2004 (No. 14)

2004

PARLIAMENT OF TASMANIA

REPORT OF THE AUDITOR-GENERAL

GOVERNMENT DEPARTMENTS AND PUBLIC BODIES 2003-2004

PART B - VOLUME TWO Government Businesses

November 2004

Presented to both Houses of Parliament in accordance with the requirements of Section 57 of the Financial Management and Audit Act 1990

By Authority:

Government Printer, Tasmania

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This report is printed on recycled paper.

ISSN 1327 2608

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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, which at 1 July 2003 comprised 13 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.

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.

The disposal of these businesses was finalised during 2003-04, with residual assets and liabilities not included in the sale agreements vesting in the Crown.

Government businesses have $4.195bn in net assets, generate $165.6m in after tax profits, employ over 4 000 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 a separate section is included comparing performance between the four ports in 2003-04.

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.

GUARANTEE FEES

Guarantee fees are based on the amount of financial accommodation utilised by the entity and 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%).

DIVIDENDS

Consistent with commercial practice, the Board of a business recommends to the 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 Government Businesses require a distribution of 50% of after-tax profits as a minimum standard benchmark across all Government Businesses. 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 were reviewed during 2003-04 and revised guidelines will apply during 2004-05.

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 was 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 had been for entities to provide for a dividend that was recommended by the directors to shareholders for approval. Under the requirements of the revised accounting standard applicable from 1 July 2002 this practice is no longer allowed.

COST OF CAPITAL

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 (5.87% at 30 June 2004) plus a risk premium (usually of the order 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 the 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 at $2.973bn, employ over 1 645 people, and generate $111.170m in after tax profits 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 a 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 almost 98% of the net assets controlled by all GBEs, earn almost 100% of total net profit after tax earned by GBEs and employ 86% of all staff employed in GBEs:

- Forestry Tasmania;
- Hydro-Electric Corporation;
- Motor Accidents Insurance Board; and
- 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 was to carry on a civil construction and maintenance business. It also operated the iNFRAMAX division.

The Government, via authority provided by section 7(1) of the *Government Business Enterprises (Sale) Act 2003*, signed a sale agreement for the sale of the Corporation on 22 October 2003, as a going concern, to Works Infrastructure Pty Ltd (Works Infrastructure), a wholly owned subsidiary of Downer EDI Ltd (Downer EDI). The Sale Agreement between the Crown, Works Infrastructure and Downer EDI (the Sale Agreement) stipulates the effective date of the sale as 1 July 2003.

The Corporation's Board continued to conduct the civil construction and maintenance business from 1 July 2003 to the date of the sale completion, 22 October 2003 (the completion period). However, by virtue of the effective date in the Sale Agreement (1 July 2003), the Board conducted this business on behalf of Works Infrastructure (excluding those assets and liabilities not purchased) during the completion period. Therefore, these trading results are excluded from the 2003-04 analysis set out on the following pages.

In 2002-03, the Board determined that the Corporation's interest in the iNFRAMAX division would be divested due to its underperformance. This division was divested during the completion period with its trading results prior to divestment included in the 2003-04 analysis.

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

AUDIT OF THE 2003-04 FINANCIAL STATEMENTS

Signed financial statements of the Corporation were received on 5 April 2004, and an unqualified opinion was issued on 7 April 2004.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1999-00	2000-01	2001-02	2002-03	2003-04
	$'000s	$'000s	$'000s	$'000s	$'000s
Operating revenue	19 529	26 527	27 108	25 312	39
Non-operating revenue	899	219	469	738	10 556
Total Revenue	**20 428**	**26 746**	**27 577**	**26 050**	**10 595**
Borrowing costs	15	96	208	237	58
Depreciation	642	873	1 025	1 208	1
Other operating expenses	19 176	27 580	25 774	24 043	643
Non-operating expenses	428	123	1 178	598	10 475
Total Expenses	**20 261**	**28 672**	**28 185**	**26 086**	**11 177**
Result from ordinary activities	**167**	**(1 926)**	**(608)**	**(36)**	**(582)**
Income tax expense	(26)	(569)	145	401	(452)
Result after taxation	**193**	**(1 357)**	**(753)**	**(437)**	**(130)**

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 on 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 was recorded in that year.

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 (loss of only $0.036m) was due to higher margins earned on construction and maintenance contracts, despite a decrease in the total number of jobs compared to the previous year. A profit for this year would have resulted had it not been for an increase in the provision for doubtful debts of $0.275m all of which related to one customer.

As a result of the proposed sale of the Corporation, potential future income tax benefits due to it for prior period tax losses could no longer be carried forward, and $0.389m in future income tax benefits (included in the tax expense of $0.401m in the above table) were therefore written off.

The financial results for 2003-04 were for the period 1 July to 22 October 2003 and reflected the activities of the iNFRAMAX division prior to its divestment.

Non-operating revenue in 2003-04 included the proceeds from the sale of non-current assets, $9.033m, profit on sale of the construction business, $0.165m, and State Government grant funding of $1.523m to cover the cost of redundancy payments.

Operating expenditure for 2003-04 represented the transactions of the iNFRAMAX division in addition to the costs involved in the sale process until completion date. Non-operating expenses comprise the written down value of the non-current assets sold to Downer EDI on 1 July 2003 of $8.868m and redundancy costs of $1.607m.

The income tax benefit of $0.452m represents the net write-down of tax assets and liabilities, which could no longer be carried forward due to the sale of the construction business.

FINANCIAL POSITION

	1999-00 $'000s	**2000-01** $'000s	**2001-02** $'000s	**2002-03** $'000s	**2003-04** $'000s
Cash	2 396	0	1 393	1 809	7 446
Receivables	876	3 052	2 507	1 300	164
Inventories	166	78	72	0	0
Other	1 007	1 275	1 251	1 378	222
Total Current Assets	**4 445**	**4 405**	**5 223**	**4 487**	**7 832**
Property, plant and equipment	6 627	7 787	8 212	8 588	13
Other	913	1 102	1 037	729	0
Total Non-Current Assets	**7 540**	**8 889**	**9 249**	**9 317**	**13**
Payables	1 347	2 239	2 183	2 079	46
Borrowings	102	903	481	706	2 250
Provisions	855	1 001	1 107	1 211	0
Other	69	214	642	136	0
Total Current Liabilities	**2 373**	**4 357**	**4 413**	**4 132**	**2 296**
Borrowings	459	1 179	3 015	3 046	0
Provisions	928	889	929	947	0
Total Non-Current Liabilities	**1 387**	**2 069**	**3 944**	**3 993**	**0**
Net Assets	**8 225**	**6 868**	**6 115**	**5 679**	**5 549**
Capital	8 031	8 031	8 031	8 031	8 031
Retained profits	194	(1 163)	(1 916)	(2 352)	(2 482)
Total Equity	**8 225**	**6 868**	**6 115**	**5 679**	**5 549**

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 was 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 was 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 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.

The high cash balance at the end of the 2003-04 period is due to the proceeds from the sale of the construction business received from Downer EDI. The only other significant item at 22 October 2003 was borrowings of $2.250m, which were not transferred as part of the sale agreement.

CASH POSITION

	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s	2002-03 $'000s	2003-04 $'000s
Receipts from customers	19 904	26 618	27 704	25 544	2 132
Payments to suppliers and employees	(19 708)	(28 755)	(25 419)	(23 584)	(2 202)
Interest received	191	27	36	61	0
Borrowing costs	0	(96)	(150)	(235)	(72)
Taxation expense	0	0	0	0	0
Cash from operations	**387**	**(2 206)**	**2 171**	**1 786**	**(142)**
Transfer cash on disposal of construction business	0	0	0	0	(1 809)
Payments for property, plant and equipment	(1 769)	(649)	(2 982)	(2 276)	0
Proceeds from sale of property, plant and equipment	899	219	469	651	0
Proceeds from sale of the business	0	0	0	0	7 685
Cash used in investing activities	**(870)**	**(430)**	**(2 513)**	**(1 625)**	**5 876**
Repayment of borrowings	(45)	(245)	(222)	(537)	(97)
Dividends paid	(2 015)	(96)	0	0	0
Proceeds from borrowings	0	0	2 537	793	0
Cash from financing activities	**(2 060)**	**(341)**	**2 315**	**256**	**(97)**
Net increase in cash	**(2 543)**	**(2 977)**	**1 973**	**417**	**5 637**
Cash at the beginning of the period	4 939	2 396	(581)	1 392	1 809
Cash at end of the period	**2 396**	**(581)**	**1 392**	**1 809**	**7 446**

Comment

The variability in both receipts from customers and payments to suppliers and employees is in line with previous comments regarding changes 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 at 30 June 2001. The increase in cash from operations in 2001-02 and 2002-03 was the result of improved collection of receivables and improved trading during those years.

Receipts from customers for 2003-04 includes the $1.523m grant from Government to fund the costs of redundancies arising from the sale.

The increase in payments for property, plant and equipment in the 2001-02 year is consistent with the increases noted when analysing the Statement of Financial Position reported previously.

Proceeds from borrowings in 2001-02 included a loan of $2.494m, which was primarily used to purchase assets from Forestry Tasmania.

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations ($'000s)		(303)	(2 022)	101	(176)	(663)
EBIT ($'000s)		182	(1 830)	(400)	201	(524)
Operating margin	>1.0	0.98	0.93	1.00	0.99	0.06
Return on assets		1.4%	-14.5%	-2.9%	1.4%	-4.8%
Return on equity		2.1%	-18.0%	-11.6%	-7.4%	-2.3%
Financial Management						
Debt to equity		6.8%	30.3%	57.2%	66.1%	40.5%
Debt to total assets		4.7%	15.7%	24.2%	27.2%	28.7%
Interest cover	>3	12.15	(19.06)	(1.92)	0.85	(9.03)
Current ratio	>1	1.87	1.01	1.18	1.09	3.41
Cost of debt	7.5%	5.35%	7.26%	7.46%	6.54%	1.93%
Debt collection	30 days	15	41	34	23	n/a
Creditor turnover	30 days	13	11	9	11	15
Returns to Government						
Dividends paid or payable ($'000s)		96	0	0	0	0
Dividend payout ratio	50%	49.7%	-	-	-	-
Dividend to equity ratio	6%	1.0%	-	-	-	-
Income tax paid or payable ($'000s)		0	0	0	0	0
Effective tax rate	30%	-	-	-	-	-
Total return to the State ($'000s)		96	0	0	0	0
Total return to equity ratio		1.0%	-	-	-	-
Other information						
Staff numbers FTEs		99	129	130	140	7
Average staff costs ($'000s)		49	48	53	47	48

Comment

The Corporation recorded total operating losses of $3.063m over the past five-year period and was only marginally profitable in one of those years. This performance reflects intense competition in the construction industry.

The debt to equity ratio increased significantly after 1999-2000 due to lower equity following the special dividend of $2.000m in 1999-2000, incurring operating losses and higher debt in the form of hire purchase agreements and other borrowings raised to fund asset purchases.

The current ratio, although still above one, also decreased significantly in recent years reflecting reduced cash holdings following a net investment of $7.893m in Property, plant and equipment over the last five years, dividend payments of $2.107m over the same period, offset by net increases in borrowings of $3.752 m. The 2003-04 current ratio is significantly influenced by the proceeds received from the sale of the construction business.

Apart from the special dividend of $2.000m provided for in 1998-99 but paid in 1999-2000, there has been little return to the Government by way of dividends and income tax equivalents.

OVERALL COMMENT

The audit of the financial statements for the 2003-04 year was completed with satisfactory results.

In accordance with section 35(1) of the *Government Business Enterprises (Sale) Act 2003*, all of the assets and liabilities contained within the Statement of Financial Position as at 22 October 2004 were transferred to the Crown on 23 October 2003. This transfer amounted to $5.549m.

1.2 FORESTRY TASMANIA

INTRODUCTION

Forestry Tasmania (Forestry or the Corporation) 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 Infrastructure, Energy and Resources.

