenses include $0.435m in redundancy costs, as the Port reduced its workforce by seven people.

Borrowing costs have decreased by $0.530m over the period and reflect the reduction in borrowings.

FINANCIAL POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	713	50	1 745	3 538	2 779
Receivables	1 076	1 187	1 693	1 607	1 628
Investments	520	3 259	0	0	0
Inventories	257	555	530	557	465
Other	148	79	460	45	199
Total Current Assets	**2 714**	**5 130**	**4 428**	**5 747**	**5 071**
Property, plant & equipment	38 815	36 205	35 609	34 995	35 113
Other	3 805	3 226	3 358	3 386	3 357
Total Non-Current Assets	**42 620**	**39 431**	**38 967**	**38 381**	**38 470**
Payables	321	62	469	767	523
Borrowings	1 386	1 729	809	907	1 012
Provisions	610	440	780	498	473
Other	322	534	677	1 195	1 428
Total Current Liabilities	**2 639**	**2 765**	**2 735**	**3 367**	**3 436**
Borrowings	13 922	12 193	11 382	10 494	9 483
Provisions	3 622	3 278	3 611	3 956	4 285
Total Non-Current Liabilities	**17 544**	**15 471**	**14 993**	**14 450**	**13 768**
Net Assets	**25 151**	**26 325**	**25 667**	**26 311**	**26 337**
Reserves	24 454	24 454	24 454	24 454	24 451
Retained profits	697	1 871	1 213	1 857	1 886
Total Equity	**25 151**	**26 325**	**25 667**	**26 311**	**26 337**

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 $3.702m over the period of review and represents general asset movements and the continuing depreciation of assets.

Other non-current assets represent Future Income Tax Benefits available to the Port in future periods and includes carried forward tax losses of $10.551m.

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 was completed in 2002-03.

The amount of borrowings outstanding has decreased from $15.308m at 30 June 1999 to $10.495m at 30 June 2003 due to regular loan repayments and no new borrowings in this period.

The balance of the Port's current and non-current provisions have not been materially affected by the application of AASB 1028 "Employee Benefits" as the Port was providing for the majority of applicable employee on-costs. The impact of the new standard resulted in an adjustment to equity of $0.039m in 2002-03.

CASH POSITION

	1998-99	1999-00	2000-01	2001-02	2002-03
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	7 596	9 724	9 434	10 213	11 218
Payments to suppliers and employees	(4 996)	(6 222)	(6 946)	(6 473)	(8 179)
Interest received	49	137	161	98	118
Borrowing costs	(1 404)	(1 322)	(1 143)	(954)	(878)
Cash from operations	**1 245**	**2 317**	**1 506**	**2 884**	**2 279**
Proceeds from investments	394	0	17	0	0
Payments for investments	0	(2 739)	0	0	0
Payments for P, P & Equipment	(690)	(879)	(841)	(739)	(1 602)
Proceeds from sale of P, P & E	669	2 174	117	774	133
Cash used in investing activities	**373**	**(1 444)**	**(707)**	**35**	**(1 469)**
Proceeds from borrowings	512	0	0	0	0
Repayment of borrowings	(1 689)	(1 386)	(1 730)	(791)	(907)
Dividends paid	0	(150)	(604)	(335)	(662)
Cash from financing activities	**(1 177)**	**(1 536)**	**(2 334)**	**(1 126)**	**(1 569)**
Net increase in cash	**441**	**(663)**	**(1 535)**	**1 793**	**(759)**
Cash at the beginning of the period	272	713	3 280	1 745	3 538
Cash at end of the period	**713**	**50**	**1 745**	**3 538**	**2 779**

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.

The decrease in Cash in 2002-03, $0.759m, is attributable to an increase of $0.863m in Payments for property plant and equipment. During the 2002-03 period, the Port completed a woodchip conveyor system for $1.001m.

FINANCIAL ANALYSIS

	Bench Mark	1998-99	1999-00	2000-01	2001-02	2002-03
Financial Performance						
Result from operations ($'000s)		(283)	1 076	135	858	1 168
EBIT ($'000s)		1 585	2 626	1 527	1 887	1 097
Operating margin	>1.0	0.96	1.12	1.02	1.10	1.14
Return on assets		3.6%	5.8%	3.5%	4.3%	4.5%
Return on equity		1.9%	4.6%	1.1%	2.5%	2.8%
Financial Management						
Debt to equity		60.9%	52.9%	47.5%	43.3%	39.8%
Debt to total assets		33.8%	31.2%	28.1%	25.8%	24.1%
Interest cover	>3	1.1	2.2	1.4	2.0	1.3
Current ratio	>1	1.03	1.86	1.62	1.71	1.48
Cost of debt	7.5%	8.8%	8.2%	7.8%	7.5%	7.5%
Debt collection	30 days	52	57	69	65	61
Creditor turnover	30 days	43	6	38	39	44
Returns to Government						
Dividends paid or payable ($'000s)		150	604	335	0	662
Dividend payout ratio	50%	31.7%	51.5%	119.2%	-	91.1%
Dividend to equity ratio	6%	0.6%	2.3%	1.3%	-	2.5%
Income tax paid or payable ($'000s)		0	0	0	0	0
Effective tax rate	30%	-	-	-	-	-
Total return to the State ($'000s)		150	604	335	0	662
Total return to equity ratio		0.6%	2.3%	1.3%	-	2.5%
Other information						
Staff numbers FTEs		45	39	38	38	33
Average staff costs ($'000s)		53	57	56	59	62

Comment

The Company has recorded operating profits in the past four years. In addition, the Company has recorded strong results from ordinary activities before income tax and after adjusting for interest expense over the five-year period under review.

These results clearly have a positive impact on the operating margin, which has been consistently above the benchmark.

It is noted that the returns on equity and assets have been fairly stable over the period under review. The 1999-00 ratios were affected by the inclusion of $2.000m relating to the settlement of a writ issued by the Company.

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 $0.686m of June debtors in July 2003.

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 to.

Since 1998-99, the Company has paid dividends to the State Government totalling $1.751m. In 2001-02 the Port implemented the requirements of AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets" and did not provide for a dividend. Subsequent to the 2001-02 financial year a dividend was recommended, with a payment of $0.662m in 2002-03. A dividend in respect to the 2002-03 period has not yet been determined.

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 and 2002-03 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 five-year period total $1.751m or an average return of $0.350m per annum. A dividend payment for 2002-03 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 2002-03 financial year was completed satisfactorily with no major issues noted.