AUDIT OF THE 2003-04 FINANCIAL STATEMENTS

Signed financial statements were received on 6 September 2004 and an unqualified audit report was issued on 16 September 2004.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s	2002-03 $'000s	2003-04 $'000s
Forest sales revenue	94 514	100 268	95 879	119 880	137 139
Share of GMO JV revenues	15 733	22 010	28 987	24 783	24 588
Forest management services revenue	0	0	0	12 514	13 508
Other operating revenue	5 978	15 474	13 994	9 141	13 796
Non-operating revenue	2 138	2 018	5 379	1 548	2 369
Total Revenue	**118 363**	**139 770**	**144 239**	**167 866**	**191 400**
Employee benefits and expenses	32 795	30 317	26 985	28 391	30 612
Contractors expenses	36 686	43 225	41 070	56 614	74 851
Share of GMO JV expenses	11 778	18 643	23 805	21 665	21 495
Borrowing costs	0	48	757	829	1 180
Depreciation	7 827	8 564	8 556	6 725	8 092
Other operating expenses	20 468	28 605	26 374	31 772	36 540
Non-operating expenses	477	2 289	6 074	1 961	2 130
Total Expenses	**110 031**	**131 691**	**133 621**	**147 957**	**174 900**
Result from ordinary activities before net market value adjustment	**8 332**	**8 079**	**10 618**	**19 909**	**16 500**
Forest net market value adjustment	0	16 682	(2 676)	(25 377)	9 303
Result from ordinary activities after market value adjustment	**8 332**	**24 761**	**7 942**	**(5 468)**	**25 803**
Income tax expense	(5 097)	5 665	1 240	5 765	6 913
Result after taxation	**13 429**	**19 096**	**6 702**	**(11 233)**	**18 890**

Comment

Total revenue increased from $118.363m in 1999-00 to $139.770m in 2000-01 due to two main factors:

- GMO (Grantham, Mayo and Otterloo) Renewable Resources Joint Venture revenue increased by $6.277m due to the continued expansion of the Joint Venture operation; and
- An increase of $9.496m in other operating revenue that included $5.230m for works carried out by Forestry staff in other Joint Venture operations, forestry rights revenue of $1.688m and increased fire fighting reimbursement of $1.026m.

Forest sales revenue increased considerably over the past 2 years, rising from $95.879m to $137.139m. The increase in sales revenue over the past years is a combination of additional sales volume across almost all categories combined with increased sales at mill door compare to sales made at stump. The increased mill door sales are offset by increased contractor expenses. Income from forest management services has been itemised separately for the 2002-03 and 2003-04 years. This revenue represents services provided by Forestry within other joint venture arrangements. These revenues were previously included within other revenues, until they became an expanding part of Forestry’s business.

The 2000-01 year saw 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 this first year, the forest valuation increased by $16.682m.

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 reduced the Forest net market value adjustment for 2001-02, changing a valuation increment of $9.577m to a decrement of $2.676m. 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.

There was a further reduction in the net market value of the Forest Asset in 2002-03 amounting to $25.377m. 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.

There were higher than normal amounts recorded for non-operating revenue and expenses in 2001-02. These amounts equalled the proceeds from assets sold and the written down value of assets sold respectively. The figures for 2001-02 were increased due to Forestry selling its entire fleet of heavy plant to Civil Construction Corporation.

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 2002-03 year, although the overdraft was extinguished in June 2003 and has since been replaced by long-term borrowings.

The 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, which is consistent with the revenue increase noted earlier.

Employee benefits and expenses decreased by $3.332m in the 2001-02 year due to a reduction in employee numbers.

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

The increase in other operating expenses during 2003-04 of $4.768m includes increased freight costs of $3.407m. This increase was consistent with the rise in export sales noted 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

	1999-00 $'000s	**2000-01** $'000s	**2001-02** $'000s	**2002-03** $'000s	**2003-04** $'000s
Cash	21 882	3 229	11 126	11 393	10 520
Receivables	12 142	12 569	16 488	23 566	28 625
Forest Estate	17 202	19 168	25 066	19 696	20 977
Inventories	4 294	5 918	5 827	6 302	6 281
Other	6 356	7 428	2 535	2 651	574
Total Current Assets	**61 876**	**48 312**	**61 042**	**63 608**	**66 977**
Payables	4 777	8 407	5 708	9 635	10 543
Borrowings	157	6 457	4 085	30	0
Provisions	17 850	20 093	19 655	16 199	15 582
Tax Liabilities	0	0	0	3 409	2 024
Other	9 215	12 417	14 492	11 634	16 766
Total Current Liabilities	**31 999**	**47 374**	**43 940**	**40 907**	**44 915**
Working Capital	**29 877**	**938**	**17 102**	**22 701**	**22 062**
Forest Estate	732 736	779 442	717 973	714 028	739 735
Property, plant and equipment	29 897	31 616	22 211	24 774	28 138
Investments	13 440	14 560	13 759	14 024	16 270
Deferred Tax Assets	3 602	5 182	21 432	21 528	22 269
Other	335	288	137	127	916
Total Non-Current Assets	**780 010**	**831 088**	**775 512**	**774 481**	**807 328**
Borrowings	48	3	10 030	21 000	25 000
Deferred Tax Liabilities	6 189	13 433	15 911	18 363	22 452
Provisions	47 496	45 628	46 453	48 661	55 301
Total Non-Current Liabilities	**53 733**	**59 064**	**72 394**	**88 024**	**102 753**
Net Assets	**756 154**	**772 962**	**720 220**	**709 158**	**726 637**
Capital	232 057	232 057	232 057	232 057	232 057
Reserves	515 935	519 405	443 829	444 153	446 586
Retained profits	8 162	21 500	44 334	32 948	47 994
Total Equity	**756 154**	**772 962**	**720 220**	**709 158**	**726 637**

Comment

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 2002-03 to $23.566m was principally due to increased product sales and customers as at June 2003. The further increase to $28.625m noted during the current year is due partly to an export shipment that sailed in late June worth $3.300m, in addition to a general increase in accrued revenue for some of Forestry's major clients. It should be noted that the repayment of all debts was in line with Forestry'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.

Movement in the Forest Estate current and non-current assets was 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 the current value of the forest asset is measured. In light of AAS 35, the valuation approach is now consistent, which has led to less volatility being noted since the 2000-01 year. The increase noted in 2003-04 is principally due to decreasing the discount rate for native forests from 7.03% to 6.64% (increasing the value of the model by approximately $11.000m).

The decrease in the Forest Estate asset during 2001-02, $55.571m, 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 could 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 the 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 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. 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 subsequent years, with a further $7.000m being borrowed in 2002-03 and an additional $4.000m being borrowed in 2003-04. The borrowings have been principally utilised for investment in road construction and plantation establishment programs.

Other current liabilities increased by $5.132m due principally to an increase in accrued expenses of $4.924m. The increased accruals are consistent with increased expenditure in June 2004 compared with June 2003. Some of these increases include a rise in export costs of $1.800m, a rise in JV management costs of $1.100m and a $0.400m increase in both harvesting costs and external plant hire costs.

CASH POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	109 710	126 829	126 184	149 019	175 693
Payments to suppliers and employees	(93 918)	(121 199)	(114 278)	(133 540)	(153 779)
Interest received	2 653	821	341	299	449
Borrowing costs	(123)	(73)	(757)	(829)	(1 180)
Taxation equivalents paid	(2 128)	0	0	0	(2 942)
Cash from operations	**16 194**	**6 378**	**11 490**	**14 949**	**18 241**
Proceeds from investments	0	0	1 600	0	0
Payments for property, plant and equipment	(32 189)	(24 617)	(12 359)	(18 269)	(21 640)
Proceeds from sale of property, plant and equipment	74 139	2 018	5 379	1 548	2 370
Cash used in investing activities	**41 950**	**(22 599)**	**(5 380)**	**(16 721)**	**(19 270)**
Proceeds from borrowings	0	0	14 000	7 000	4 000
Repayment of borrowings	(400)	(157)	(42)	0	0
Dividends paid	(42 855)	(8 687)	(5 759)	(4 961)	(3 844)
Cash from financing activities	**(43 255)**	**(8 844)**	**8 199**	**2 039**	**156**
Net increase in cash	**14 889**	**(25 065)**	**14 309**	**267**	**(873)**
Cash at the beginning of the period	6 994	21 882	(3 183)	11 126	11 393
Cash at end of the period	**21 883**	**(3 183)**	**11 126**	**11 393**	**10 520**

Comment

The increase in Receipts from customers in 2000-01 is due to increased mill door sales of sawlogs 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 both the 2002-03 and 2003-04 years, 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, plant 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	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations ($'000s)		6 671	8 350	11 313	20 322	16 261
EBIT ($'000s)		7 852	9 671	14 139	24 057	24 668
Operating margin	>1.0	1.06	1.06	1.09	1.14	1.09
Return on assets		1.1%	3.1%	1.3%	-0.2%	4.0%
Return on equity		2.1%	2.5%	0.9%	-1.6%	2.6%
Financial Management						
Debt to equity		0.0%	0.8%	2.0%	3.0%	3.4%
Debt to total assets		0.0%	0.7%	1.7%	2.5%	2.9%
Interest cover	>3	3	4	3	5	3
Current ratio	>1	1.93	1.02	1.39	1.55	1.49
Cost of debt	7.5%	6.9%	8.4%	8.4%	5.5%	5.6%
Debt collection	30 days	43	43	38	46	44
Creditor turnover	30 days	30	45	32	42	37
Returns to Government						
Dividends paid or payable ($'000s)		48 687	5 759	4 961	3 844	4 359
Dividend payout ratio	50%	362.6%	30.2%	74.0%	-34.2%	23.1%
Dividend to equity ratio		6.2%	0.7%	0.6%	0.5%	0.5%
Income tax paid or payable ($'000s)		313	0	0	3 409	3 565
Effective tax rate	30%	3.8%	0.0%	0.0%	-62.3%	13.8%
Total return to the State ($'000s)		49 000	5 759	4 961	7 253	7 924
Total return to equity ratio		6.3%	0.7%	0.6%	0.9%	1.0%
Other information						
Staff numbers FTEs		559	564	532	542	570
Average staff costs ($'000s)		59	61	51	52	54

Comment

In the five financial years of analysis, Forestry has generated operating results of $12.583m per annum, with return on equity peaking at 2.6% during the recent 2003-04 year. It should be noted that the first three ratios noted within the table above do not take into account the net market movement in the forest asset. This key item is excluded, as it is operating results before the market value adjustment that Forestry uses to calculate its dividend and taxation expenses. Total dividends and taxes paid to the state in 2003-04 were $7.924m.

The Return on assets and Return on equity figures are after the net market movement in the forest asset noted above, with the negative returns on assets and equity for the 2002-03 year being significantly due to the $25.377m decrement in the net market value of the Forest Asset. The ratios noted in the 2003-04 year are the highest in the five years of this analysis. The movement in the forest asset is independent of the earnings before interest and tax (EBIT) and whilst EBIT can be maintained the ratios will continue to fluctuate in line with the movement in the forest asset as is the case for the 2002-03 and 2003-04 financial years.

Total returns to the State amount to $74 897m over the five years. This total is heavily influenced by the capital dividend paid in 1999-00 amounting to $40.000m.

OVERALL COMMENT

The audit of the financial statements for the 2003-04 year was completed with satisfactory results.

1.3 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.

The HEC has a number of subsidiaries, one of which is Bell Bay Power Pty Ltd (BBP), established on 20 December 2001 to own and operate the Bell Bay Power Station.

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. In recent years both of these units have been converted to operate on natural gas.

The Corporation sold its equity holding in Hydstra Pty Ltd including its wholly owned subsidiaries Hydsys Pty Ltd and Hydstra America Inc. on 1 January 2004.

Other subsidiary companies, 100% owned by the HEC, include:

- Roaring 40s Wind Pty Ltd - incorporated for the purpose of renewable energy development activity;
- Lofty Ranges Power Pty Ltd - operates joint venture activity in South Australia; and
- R40 Pty Ltd (holding company) – established in 2004 along with Cathedral Rocks Wind Farm Pty Ltd, which was established for the purpose of acting as a wind farm construction company. Taswind Pty Ltd, an existing company, changed its name during the year to Cathedral Rocks Holdings Pty Ltd. These two companies were transferred into the jointly owned Cathedral Rocks group of companies under R40 Pty Ltd.

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

As at 30 June 2004 the Responsible Minister was the Minister for Infrastructure, Energy and Resources.

AUDIT OF THE 2003-04 FINANCIAL STATEMENTS

Signed financial statements of HEC were received on 13 August 2004 and an unqualified audit report was issued on 19 August 2004.

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.

As shown on the following pages, the HEC has a high level of borrowings, which have grown in 2003-04 by $44m to $1.081bn at 30 June 2004. Growth in this debt has arisen primarily from the need to finance a large-scale asset renewal program as well as the development of wind farms with a view to meeting NEM industry standards for generating capacity that will be higher than previously required. While this in turn has impacted on its leverage, the HEC has an acceptable level of liquidity and creditor turnover ratio.

The HEC regularly restructures its borrowings to take advantage of lower interest rates.

Increased returns from its consulting division have continued to diversify the HEC’s revenue base, which, along with growing energy demands within the State, has assisted the HEC in delivering strong results over the past few years.

There was no material change to the fair value of the HEC’s generating assets during 2003-04. Prior years’ revaluations have, however, had a large effect on its overall depreciation charge and represent a significant proportion of its equity, through its revaluation reserves.

The financial information presented below summarises the consolidated financial statements of the HEC and its subsidiaries.

FINANCIAL PERFORMANCE

	1999-00	2000-01	2001-02	2002-03	2003-04
	$'000s	$'000s	$'000s	$'000s	$'000s
Electricity sales revenue	278 560	298 263	317 114	354 091	378 269
Other operating revenue	45 313	33 483	53 413	43 364	61 548
Non-operating revenue	0	0	0	0	0
Total Revenue	**323 873**	**331 746**	**370 527**	**397 455**	**439 817**
Borrowing costs	127 633	87 637	73 869	83 587	72 358
Depreciation	76 502	76 848	79 495	80 389	79 274
Labour	50 329	47 990	57 972	63 351	74 683
Other operating expenses	67 295	72 735	99 229	97 264	140 328
Non-operating expenses	438	252	(94)	4 764	1 033
Total Expenses	**322 197**	**285 462**	**310 471**	**329 355**	**367 676**
Result from ordinary activities	**1 676**	**46 284**	**60 056**	**68 100**	**72 141**
Income tax expense	(5 547)	31 060	(25 453)	34 453	36 661
Result after taxation	**7 223**	**15 224**	**85 509**	**33 647**	**35 480**

Comment

Electricity sales revenue has risen over previous years and reflects increases in demand and unit pricing.

The increase in other operating revenue during 2001-02 was primarily due to the recognition of revenue associated with Bell Bay Unit A conversion. In 2002-03 there was an offsetting reduction in this item associated with external revenue generated by Bell Bay in 2001-02. Further increases in 2003-04 we attributable to revenues from subsidiaries.

The reduction in borrowing costs 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. Weighted average cost of debt at 30 June 2004 was 6.14%, a reduction from 6.31% at 30 June 2003.

Labour costs increased significantly in 2003-04 due to increases in employee numbers, pay rises in accordance with agreements of 4% and restructure/redundancy costs.

Other operating expenses increased during 2001-02 due to onerous contract provisions of $20.000m associated with BBP. Further increases in 2003-04 were mainly attributable to additional costs related to preparation for entry to the National Electricity Market, and costs 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 $5.000m 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). Increases in tax charged for 2002-03 and 2003-04 reflects a steady improvement in profits overall.

FINANCIAL POSITION

	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s	2002-03 $'000s	2003-04 $'000s
Cash	274	2 035	1 617	1 840	2 120
Receivables	36 772	37 971	54 700	50 304	50 780
Investments	20 000	30 200	50 357	37 440	10 817
Inventories	6 180	3 323	647	547	610
Prepayments	0	11 928	0	0	
Future Income Tax Benefit	0	0	9 205	7 583	8 952
Other	763	5 307	4 750	7 165	3 144
Total Current Assets	**63 989**	**90 764**	**121 276**	**104 879**	**76 423**
Payables	35 484	35 924	72 926	73 602	55 421
Borrowings	136 384	209 763	189 641	219 594	201 038
Provisions	81 088	83 330	109 949	49 475	55 173
Other	602	334	841	4 243	1 740
Total Current Liabilities	**253 558**	**329 351**	**373 357**	**346 914**	**313 372**
Working Capital	**(189 569)**	**(238 587)**	**(252 081)**	**(242 035)**	**(236 949)**
Receivables	0	0	0	0	8 161
Property, plant and equipment	3 180 746	3 245 157	3 335 057	3 383 607	3 431 346
Investments	0	816	16	20	1 083
Future Income Tax Benefit	4 903	5 220	57 164	59 287	62 102
Unamortised hedging costs	0	0	0	19 028	19 028
Other	0	0	1 505	1 409	0
Total Non-Current Assets	**3 185 649**	**3 251 193**	**3 393 742**	**3 463 351**	**3 521 720**
Borrowings	900 175	826 791	846 913	816 960	879 516
Provisions	292 473	299 688	306 834	322 024	329 996
Deferred hedging costs	0	0	0	19 028	19 028
Other	2 000	242	0	0	0
Total Non-Current Liabilities	**1 194 648**	**1 126 721**	**1 153 747**	**1 158 012**	**1 228 540**
Net Assets	**1 801 432**	**1 885 885**	**1 987 914**	**2 063 304**	**2 056 231**
Reserves	1 677 335	1 794 882	1 839 322	1 881 066	1 872 166
Retained profits	124 097	91 003	148 592	182 238	184 065
Total Equity	**1 801 432**	**1 885 885**	**1 987 914**	**2 063 304**	**2 056 231**

Comment

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

While liquidity as well as net working capital are tight, the HEC has met its obligations to pay dividends in line with Government policy. HEC looks to minimise future borrowing costs by restructuring its debt on a regular basis to take advantage of lower interest rates. This has impacted the split between current and non-current borrowings.

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

Receivables have remained high due to increased activity within the Consulting unit. Payables decreased in 2003-04 due to a reduction in amounts owed by BBP with the completion of Unit B during the year and reduced wind farm construction activity.

Prepayments in 2000-01 were associated with a large contract. Other current assets mainly consist of unamortised hedging costs.

FITB substantially increased since 2002 due to increases in the superannuation provision being a tax deductible charge only at the time of payment.

Net hedging losses were recognised in 2002-03 and deferred for amortisation over the term of the Basslink project.

Provisions increased in 2001-02 due mainly to providing for future costs associated with the Bell Bay operation, which were disclosed as an onerous contract in the financial statements. Current provisions have decreased from 2002-03 due to a change in policy with respect to dividends in accordance with a revised accounting standard, in that dividends are no longer provided for until declared after the end of the financial year.

Reserves as at 30 June 2004 comprise a General Reserve of $1.000m, which is related to a subsidiary, and an Asset Revaluation Reserve of $1.871bn.

CASH POSITION

	1999-00	**2000-01**	**2001-02**	**2002-03**	**2003-04**
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	320 414	353 433	352 340	403 775	435 416
Payments to suppliers and employees	(125 724)	(163 980)	(118 977)	(161 358)	(227 074)
Interest received	336	300	429	671	162
Contributions to Consolidated Fund	(161)	(101)	(11)	0	0
Borrowing costs	(119 371)	(86 048)	(72 133)	(80 442)	(70 779)
Income Tax Equivalent Paid	(17 355)	(21 328)	(35 578)	(19 641)	(32 864)
Cash from operations	**58 139**	**82 276**	**126 070**	**143 005**	**104 861**
Proceeds from investments	0	0	0	9	9
Proceeds from sale of business	0	0	0	0	1 177
Payments for investments	0	0	(1 943)	0	(100)
Payments for property, plant and equipment	(22 092)	(26 503)	(55 577)	(95 905)	(134 097)
Proceeds from sale of property, plant and equipment	5 754	2 634	577	1 487	1 360
Cash used in investing activities	**(16 338)**	**(23 869)**	**(56 943)**	**(94 409)**	**(131 651)**
Proceeds from borrowings	1 620 906	572 127	534 380	654 437	1 233 800
Repayment of borrowings	(1 557 282)	(558 944)	(525 655)	(640 231)	(1 180 431)
Repayment of Treasury Loans	(74 055)	(14 531)	(9 021)	(14 993)	(9 369)
Dividend Paid	(42 591)	(45 062)	(49 230)	(60 503)	(43 553)
Cash from financing activities	**(53 022)**	**(46 410)**	**(49 526)**	**(61 290)**	**447**
Net increase in cash	**(11 221)**	**11 997**	**19 601**	**(12 694)**	**(26 343)**
Cash at the beginning of the period	31 459	20 238	32 373	51 974	39 280
Cash at end of the period	**20 238**	**32 235**	**51 974**	**39 280**	**12 937**

Comment

Receipts from customers have been increasing over the years 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 costs of materials of $17.000m. Increases in 2003-04 included labour expenses, NEM readiness and costs associated with BBP as mentioned previously.

Borrowing costs have generally been reducing due to lower interest rates and loan restructuring. 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 and capital upgrade programs were the principal reasons for increased payments for property, plant and equipment in recent years. As a consequence of joining the NEM, the HEC has been required to modernise the capacity of its generation assets and has taken advantage of this opportunity to increase generation capacity.

HEC continues to restructure its loan portfolio on an on-going basis, resulting in larger than normal repayments and proceeds from borrowings.

With the phasing out of Special Dividends from 2005-06, dividend payments are gradually reducing compared to previous years. Under this arrangement, the HEC paid the Government a dividend comprising 50% of its after tax profits per the normal policy for GBEs' dividends.

The extensive use of cash reserves as sources of financing for wind farm developments and capital upgrades during 2003-04 brought about the large drop in cash at year-end.

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations ($'000s)		2 114	46 536	59 962	72 864	73 174
EBIT ($'000s)		129 309	133 921	133 925	151 687	144 499
Operating margin	>1.0	1.01	1.16	1.19	1.22	1.20
Return on assets		4.0%	4.1%	3.9%	4.3%	4.0%
Return on equity		0.4%	0.8%	4.4%	1.7%	1.7%
Financial Management						
Debt to equity		57.5%	55.0%	52.1%	50.2%	52.6%
Debt to total assets		31.9%	31.0%	29.5%	29.0%	30.0%
Interest cover	>3	1.01	1.53	1.81	1.81	2.00
Current ratio	>1	0.25	0.28	0.32	0.30	0.24
Leverage ratio		180.4%	177.2%	176.8%	172.9%	175.0%
Cost of debt	7.5%	7.9%	7.1%	7.1%	6.3%	6.1%
Debt collection	30 days	43	43	35	38	40
Creditor turnover	30 days	21	43	45	53	44
Returns to and from Government						
Dividends payable ($'000s)		45 062	49 230	60 503	43 553	40 000
Dividend payout ratio	50%	623.9%	323.4%	70.8%	129.4%	112.7%
Dividend to equity ratio		2.6%	2.7%	3.1%	2.2%	1.9%
Income tax payable ($'000s)		9 764	23 591	31 346	29 355	32 343
Effective tax rate	30%	582.6%	51.0%	52.2%	43.1%	44.8%
Government guarantee fees		3 000	2 879	3 242	3 241	3 795
Total return to the State ($'000s)		57 826	75 700	95 091	76 149	76 138
Total return to equity ratio		3.3%	4.1%	4.9%	3.8%	3.7%
CSO funding		4 551	4 912	5 356	5 238	4 748
Other information						
Staff numbers FTEs		628	639	722	763	800
Average staff costs ($'000s)		74	75	80	83	93

Comment

Result from operations is calculated before non-operating revenues and expenses.

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 was due to a larger result after taxation that included an increase in FITB of $57.700m, resulting from entry into the NTER. Returns to the State were, however, boosted by the special dividend of $40.000m each year. The special dividend relating to 2002-03 reduced to $26.500m and was paid in 2003-04. A new arrangement will reduce the dividend payable for future years to a minimum of $40m, including a phasing out of the special dividend.

The interest cover ratio of between 1 and 2 over the past five years indicates that profits 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. It is noted that the interest cost includes interest added to the HEC's provision for superannuation, which in 2003-04 totalled $14.600m.

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, which reflects the annual restructuring of debt to take advantage of lower interest rates. This maturity level is consistent with the approach articulated in the Treasury policy approved by the Board.

The leverage ratio, comparing total assets to total equity, is by nature quite high as this reflects the impact of assets that have increased in value due to the fair value approach, with increments reflected in the assets as well as the reserves.

The debt collection ratio increased to 40 days since 2001-02 due to increased activity within the consulting unit.

The creditor turnover ratio remains well above 30 days due to the cash management approach used to process the increased volume of transactions associated with the construction of wind farms and the increased expenditure associated with the capital upgrade program.

In accordance with a change in accounting standards, no provision for dividends was made in 2002-03 and subsequent years. Instead, the amount for dividends payable included in the table above refers to dividends proposed as disclosed in notes to the 2002-03 and 2003-04 financial statements, whereas previous years' figures have been taken from the provision set out in the statement of financial position.

The dividend payout ratio reduced substantially in 2001-02 due to the result after taxation that included an increase in FITB, $57.700m, resulting from entry into the National Taxation Equivalent Regime.

The effective tax rate was higher in 1999-00 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 and includes increased activities associated with the entry into the national electricity market. Increased activity 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 expected to grow during the next few years, the trend is anticipated to continue.

OVERALL COMMENT

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

Both non-current assets and equity have increased each year due principally to annual revaluations of property, plant and equipment flowing through to the asset revaluation reserve as well as a capital renewal program and the construction of wind farms.

Hydro Tasmania's financial year-end cash position has declined from a high of $51.974m in 2001-02 to $12.937m as at 30 June 2004. At the same time, the level of borrowings increased by $44.000m during 2003-04 to $1.080bn as at 30 June 2004. On this basis the need to review downward the level of HEC's dividend is supported particularly if it needs to continue to invest in infrastructure assets and control debt.

The 2003-04 audit was completed with satisfactory results.

1.4 MOTOR ACCIDENTS INSURANCE BOARD

INTRODUCTION

The Motor Accidents Insurance Board (MAIB or the Board) was established under the *Motor Accidents (Liability and Compensation) Act 1973*. The principal business of the MAIB is to manage all aspects of compensation awarded to persons suffering injury as a result of a motor accident as prescribed by this Act.

There are three main types of claims managed by the Board – scheduled benefits, common law and future care.

The Board of Directors of the MAIB comprises nine members appointed by the Governor on the joint recommendation of the Treasurer and Portfolio Minister. The Board includes the Chief Executive Officer who was appointed as a Director in May 2004.

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

AUDIT OF THE 2003-04 FINANCIAL STATEMENTS

Signed financial statements of MAIB were received on 13 August 2004 and an unqualified audit report was issued on 31 August 2004.

FINANCIAL RESULTS

The MAIB recorded a $70.303m operating profit before tax ($51.113m after tax) for the 2003-04 financial year, a particularly strong result due to a number of factors including:

- Earned premiums of $103.395m (2002-03: $90.266m). The increase of 15% is attributed mostly to increases in premiums charged and an almost 4% increase in the number of currently registered vehicles since June 2003;
- A claims expense of $96.911m (2002-03: $102.396m); and
- Investment revenue of $77.926m (2002-03: $30.581m).

This result has strengthened the MAIB’s financial position, increasing equity by $49.513m.

FINANCIAL PERFORMANCE

	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s	2002-03 $'000s	2003-04 $'000s
Premium Revenue	78 934	79 500	84 874	90 266	103 395
Outwards Reinsurance Expense	(2 096)	(3 603)	(3 527)	(4 155)	(4 627)
Claims Expense	(104 582)	(101 332)	(82 006)	(102 396)	(96 911)
Other Underwriting Expenses	(1 588)	(1 733)	(1 935)	(2 130)	(2 284)
Underwriting Result	**(29 332)**	**(27 168)**	**(2 594)**	**(18 415)**	**(427)**
Investment Revenue on Insurance Funds	37 167	34 505	7 191	27 950	67 619
General & Administration Expenses	(3 393)	(4 222)	(3 791)	(4 030)	(4 250)
Road Safety Initiative	(1 606)	(2 000)	(2 000)	(2 125)	(2 250)
Injury Prevention and Management Foundatio	(537)	(347)	(455)	(500)	(696)
Insurance Result	**2 299**	**768**	**(1 649)**	**2 880**	**59 996**
Investment Revenue on Retained Earnings	3 746	3 554	695	2 631	10 307
Operating result before tax	**6 045**	**4 322**	**(954)**	**5 511**	**70 303**
Income tax expense	(2 979)	(704)	5 149	5 186	(19 190)
Result after taxation	**3 066**	**3 618**	**4 195**	**10 697**	**51 113**

Comment

The nature of the Board’s insurance business it that it is “long-tailed” meaning that for some claimants, benefits payments will have to be paid for many years. It is normal for an insurance business dominated by long-tail operations to operate at an underwriting loss and for it to rely on investment returns to generate operating profits.

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

Premium revenue - has 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 growth for 2003-04 was $13.129m or 15% which was primarily attributable to a 6.6% weighted average premium increase applicable from 1 December 2003 and a 3.8% increase in the number of registered vehicles.

Investment revenue - the Board’s investments are measured at net market value at the end of each reporting period in accordance with Australian Accounting Standard AAS 26 ‘Financial Reporting of General Insurance Activities’. Investment returns distinguish between those generated by investments supporting insurance activities and investments supporting retained earnings.

The Board has adopted an investment strategy in which it seeks to maximise long term growth within acceptable risk parameters. To achieve this outcome it invests in a mix of growth and defensive asset classes. As such, the investment portfolio contains an inherent volatility that may cause returns from year to year to fluctuate significantly.

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 revenues or expenses in the period in which the changes occur. The higher investment revenue in 2003-04 is mainly due to the strength of the equities markets at 30 June 2004 compared to the position a year earlier resulting in the recognition of market value gains of $56.899m, of which $50.246m was unrealised.

The other main contributor impacting on the Board's operating results before tax is the claims expense, which comprises:

Type of Expense	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s	2002-03 $'000s	2003-04 $'000s
Claims paid	71 202	67 570	71 119	65 285	69 466
Movement in the provision for outstanding and unreported claims	33 387	34 017	11 761	38 500	27 900
Unexpired risk	(500)	0	0	0	0
Re-insurance and other recoveries	(257)	(687)	(1159)	(1695)	(727)
Other claims paid	750	432	285	306	272
Total claims expenses	**104 582**	**101 332**	**82 006**	**102 396**	**96 911**

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 AAS 26. This actuarial assessment is impacted by a variety of factors including:

- The number of claims received as a result of motor accidents;
- The nature, type and severity of claims received;
- Estimates of how long claimants will receive benefits;
- Statutory obligations to claimants;
- The extent to which claims are re-insured; and
- Movements in economic factors such inflation and discount rates.

The combination of the above factors can cause the claims expense to fluctuate significantly from year to year.

The Board became subject to the provisions of the National Tax Equivalent Regime effective 1 July 2001. As a carry over provision from the previous state based schemes, the Board received a benefit by way of a foreign income tax exemption in 2001-02 and 2002-03. The income tax revenue of $5.149m and $5.186m in these two years is primarily due to the exempt foreign income included in investment revenue.

From 1 July 2003, the foreign income tax exemption was removed and the Board became subject to the same rules as other companies. As a result, foreign sourced income was included in taxable income in 2003-04 but a credit was available for the foreign tax paid.

FINANCIAL POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	1 557	1 165	1 759	2 586	1 984
Receivables	31	215	98	179	24
Investments	255 756	275 932	495 166	538 358	635 233
Other	331	332	360	418	47
Total Current Assets	**257 675**	**277 644**	**497 383**	**541 541**	**637 288**
Plant and equipment	1 969	1 507	1 137	753	612
Property and investments	279 281	296 317	86 135	90 788	94 997
Other	9 983	9 045	13 902	18 632	0
Total Non-Current Assets	**291 233**	**306 869**	**101 174**	**110 173**	**95 609**
Payables	4 829	2 029	2 101	2 336	1 825
Employees and other provisions	2 650	2 940	1 852	1 421	1 413
Provision for unearned income	39 459	41 657	41 598	45 768	48 282
Provisions for reported/unreported claims	72 806	79 612	86 100	86 900	76 600
Total Current Liabilities	**119 744**	**126 238**	**131 651**	**136 425**	**128 120**
Employees and other provisions	972	1 064	1 136	1 146	2 921
Provisions for reported/unreported claims	371 615	398 826	404 100	441 800	480 000
Total Non-Current Liabilities	**372 587**	**399 890**	**405 236**	**442 946**	**482 921**
Net Assets	**56 577**	**58 385**	**61 670**	**72 343**	**121 856**
Retained profits	56 577	58 386	61 670	72 343	121 856
Total Equity	**56 577**	**58 386**	**61 670**	**72 343**	**121 856**

Comment

The bulk of the Board's assets arise from the receipt of premiums invested in short and long term securities held to meet claims arising from motor accidents.

Growth in investment assets arises from increases in premiums received collected in cash, operating profits and movements in the market values of investments. Investments have grown strongly throughout the five-year period under review due to the significant excess of cash generated from operations (see cash position below) and, primarily in the current financial year, due to the improved market values of securities held at 30 June 2004, $50.246m of which was unrealised at year-end.

The provision for reported and unreported claims has increased by $112.179m from $444.421m at 30 June 2000 to $556.600m 30 June 2004. The claims made by injured persons may take a considerable amount of time to settle. To ensure the adequacy of the claims liability an independent actuary is engaged to review the claims data and provide the liability valuation every year.

In calculating the claims liability the actuary first determines the central estimate, which is the estimate of liabilities based on expected future payments with no deliberate bias to either understate or overstate those liabilities. It is recognised that the estimation of future payments is inherently imprecise, particularly in respect of liabilities settled over an extended time frame. Although the valuation is calculated 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. 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. This prudential margin currently provides the Board with a probability not less than 75% that the claims provision is sufficient to meet the cost of claims incurred.

The provision for outstanding and unreported claims is valued under a Market Linked Fixed Gap Model, which 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.

The increase in the claims liability has been driven mainly by the increase in the size of the future care liability. The future care legislation was introduced in 1991 and provides lifetime care to people with very serious injuries requiring more than two hours care per day for an indefinite period. The liability for future care claims has increased from $192.054m, at 30 June 2000 to $308.710m at 30 June 2004.

Approximately nine future care claims are received per annum. In the case of younger claimants the duration of the liability can extend to more than 40 years. The increase in the liability reflects both the high cost of caring for future care claimants and that the pool of future care claims has not yet plateaued.

The provision for unearned income has remained reasonably consistent at about 50% of earned premiums suggesting that premiums are collected at a reasonably consistent rate throughout the year.

At 30 June 2003, Other Assets primarily comprised a future income tax benefit of $17.319m, which in the main related to timing differences between accounting and taxable income from investments and carried forward losses from prior years. During 2003-04 the accumulated tax losses were fully absorbed and the future tax benefit reduced to zero.

CASH POSITION

	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s	2002-03 $'000s	2003-04 $'000s
Receipts from premiums	78 905	89 868	93 295	103 880	116 346
Payments for claims	(71 202)	(68 884)	(73 308)	(68 235)	(73 202)
Other payments	(10 579)	(22 958)	(18 596)	(19 879)	(21 971)
Other receipts	7 664	4 782	4 606	5 514	4 486
Dividends received	3 225	4 570	5 866	13 465	11 573
Interest received	23 080	24 884	19 012	22 602	8 458
Cash generated from operations	**31 093**	**32 262**	**30 875**	**57 347**	**45 690**
Payments for investments	(31 750)	(31 867)	(29 465)	(55 387)	(71 816)
Payments for property, plant and equipment	(1 602)	(292)	(262)	(270)	(497)
Proceeds from sale of property, plant and equipment	3 716	1 038	1 255	47	27 622
Cash used in investing activities	**(29 636)**	**(31 121)**	**(28 472)**	**(55 610)**	**(44 691)**
Dividends paid	0	(1 533)	(1 809)	(910)	(1 601)
Net increase in cash	**1 457**	**(392)**	**594**	**827**	**(602)**
Cash at the beginning of the period	100	1 557	1 165	1 759	2 586
Cash at end of the period	**1 557**	**1 165**	**1 759**	**2 586**	**1 984**

Comment

Receipts from premiums have increased from $78.905m in 1999-00 to $116.346m in 2003-04. The increase reflects the growth in premium revenue over the same period due to increases in vehicle numbers and premium rate rises along with the introduction of the GST.

The increase in Other Payments in 2000-01 of $12.379m is primarily due to GST paid to the ATO of $10.362m.

Payments for the purchase of property, plant and equipment during 1999-00 included the development of a new claims management system.

The proceeds from sale in 2003-04 ($27.622m) included the disposal of 134 Macquarie St, Hobart (otherwise known as the Lands Building), which was recorded in the Statement of Financial Position as a property investment. The decision to sell the building was based on an investment analysis undertaken by the Board.

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
EBIT ($'000s)		6 045	4 322	(954)	5 511	70 303
Operating margin	>1.0	1.05	1.04	0.99	1.05	1.63
Return on assets		1.1%	0.8%	-0.2%	0.9%	10.2%
Return on equity		5.5%	6.3%	7.0%	16.0%	52.6%
Financial Management						
Current ratio	>1	2.14	2.18	3.78	3.97	4.97
Solvency ratio		10.7%	10.4%	9.9%	10.1%	20.6%
Returns to Government						
Dividends paid or payable ($'000s)		1 533	1 809	910	1 601	7 269
Dividend payout ratio	50%	50.0%	50.0%	21.7%	15.0%	14.2%
Dividend to equity ratio	6%	2.7%	3.1%	1.5%	2.4%	7.5%
Total return to the State ($'000s)		1 533	1 809	910	1 601	7 269
Total return to equity ratio		2.7%	3.1%	1.5%	2.4%	7.5%
Other information						
Staff numbers FTEs		36	37	36	36	38
Average staff costs ($'000s)		45	51	50	55	58

Comment

Dividends totalling $13.122m have been paid or are payable to the State Government relating to the 1999-00 to 2003-04 financial years. It is noted that the dividends for the last three years were 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 Board is required under the GBE Act to make tax equivalent payments to the State Government. Although the Board incurred a tax expense of $19.190m in 2003-04, no income tax is payable due to tax losses carried forward from prior years and the reversal of future income tax benefits relating to investment income.

While MAIB is not subject to the Australia Prudential Regulation Authority (APRA) standards, the Board has considered an appropriate level of solvency and has adopted a target range of 15% - 20%. The solvency ratio is calculated as net assets (less any FITB balance and dividend payable) divided by the outstanding claims liability. Over the past five years, the Board’s solvency level has ranged from 9.9% in 2001-02 to 20.6% in 2003-04.

OVERALL COMMENT

MAIB returned a profit before tax of $85.227m (after tax $72.689m) for the five years to 2003-04. During this same period $13.122m in dividends have been paid or are payable 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 2003-04 audit was completed satisfactorily with no issues outstanding.

1.5 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 consisted of six members as at 30 June 2004.

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

AUDIT OF THE 2003-04 FINANCIAL STATEMENTS

The 2003-04 financial statements of the Authority were received on 18 August 2004 and revised financial statements were received on 4 October 2004. An unqualified audit report was issued on 8 October 2004.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1999-00	2000-01	2001-02	2002-03	2003-04
	$'000s	$'000s	$'000s	$'000s	$'000s
Entrance Fees	2 780	2 903	2 868	3 510	4 007
Ghost tours	420	467	502	595	622
Food and Merchandise Sales	2 385	2 506	2 653	3 056	3 463
Interest	100	152	134	137	158
Other income	289	182	229	120	175
Conservation Funding	2 136	862	2 000	2 000	2 000
Other non-operating revenue	285	148	25	67	6
Total Revenue	**8 395**	**7 220**	**8 411**	**9 485**	**10 431**
Visitor Services expenses	1 337	1 430	1 586	1 850	2 115
Ghost tour expenses	267	312	299	380	347
Food and Merchandise Expenses	2 473	2 568	2 693	2 941	3 295
Conservation expenses	871	2 137	2 298	2 255	2 142
Depreciation	485	517	540	569	583
Other operating expenses	1 681	1 748	1 890	994	1 609
Non-operating expenses	0	9	0	0	0
Total Expenses	**7 114**	**8 721**	**9 306**	**8 989**	**10 091**
Result from ordinary activities	**1 281**	**(1501)**	**(895)**	**496**	**340**

Comment

Operating revenue has continued to increase and generally reflects an increasing trend in visitor numbers. The recent 2003-04 financial year has seen a 14.16% rise in entrance fee income of $0.497m and a 13.29% increase in food and merchandise sales of $0.406m. The movement in the expenses related to both of these areas correlates to the revenue increases. The 2003-04 financial year has seen a 14.32% rise in visitor services expenditure of $0.265m and a 12.04% increase in food and merchandise sales of $0.354m.

Commencing from 2000-01, the Authority is to receive $10.000m over a five-year period from the Tasmanian Government to fund conservation projects. This equates to funding of $2.000m annually for the purpose of preserving its convict heritage for future generations. A portion of the first instalment; $1.200m; was received early in the 1999-00 financial year with the balance $0.800m received in the 2000-01 financial year. This has directly affected the operating results of those years. Over the period of review there has also been a corresponding increase in conservation expenditure.

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 were carried out on the heritage assets and ruins, which were not recognised as assets of the Authority due to the difficulty in identifying an appropriate value. As a result, all conservation works were therefore shown as an operating expense and not capitalised.

Other operating expenses for 2001-02 included an increase in employee entitlements of $0.758m, which included retirement benefits for those affected by the events of 1996.

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

FINANCIAL POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	2 635	2 214	1 935	2 393	2 709
Receivables	91	76	118	122	177
Inventories	180	248	316	347	394
Other	93	117	43	27	13
Total Current Assets	**2 999**	**2 655**	**2 412**	**2 889**	**3 293**
Payables	245	136	231	163	410
Provisions	591	933	1 449	1 536	1 345
Other	217	473	466	495	238
Total Current Liabilities	**1 053**	**1 542**	**2 146**	**2 194**	**1 993**
Working Capital	**1 946**	**1 113**	**266**	**695**	**1 300**
Property, plant and equipment	9 575	9 022	9 216	9 389	10 753
Total Non-Current Assets	**9 575**	**9 022**	**9 216**	**9 389**	**10 753**
Provisions	1 376	1 491	1 733	1 859	2 507
Total Non-Current Liabilities	**1 376**	**1 491**	**1 733**	**1 859**	**2 507**
Net Assets	**10 145**	**8 644**	**7 749**	**8 225**	**9 546**
Retained profits	10 145	8 644	7 749	8 225	8 565
Reserves	0	0	0	0	981
Total Equity	**10 145**	**8 644**	**7 749**	**8 225**	**9 546**

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 items was expensed.

The reduction in property, plant and equipment in 2000-01 was a result of depreciation charges for the year and low capital expenditure. During 2000-01 there was a slight increase due to asset additions, $0.734m, which included the construction of a jetty for ferry passengers, $0.566m, being offset by depreciation charges for the year, $0.517m. There was a similar minor increase in property, plant and equipment in the 2002-03 financial year.

During the 2003-04 year a revaluation of buildings was conducted which lead to the increase to property, plant and equipment. The resultant increase is also reflected in the revaluation reserve of $0.981m.

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 restating 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 $0.895m respectively. Equity improved in the current year by $0.340m and the prior year by $0.497m due to surpluses from operations.

CASH POSITION

	1999-00	**2000-01**	**2001-02**	**2002-03**	**2003-04**
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	5 859	6 722	6 595	7 881	8 179
Payments to suppliers and employees	(6 326)	(8 022)	(8 315)	(8 885)	(9 104)
Interest received	84	163	145	134	168
Cash from operations	**(383)**	**(1137)**	**(1575)**	**(870)**	**(757)**
Cash Flow from Government					
Tasmanian Government	2 136	958	2 019	2 067	2 000
Cash from operations and Government	**1 753**	**(179)**	**444**	**1 197**	**1 243**
Payments for property, plant and equipment	(647)	(242)	(747)	(753)	(1 011)
Proceeds from sale of property, plant and equipment	39	0	24	14	84
Cash used in investing activities	**(608)**	**(242)**	**(723)**	**(739)**	**(927)**
Net increase in cash	**1 145**	**(421)**	**(279)**	**458**	**316**
Cash at the beginning of the period	1 490	2 635	2 214	1 935	2 393
Cash at end of the period	**2 635**	**2 214**	**1 935**	**2 393**	**2 709**

Comment

The present strong cash position resulted from cash surpluses generated in 1999-00, 2002-03 and 2003-04. The 1999-00 financial year included the early receipt of $1.200m of funding for conservation purposes. Over the period under review, conservation and other funding provided by the State Government amounts to $9.180m. Without that assistance the Authority's cash flow would have been markedly different.

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations ($'000s)		996	(1 640)	(920)	429	334
EBIT ($'000s)		1 281	(1 501)	(895)	496	340
Operating margin	>1.0	0.84	0.71	0.69	0.83	0.83
Return on assets		10.7%	-12.4%	-7.7%	4.1%	2.6%
Return on equity		13.5%	-16.0%	-10.9%	6.2%	3.8%
Financial Management						
Current ratio	>1	2.85	1.72	1.12	1.32	1.65
Debt collection	30 days	10	8	12	11	9
Creditor turnover	30 days	21	13	14	12	29
Returns to Government						
Dividends paid ($'000s)		0	0	0	0	0
Other information						
Staff numbers FTEs		74	82	80	80	95
Average staff costs ($'000s)		46	47	46	45	44
Daytime Visitors		189 650	203 600	201 099	226 000	253 122
Ghost Tour Visitors		43 799	46 824	48 975	54 800	58 951

Comment

A reasonably steady increase in total visitor numbers can be seen across the years of review. In 2003-04 the Authority had its highest ever visitor numbers, up 11.14% on the previous financial year.

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.

The 2003-04 audit was completed satisfactorily, with no major issues outstanding.

1.6 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, Energy and Resources.

AUDIT OF THE 2003-04 FINANCIAL STATEMENTS

Draft financial statements were received on 20 July 2004. Signed financial statements were received on 13 August 2004 and an unqualified audit report was issued on 17 August 2004.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1999-00	2000-01	2001-02	2002-03	2003-04
	$'000	$'000	$'000	$'000	$'000
Operating revenue	7 968	8 747	8 436	8 489	8 806
Total Revenue	**7 968**	**8 747**	**8 436**	**8 489**	**8 806**
Raw material and consumables	3 093	3 499	3 262	3 151	3 706
Employee expenses	2 857	2 941	2 981	3 087	3 092
Depreciation charges	302	444	415	460	401
Other expenses	1 465	1 637	1 541	1 613	1 572
Total Expenses	**7 717**	**8 521**	**8 199**	**8 311**	**8 771**
Result from ordinary activities	**251**	**226**	**237**	**178**	**35**
Income tax expense/(benefit)	0	0	0	(240)	43
Result after taxation	**251**	**226**	**237**	**418**	**(8)**

Comment

Operating revenue and expenses have remained fairly constant over the past five years. Depreciation charges increased from 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 generation of taxable income for the fourth year in a row and the recoupment of all prior year tax losses, the Authority brought to account a future income tax benefit of $0.240m in 2002-03.

The cost of Raw material and consumables increased in 2003-04 due to additional work sub-contracted to private printers, which caused a small after tax loss for the year.

FINANCIAL POSITION

	1999-00 $'000	2000-01 $'000	2001-02 $'000	2002-03 $'000	2003-04 $'000
Cash	506	607	890	1 032	873
Receivables	603	703	531	430	425
Investments	569	1 019	1 067	1 523	1 603
Inventories	492	480	411	524	467
Other	28	28	56	65	69
Total Current Assets	**2 198**	**2 837**	**2 955**	**3 574**	**3 437**
Payables	866	1 026	754	820	834
Provisions	793	838	887	790	701
Other	400	506	398	424	375
Total Current Liabilities	**2 059**	**2 370**	**2 039**	**2 034**	**1 910**
Working Capital	**139**	**467**	**916**	**1 540**	**1 527**
Deferred tax asset	0	0	0	257	289
Property, plant and equipment	1 117	1 384	1 041	591	1 145
Total Non-Current Assets	**1 117**	**1 384**	**1 041**	**848**	**1 434**
Provisions	77	51	38	51	87
Total Non-Current Liabilities	**77**	**51**	**38**	**51**	**87**
Net Assets	**1 179**	**1 800**	**1 919**	**2 337**	**2 874**
Reserves	0	508	508	508	1 145
Retained profits	1 179	1 292	1 411	1 829	1 729
Total Equity	**1 179**	**1 800**	**1 919**	**2 337**	**2 874**

Comment

Increasing Cash and Investments reflects increases in working capital resulting from increasingly 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.

Due to the generation of taxable income and the recoupment of all prior year tax losses, the Authority brought to account deferred tax assets in 2002-03 and 2003-04.

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

Working capital increased from 1999-00 to 2002-03. The small decline in 2003-04 was due to purchase of capital equipment of $0.335m plus the after tax loss noted previously.

Plant and equipment increased in 2000-01 and 2003-04 following triennial revaluations of manufacturing plant and purchase of equipment. Decreases in 2001-02 and 2002-03 were due to the depreciation of plant and equipment.

The Authority is debt-free.

CASH POSITION

	1999-00 $'000	2000-01 $'000	2001-02 $'000	2002-03 $'000	2003-04 $'000
Receipts from customers	7 983	9 414	9 153	9 375	9 479
Interest received	49	83	91	93	120
Payments to suppliers and employees	(7 383)	(8 618)	(8 728)	(8 742)	(9 163)
Income tax equivalent paid	0	0	0	0	(105)
Cash from operations	**649**	**879**	**516**	**726**	**331**
Payments for investments	(174)	(450)	(48)	(456)	(80)
Payments for property, plant and equipment	(199)	(203)	(72)	(10)	(318)
Cash used in investing activities	**(373)**	**(653)**	**(120)**	**(466)**	**(398)**
Dividends paid	0	(125)	(113)	(118)	(92)
Cash from financing activities	**0**	**(125)**	**(113)**	**(118)**	**(92)**
Net increase/decrease in cash	**276**	**101**	**283**	**142**	**(159)**
Cash at the beginning of the period	230	506	607	890	1 032
Cash at end of the period *	**506**	**607**	**890**	**1 032**	**873**

* Note: Cash does not include current Investments (2003-04, $1.603m).

Comment

The cash position of the Authority has generally improved as a result of increasing revenue and changed cash management procedures, while payments have also improved steadily.

Accordingly, some of the cash received has been transferred to investments, as noted above and in 1999-00, 2000-01 and 2003-04 there were significant purchases of printing equipment.

The lower cash position at the end of 2003-04 was a result of additional work sub-contracted to private printers, as noted previously, and due to the high investment in fixed assets.

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations ($'000s)		251	226	237	178	35
Operating margin	>1.0	1.03	1.03	1.03	1.02	1.00
Return on assets		8.0%	6.0%	5.8%	4.2%	0.8%
Return on equity	12.00%	22.5%	15.2%	12.7%	19.6%	-0.3%
Financial Management						
Current ratio	>1	1.07	1.20	1.45	1.76	1.80
Debt collection	30 days	28	30	23	19	18
Creditor turnover	30 days	32	36	25	25	28
Returns to Government						
Dividends payable ($'000s)		0	125	118	92	18
Dividend payout ratio	50%	-	55.3%	47.7%	22.0%	-22.5%
Dividend to equity ratio		-	8.4%	6.1%	4.3%	0.6%
Income tax paid or payable ($'000s)		0	0	0	18	0
Effective tax rate	30%	-	-	-	10.1%	-
Total return to the State ($'000s)		0	125	118	110	18
Total return to equity ratio		-	8.4%	6.3%	5.2%	0.7%
Other information						
Staff numbers FTEs		71	70	68	61	61
Average staff costs ($'000s)		40	42	44	51	51

Note: The Authority has no guarantee fees.

Comment

The lower Financial Performance and Returns to Government indicators in 2003-04 reflect the small loss after taxation.

In 2002-03 and 2003-04 the amount of dividends payable has been taken from disclosure in the notes to the financial statements, whereas in previous years the amounts were taken from the provision set out in the statement of financial position.

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

The Authority should continue to trade well, despite the small loss this year. As a result of the loss, the Department of Treasury and Finance has agreed with the Authority's Board that no dividend be payable in respect of 2003-04.

1.7 RIVERS AND WATER SUPPLY COMMISSION

INTRODUCTION

The Rivers and Water Supply Commission (the Commission) operates under the *Rivers and Water Supply Commission Act 1999*. The Commission comprises four members appointed by the Governor. It operates solely within the water supply industry.

The Commission owns and operates the South-East Irrigation Scheme supplying irrigated water to farmers along the Coal River from Craigbourne Dam to Richmond and via pipeline supply through to Cambridge.

During 2003-04 the Minister appointed the Commission as the responsible water entity for the Clyde Irrigation Scheme. This scheme will come into operation in the 2004-05 financial year.

The Commission owns the scheme infrastructure of the Cressy-Longford and Winnaleah Irrigation Schemes, which are now managed by irrigators on the schemes for the Commission by the Cressy-Longford Irrigation Scheme Limited and Winnaleah Irrigation Scheme Limited companies respectively.

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

The Commission also owns the following water supply schemes:

- Prosser River Water Supply Scheme- operated and administered by the Glamorgan/Spring Bay Council, supplying water in bulk to the Orford and Barton Avenue areas of Glamorgan/Spring Bay and to the Triabunna Woodchip Mill and other smaller industries; and
- Togari Water Scheme- supplying water for stock and dairy sheds for forty-five properties within the Togari District.

The Commission also operates three drainage and river improvement schemes throughout the State.

AUDIT OF THE 2003-04 FINANCIAL STATEMENTS

Signed initial statements for 2003-04 were received on 20 August 2004. Final amended statements were received on 23 September 2004 and an unqualified audit opinion was issued on 24 September 2004.

FINANCIAL RESULTS

The Commission has made losses in each of the five years under review and losses are likely to continue under current policies.

The Commission treats its annual contribution from the Government as part capital contribution to equity and part interest 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 the designation of this funding by the Department of Treasury and Finance.

FINANCIAL PERFORMANCE

	1999-00 $'000s	**2000-01** $'000s	**2001-02** $'000s	**2002-03** $'000s	**2003-04** $'000s
Water rates and charges	1276	1415	1345	1184	1030
Operating revenue	246	158	44	116	864
Non-operating revenue	231	700	300	626	205
Total Revenue	**1 753**	**2 272**	**1 689**	**1 926**	**2 099**
Borrowing costs	1 382	1 197	1 130	966	800
Depreciation	541	545	544	544	624
Other operating expenses	1 400	1 318	1 390	1 310	1124
Non-operating expenses	0	149	121	231	231
Total Expenses	**3 323**	**3 208**	**3 185**	**3 051**	**2 780**
Result from ordinary activities	**(1 569)**	**(936)**	**(1 496)**	**(1 125)**	**(680)**
Income tax expense	19	46	(240)	(73)	(200)
Result after taxation	**(1 588)**	**(982)**	**(1 256)**	**(1 052)**	**(480)**

Comment

As discussed previously, substantial contributions from Government over the years have been recorded as equity contributions rather than revenue. In 2003-04 the contribution was split between principal and interest with the interest component being shown as revenue as a result of a change in accounting policy.

A number of changes occurred in revenue for 2003-04:

- Water rates and charges decreased as a result of transfer of operations of the Winnaleah Irrigation Scheme to irrigators;
- As part of the transfer of the Winnaleah operations, a number of assets were disposed of; and
- Operating revenue increased due to the contribution from Government to be spilt between interest and principal. The interest component of $0.709m is now shown as operating revenue.

Operating revenue was high in 1999-00 for three reasons:

- The Cressy Longford Irrigation Scheme collected an Asset Renewal Levy, $0.020m;
- The Commission sold trees from a plantation, $0.043m; and
- Insurance claims totalled $0.097m.

Operating revenue remained high in 2000-01 due to higher consumption of water because of the drought and sale of some trees, offset by no Government subsidy being received. Non-operating revenue increased by $509 898 due to the sale of trees from the Curries River Plantation.

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 $0.015m was included in non-operating revenue for the year. There were no tree sales in this year. This is reflected in the low operating revenue figure reported.

Operating revenue rose again in 2002-03 as a result of receiving a reimbursement of $0.046m from Government for the cost of the Meander Dam Environment Permit Application. An increase in non-operating revenue, in the same year, is largely attributable to an adjustment of $0.572m 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.

The reduction in borrowing costs over the years has been a result of the Commission's continued debt reduction program.

For 2003-04 the transfer of the Winnaleah Irrigation Scheme's operations brought about a reduction in operating expenses. There was also a decrease in expenditure on water purchases due to a return to normal average seasonal rainfall.

The Commission's operations have resulted in both before and after tax losses in each of the years under review, due to insufficient revenue earned from water and irrigation schemes and funding arrangements with Treasury.

FINANCIAL POSITION

	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s	2002-03 $'000s	2003-04 $'000s
Cash	648	217	76	71	83
Receivables	518	812	430	379	294
Investments	793	703	759	502	442
Water Stock	0	0	186	171	171
Other	0	0	33	0	0
Total Current Assets	**1 959**	**1 731**	**1 484**	**1 123**	**990**
Property, plant and equipment	35 768	35 803	35 756	44 426	43 661
Other	578	628	936	1 015	1 448
Total Non-Current Assets	**36 346**	**36 431**	**36 692**	**45 441**	**45 109**
Payables	327	176	238	279	130
Borrowings	2 866	1 790	2 307	2 633	4 906
Provisions	348	336	339	212	141
Total Current Liabilities	**3 541**	**2 302**	**2 884**	**3 124**	**5 177**
Borrowings	13 993	13 284	11 081	8 594	4 484
Provisions	369	407	441	238	244
Total Non-Current Liabilities	**14 362**	**13 691**	**11 522**	**8 832**	**4 728**
Net Assets	**20 402**	**22 169**	**23 770**	**34 608**	**36 194**
Reserves	17 861	17 725	17 725	26 853	26 865
Accumulated Funds	2 541	4 444	6 045	7 755	9 329
Total Equity	**20 402**	**22 169**	**23 770**	**34 608**	**36 194**

Comment

Cash was higher in 1999-00 due to extra funds received from the sale of trees from a plantation, and transfer of funds from Investments. Cash reduced in 2000-01 as the Commission kept only what was required to meet operating expenditure.

Water stock was brought to account for the first time in 2001-02 as a result of a change in accounting policy. An increase in turnover of water billings resulted in high current receivables for the year.

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

Borrowings are reducing as a result of the Commission’s continued debt reduction program.

Non-current provisions reduced in 2002-03 due to a superannuation liability adjustment. In 2003-04 there was an overall decrease in provisions due to the retirement of a staff member.

Other non-current assets have progressively increased due to the increasing Future Income Tax Benefit resulting from the continual losses being made by the Commission as well as timing differences.

Despite operating losses, Equity has been increasing due to the treatment of the annual Government contribution ($14.067m over the five years under review) as equity rather than as revenue, and due to the revaluation of non-current assets in 2002-03.

CASH POSITION

	1999-00	**2000-01**	**2001-02**	**2002-03**	**2003-04**
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	1 605	1 268	1 727	1 060	1 005
Payments to suppliers and employees	(1 145)	(1 445)	(1 360)	(1 264)	(1 502)
Interest received	49	41	34	25	7
Borrowing costs	(1 382)	(1 195)	(1 063)	(932)	(794)
Taxation expense	(19)	0	0	0	0
Other	0	0	(125)	118	170
Cash from operations	**(892)**	**(1 330)**	**(787)**	**(993)**	**(1 114)**
Payments for property, plant and equipment	(122)	(961)	(500)	(142)	(80)
Proceeds from sale of property, plant and equipment	51	658	33	26	219
Cash used in investing activities	**(71)**	**(303)**	**(467)**	**(116)**	**139**
Capital contribution from Government	2 799	2 886	2 856	2 763	2 763
Proceeds from borrowings	200	2 866	300	494	0
Repayment of borrowings	(1 768)	(4 651)	(1 985)	(2 413)	(1 837)
Cash from financing activities	**1 231**	**1 101**	**1 171**	**844**	**926**
Net increase in cash	**268**	**(532)**	**(83)**	**(265)**	**(49)**
Cash at the beginning of the period	1 183	1 451	919	836	571
Cash at end of the period	**1 451**	**919**	**836**	**571**	**522**

Comment

In 2000-01 a number of loans were re-financed. This was 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 an increase in repayment of borrowings. This trend continued into 2003-04, compounded by an increase in payments to creditors.

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

Impact of Equity Funding

During the five years under review the Commission has relied heavily on the State Government to finance part of the asset replacement and debt repayment programs as illustrated in the following table:

	1999-2004 $'000s
Positive Cash Flows from Operations before Borrowing Costs	250
Borrowing Costs	(5 366)
Net Outflows from Operations Provided by Equity Contributions	(5 116)
Net Asset Replacements Funded by Equity Contributions	(818)
	(5 934)
Net Debt Repayments Funded by Equity Contributions	(8 794)
Net Outflows for the 5 Years	(14 728)
State Government Equity Contributions	14 067
Net Decrease in Cash Holdings for the 5 Year Period	**(661)**

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations ($'000s)		(1 800)	(1 487)	(1 675)	(1 520)	(654)
EBIT ($'000s)		(188)	261	(366)	(159)	(680)
Operating margin	>1.0	0.46	0.51	0.45	0.46	0.74
Return on assets		-0.5%	0.7%	-1.0%	-0.4%	-1.5%
Return on equity	12%	-8.0%	-4.6%	-5.5%	-3.6%	-1.4%
Financial Management						
Debt to equity		82.6%	68.0%	56.3%	32.4%	25.9%
Debt to total assets		44.0%	39.5%	35.1%	24.1%	20.4%
Interest cover	>3	(0.1)	0.2	(0.3)	(0.2)	-
Current ratio	>1	0.55	0.75	0.51	0.36	0.19
Cost of debt	7.5%	7.8%	7.5%	7.9%	7.8%	7.8%
Debt collection	30 days	72	100	113	109	96
Creditor turnover	30 days	31	57	69	84	50
Returns to Government						
Dividends paid or payable ($'000s)		0	0	0	0	0
Dividend payout ratio	50%	-	-	-	-	-
Dividend to equity ratio	6%	-	-	-	-	-
Income tax paid or payable ($'000s)		0	0	0	0	0
Effective tax rate	30%	-	-	-	-	-
Total return to the State ($'000s)		0	0	0	0	0
Total return to equity ratio	7.5%	-	-	-	-	-
Other information						
Staff numbers FTEs		6	7	7	4	5
Average staff costs ($'000s)		N/a	55	50	67	54

Comment

Average staff costs were not available in 1999-2000. In 2002-03 average staff costs 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 that year. These costs stabilised in 2003-04.

Debt collection days remain high due to a number of long outstanding secured debtors.

The current ratio has reduced significantly, mainly due to non-current borrowings becoming current.

Outstanding creditors have steadily increased since 2000-01 with a corresponding increase in creditor turnover. In 2002-03 the increase was mainly attributable to a one-off liability to the Department of Primary Industries, Water and Environment for salary and related expenses. The liability was settled within standard trading terms and the ongoing charges for salaries and related expenses were being paid on a regular basis from 2003-04. This was reflected in the reduced creditor turnover for that year.

As the Commission has been making losses during the period under review, there have been no payments of tax or dividends.

OVERALL COMMENT

As noted previously, due to the continuation of the present funding arrangements from Treasury and the Commission’s pricing policies for water and irrigation, the Commission is expected to make further losses in the foreseeable future, without any positive returns to Government, despite its status as a Government Business Enterprise.

The 2003-04 audit was completed with generally satisfactory results.

1.8 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 Governments, 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 2004 the Responsible Minister was the Minister Assisting the Premier on Local Government.

AUDIT OF THE 2003-04 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2004 and an unqualified audit opinion was issued on 25 October 2004.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1999-00	2000-01	2001-02	2002-03	2003-04
	$'000s	$'000s	$'000s	$'000s	$'000s
Operating revenue	1 683	1 764	1 621	1 775	1 515
Non-operating revenue	0	0	0	0	0
Total Revenue	**1 683**	**1 764**	**1 621**	**1 775**	**1 515**
Depreciation	185	343	374	407	306
Salaries	668	697	697	702	666
Other operating expenses	581	764	721	757	739
Non-operating expenses	0	0	0	0	0
Total Expenses	**1 434**	**1 804**	**1 792**	**1 866**	**1 711**
Result from ordinary activities	**249**	**(40)**	**(171)**	**(91)**	**(196)**
Income tax (benefit)/expense	89	5	(386)	1	346
Result after taxation	160	(45)	215	(92)	(542)

Comment

An increase in Operating revenue occurred in 2000-01 with the development of above-ground crypts. The Eastern Shore Crematorium had some impact on the Trust's business in 2001-02 with revenue decreasing overall. Revenue increased again 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. These revenue sources levelled out during 2003-04.

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

In regard to Other operating expenses, the increases since 2000-01 were 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.

Although the Trust falls within the Tax Equivalence Regime, its marginal level of returns has resulted in minimal tax payments to the State.

The Income tax benefit in 2001-02, $0.353m, resulted from adjustment to Future Income Tax Benefits (FITB) on entry to the National Taxation Equivalent Regime (NTER). There was a negligible income tax expense in 2002-03 mainly due to the operating loss for the year. As it was determined in 2003-04 that the Trust could not meet the test of virtual certainty needed to carry forward its tax losses, a Future Income Tax Benefit of $0.346m was written back.

FINANCIAL POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	93	36	144	136	0
Receivables	261	463	305	496	417
Investments	2 800	2 420	2 470	2 290	2 391
Other	3	3	16	14	5
Total Current Assets	**3 157**	**2 922**	**2 935**	**2 936**	**2 813**
Payables	103	69	57	166	27
Bank Overdraft	0	0	0	0	74
Provisions	174	189	190	265	280
Other	0	70	124	184	251
Total Current Liabilities	**277**	**328**	**371**	**615**	**632**
Working Capital	**2 880**	**2 594**	**2 564**	**2 321**	**2 181**
Property, plant and equipment	5 398	5 379	5 294	5 473	5 377
Other	0	0	343	341	0
Total Non-Current Assets	**5 398**	**5 379**	**5 637**	**5 814**	**5 377**
Provisions	1 107	1 097	1 110	1 135	1 100
Total Non-Current Liabilities	**1 107**	**1 097**	**1 110**	**1 135**	**1 100**
Net Assets	**7 171**	**6 876**	**7 091**	**7 000**	**6 458**
Capital	1 252	1 002	1 002	1 002	1 002
Reserves	6 012	6 012	6 012	6 012	6 012
Retained profits/(Accumulated losses)	(93)	(138)	77	(14)	(556)
Total Equity	**7 171**	**6 876**	**7 091**	**7 000**	**6 458**

Comment

The higher than normal cash balances at 30 June 2002 and 2003 related to standard fluctuations in cash flows occurring in the course of normal business. There was an overdraft as at 30 June 2004.

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 longer negotiated terms of payment 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.

Non-current assets were last valued in 1998 on a fair value basis. As these assets have not been revalued since then, an emphasis of matter was included in the audit opinion for 2003-04 due to the out-of-date valuation. The Trust has been urged to obtain an updated revaluation during the 2004-05 year.

Property, plant and equipment increased in 2002-03 due to capital works relating to 136 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 was 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. The written back FITB noted previously had a major impact on equity during 2003-04.

CASH POSITION

	1999-00	**2000-01**	**2001-02**	**2002-03**	**2003-04**
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	1 547	1490	1708	1855	1440
Payments to suppliers and employees	(1 172)	(1 441)	(1 361)	(1 532)	(1 443)
Interest received	136	169	112	121	111
Taxation refunded/(paid)	0	0	(5)	1	0
Cash from operations	**511**	**218**	**454**	**445**	**108**
Proceeds from investments	0	380	0	180	0
Payments for investments	(400)	0	(50)	0	(102)
Payments for property, plant and equipment	(166)	(342)	(338)	(651)	(233)
Proceeds from sale of property, plant and equipment	16	17	43	17	17
Cash used in investing activities	**(550)**	**55**	**(345)**	**(454)**	**(318)**
Repayment of capital	0	(250)	0	0	0
Dividends paid	0	(80)	0	0	0
Cash from financing activities	**0**	**(330)**	**0**	**0**	**0**
Net increase in cash	**(39)**	**(57)**	**109**	**(9)**	**(210)**
Cash at the beginning of the period	132	93	36	145	136
Cash at end of the period	**93**	**36**	**145**	**136**	**(74)**

Comment

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

The positive cash flow from operating activities was 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	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations ($'000s)		249	(40)	(171)	(91)	(196)
EBIT ($'000s)		249	(40)	(171)	(91)	(196)
Operating margin	>1.0	1.17	0.98	0.90	0.95	0.89
Return on assets		3.0%	-0.5%	-2.0%	-1.1%	-2.3%
Return on equity		2.2%	-0.6%	3.1%	-1.3%	-8.1%
Financial Management						
Current ratio	>1	11.40	8.91	7.91	4.77	4.45
Debt collection	30 days	63	108	73	102	105
Creditor turnover	30 days	67	32	26	73	13
Repayment of capital		0	330	0	0	0
Dividend payout ratio	50%	-	-733.3%	-	-	-
Dividend to equity ratio	6%	-	4.7%	-	-	-
Income tax paid ($'000s)		0	0	(5)	1	0
Effective tax rate	30%	-	-	2.9%	-1.1%	-
Total return to the State ($'000s)		0	330	(5)	1	0
Total return to equity ratio		-	4.7%	-0.1%	0.0%	-
Other information						
Staff numbers FTEs		16	16	14	14	14
Average staff costs ($'000s)		42	44	50	50	48

Comment

Results from operations and EBIT were significantly lower in 2001-02. This can be attributed to lower revenue in 2001-02. Revenues increased in 2002-03 but not sufficiently to return a profit.

Variances in the return on assets 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, and again in 2002-03 and 2003-04 to 102 and 105 days respectively, due mainly to a funeral director being behind in payments.

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.

Creditor turnover was high in 2002-03 resulting from the majority of expenditure being toward capital improvements.

Although the Trust returned a loss on ordinary activities for 2001-02, income tax amounting to $0.005m was payable and resulted 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 capital return of $0.250m.

OVERALL COMMENT

The Trust's assets mainly consist of the two properties and associated buildings and equipment, which are still recorded at 1998 values, and $2.391m of investments. The Trust has no borrowings. In the five years under review, only one year produced a positive result before taxation. Several recent initiatives have been made to increase revenue, but this 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.

1.9 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 traded under its own name.

The core business of the Board was 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 was formed. The Government, via authority provided by section 7 of the *Government Business Enterprises (Sale) Act 2003*, signed a sale agreement with Rocktas Investment Limited to sell the business as a going concern on 20 November 2003 with a completion date of 10 December 2003. All assets and liabilities of the Board were sold with the exception of those that were specifically excluded.

The Responsible Minister was the Minister for Primary Industries and Water.

AUDIT OF THE 2003-04 FINANCIAL STATEMENTS

Signed financial statements for the period ended 10 December 2003 were received on 14 April 2004 and an unqualified audit report was issued on that date.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1999-00	2000-01	2001-02	2002-03	2003-04
	$'000s	$'000s	$'000s	$'000s	$'000s
Operating revenue	634	594	602	636	269
Non-operating revenue	0	0	0	0	1 325
Total Revenue	**634**	**594**	**602**	**636**	**1 594**
Borrowing costs	0	0	0	0	0
Depreciation	44	44	44	50	23
Other operating expenses	315	328	379	383	214
Non-operating expenses	0	0	0	0	1 059
Total Expenses	**359**	**372**	**423**	**433**	**1 296**
Result from ordinary activities	**275**	**222**	**179**	**203**	**298**
Income tax expense	89	98	44	71	93
Result after taxation	**186**	**124**	**135**	**132**	**205**

Comment

The financial results for 2003-04 were for the period 1 July to 10 December 2003 and reflected the activities of the business prior to sale. The non-operating revenue of $1.325m was the proceeds from sale received from Rocktas Investments Limited. These proceeds were paid into the Consolidated Fund on 12 December 2003 in accordance with section 38(1) of the *Government Business Enterprises (Sale) Act 2003*. The non-operating expenses of $1.059m represented the written-down value of the non-current property, plant and equipment assets that were sold.

FINANCIAL POSITION

	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s	2002-03 $'000s	2003-04 $'000s
Cash	159	138	108	151	1 467
Receivables	3	7	7	7	48
Investments	356	534	558	586	593
Inventories	18	11	10	11	0
Other	1	1	28	1	8
Total Current Assets	**537**	**691**	**711**	**756**	**2 116**
Property, plant and equipment	872	828	1 131	1 081	0
Total Non-Current Assets	**872**	**828**	**1 131**	**1 081**	**0**
Payables	38	42	56	40	79
Borrowings	0	0	0	0	0
Provisions	66	85	18	34	70
Other	0	44	0	0	0
Total Current Liabilities	**104**	**171**	**74**	**74**	**149**
Total Non-Current Liabilities	**0**	**0**	**0**	**0**	**0**
Net Assets	**1 305**	**1 348**	**1 768**	**1 763**	**1 967**
Reserves	1 408	1 408	1 755	1 755	1 755
Retained profits	(103)	(60)	13	8	212
Total Equity	**1 305**	**1 348**	**1 768**	**1 763**	**1 967**

Comment

The Statement of Financial Position as at 10 December 2003 reflected the excluded assets and liabilities remaining as at completion date, which were transferred to the Crown in accordance with section 35(1) of the *Government Business Enterprises (Sale) Act 2003*.

The cash balance of $1.467m at 10 December 2003 included the proceeds from sale received by the Crown during December 2003.

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. A corresponding increase in the balance of reserves was attributable to the asset revaluation increment. At 10 December 2003 the Board held no property, plant and equipment as a result of the sale to Rocktas Investments Limited.

At 30 June 2001 the Board had an income tax liability of $0.061m. This was shown as part of 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 of $0.028m.

An amount of $0.070m was held in a current liability provision account at 10 December 2003 for taxation equivalent expense incurred, to be paid after the transfer of funds to the Crown.

The Other current liabilities in the 2000-01 year represented revenue received in advance by the Board for rental of the cold stores.

CASH POSITION

	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s	2002-03 $'000s	2003-04 $'000s
Receipts from customers	510	659	600	666	281
Payments to suppliers and employees	(303)	(370)	(441)	(459)	(271)
Interest received	89	34	29	33	9
Borrowing costs	0	0	0	0	0
Taxation expense	(99)	(86)	(132)	(34)	(21)
Cash from operations	**197**	**237**	**56**	**206**	**(2)**
Proceeds from investments	919	0	0	0	0
Payments for investments	0	(177)	(24)	(28)	(7)
Payments for property, plant and equipment	0	0	0	0	0
Proceeds from sale of property, plant and equipment	0	0	0	0	1 325
Cash used in investing activities	**919**	**(177)**	**(24)**	**(28)**	**1 318**
Proceeds from borrowings	0	0	0	0	0
Repayment of borrowings	0	0	0	0	0
Dividends paid	(1 108)	(81)	(62)	(135)	0
Cash from financing activities	**(1 108)**	**(81)**	**(62)**	**(135)**	**0**
Net increase in cash	**8**	**(21)**	**(30)**	**43**	**1 316**
Cash at the beginning of the period	151	159	138	108	151
Cash at end of the period	**159**	**138**	**108**	**151**	**1 467**

Comment

The marked increase in receipts from customers and payments to suppliers from 1999-00 to 2000-01 was due to the impact of GST. Receipts from customers decreased during the 2001-02 year as no revenue in advance was 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 equivalent expense payments for 2001-02 included five instalment payments. At 30 June 2002 the Board had an income tax receivable of $0.028m. This was offset against income tax payments due during 2002-03 resulting in the lower than usual taxation expense payments for the year of $0.034m.

The taxation equivalent expense payments for the period ended 10 December 2003 were $0.021m, however a further amount of $0.070m was held in a current liability provision account for payment after the transfer of funds to the Crown.

Proceeds from investments in 1999-00, $0.919m, were used to pay the special dividend of $1.000m during June 2000. Total dividends paid in 1999-00 included the special dividend of $1.000m and an ordinary dividend of $0.108m.

Proceeds from the sale of property, plant and equipment during 2003-04 were from the sale of all non-current assets of the Board as at 10 December 2003 to Rocktas Investments Limited.

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations ($'000s)		275	222	179	203	32
EBIT ($'000s)		275	222	179	203	298
Operating margin	>1.0	1.77	1.60	1.42	1.47	1.14
Return on assets		14.6%	15.2%	10.7%	11.0%	15.1%
Return on equity		10.5%	9.3%	8.7%	7.5%	11.0%
Financial Management						
Debt to equity		-	-	-	-	-
Debt to total assets		-	-	-	-	-
Interest cover	>3	-	-	-	-	-
Current ratio	>1	5.16	4.04	9.61	10.22	14.20
Cost of debt	7.5%	-	-	-	-	-
Debt collection	30 days	2	5	4	4	3
Creditor turnover	30 days	58	48	72	42	54
Returns to Government						
Dividends paid or payable ($'000s)		1 108	81	62	135	0
Dividend payout ratio	50%	595.7%	65.3%	45.9%	102.3%	-
Dividend to equity ratio		62.7%	6.1%	4.0%	7.6%	-
Income tax paid or payable ($'000s)		90	99	44	71	93
Effective tax rate	30%	32.7%	44.6%	24.6%	35.0%	31.2%
Total return to the State ($'000s)		1 198	180	106	206	93
Total return to equity ratio		67.8%	13.6%	6.8%	11.7%	5.0%
Other information						
Staff numbers FTEs		2.0	2.3	2.4	2.4	2.4
Average staff costs ($'000s)		38	37	36	37	18

Comment

The return on assets decreased during 2001-02, mainly due to an increase in average total assets caused by the revaluation of land and buildings at 30 June 2002. The rate for 2002-03 is similar to the prior year due to the impact of the revaluation. The 2003-04 rate was affected by the change in composition of the Board's balance sheet due to the sale of the business.

The Board had no borrowings and therefore the debt and interest expense ratios were not applicable.

As the Board had an income tax asset rather than a liability at 30 June 2002, the current ratio increased. An increase in cash held at both 30 June 2003 and 2004 maintained the higher current ratio.

The debt collection ratio was unusually low as the rental revenue was paid monthly in advance. The receivables outstanding each year represent unpaid invoices for bin movements. The 10 December 2003 receivables also included an amount due as a result of the assignment of insurance policies to the purchaser of the Cool Stores.

The creditor turnover figure was consistently above the benchmark of 30 days because the payables balance in each year includes an amount owing to Aurora Energy Pty Ltd for a three-month period.

The total return to equity ratio was satisfactory in all five years. A ratio of 67.8% was recorded in 1999-00 as a result of the special dividend. No dividend was declared for the financial period 1 July to 10 December 2003.

OVERALL COMMENT

The 2003-04 audit was completed satisfactorily with no major issues outstanding.

The transfer of the remaining part of the business of the Stanley Cool Stores Board to the Crown in accordance with section 35 of the *Government Business Enterprises (Sale) Act 2003* was gazetted on 6 May 2004 with an effective date of 11 December 2003.

1.10 TASMANIAN GRAIN ELEVATORS BOARD

INTRODUCTION

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

The core business of the Board was to provide efficient and effective grain handling facilities for the benefit of suppliers and consumers of grain and the community at large. It was the major supplier of wheat to the Tasmanian flour and stock feed milling and intensive animal industries and was 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 traded in its own right and was the major trader and supplier of locally grown grain in the state.

The Government announced the sale of the Board's business on 21 March 2003. The sale process was administered by the Department of Treasury and Finance. The sale was conducted via an open tender process with representatives from the Department Treasury and Finance and the Department of Primary Industries, Water and Environment evaluating the tenders and making final recommendations to the Portfolio and Stakeholder Ministers. The sale of the business as a going concern was completed on 12 December 2003. The purchaser was Tas Silos Pty Ltd. Accordingly, the last reporting period of the Board was to 1 July to 12 December 2003.

The Responsible Minister was the Minister for Primary Industries and Water.

AUDIT OF THE 12 DECEMBER 2003 FINANCIAL STATEMENTS

Financial statements were signed on 31 March 2004 and an unqualified audit report was issued on 7 April 2004.

FINANCIAL RESULTS

As noted previously comparison of the results for 2003-04 with prior years are affected by the 5½ months of that reporting period, together with the sale of the business on 12 December 2003.

FINANCIAL PERFORMANCE

	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s	2002-03 $'000s	2003-04 $'000s
Operating revenue	5 799	7 796	7 432	12 395	3 460
Non-operating revenue	5	8	110	0	0
Total Revenue	**5 804**	**7 804**	**7 542**	**12 395**	**3 460**
Borrowing costs	0	0	0	3	2
Depreciation	185	172	182	179	70
Other operating expenses	5 348	7 406	6 912	11 699	3 530
Non-operating expenses	35	3	102	0	702
Total Expenses	**5 568**	**7 581**	**7 196**	**11 881**	**4 304**
Result from ordinary activities	**236**	**223**	**346**	**514**	**(844)**
Income tax expense	64	83	(260)	154	356
Result after taxation	**172**	**140**	**606**	**360**	**(1200)**

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 improved 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 a result of the mainland drought. Notwithstanding the shorter reporting period for 2003-04, certain operating revenues approached levels comparable to prior years: Revenue from handling and storage charges were $0.345m (2003: $0.543m); and Freight recoveries were $0.273m (2003: $0.458m).

Other operating expenses in 2003-04 included a write-back of the provision for doubtful debts of $0.104m, and in other respects, were comparable in proportion to the same length of time for prior years.

For 2003-04 non-operating expenses relate to the loss on sale of the business.

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. 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. However, on entry to the NTER it was able to claim the actual superannuation payments made.

The overall result for 2003-04 shows a net loss of $1.200m, which includes the loss on sale of the business of $0.702m.

FINANCIAL POSITION

	1999-00 $'000s	**2000-01** $'000s	**2001-02** $'000s	**2002-03** $'000s	**2003-04** $'000s
Cash	176	433	599	362	2 416
Receivables	1 471	1 079	1 287	1 127	1 608
Investments	636	397	428	493	1 145
Inventories	435	1 184	908	1 368	0
Other	56	71	433	475	130
Total Current Assets	**2 774**	**3 164**	**3 655**	**3 825**	**5 299**
Payables	282	529	598	728	804
Provisions	241	259	241	271	1 770
Total Current Liabilities	**523**	**788**	**839**	**999**	**2 574**
Working Capital	**2 251**	**2 376**	**2 816**	**2 826**	**2 725**
Property, plant and equipment	1 991	2 032	2 122	2 473	0
Total Non-Current Assets	**1 991**	**2 032**	**2 122**	**2 473**	**0**
Provisions	1 169	1 270	1 252	1 375	0
Total Non-Current Liabilities	**1 169**	**1 270**	**1 252**	**1 375**	**0**
Net Assets	**3 073**	**3 138**	**3 686**	**3 924**	**2 725**
Reserves	2 590	2 660	2 730	2 930	0
Retained profits	483	478	956	994	2 725
Total Equity	**3 073**	**3 138**	**3 686**	**3 924**	**2 725**

Comment

The decrease in receivables in 2000-01 was 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 amounts due by grain sales customers being within credit limits.

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

As stated previously the results for 2003-04 were affected by the sale of the business, most notably:

- Cash at the end of the period increased mainly due to proceeds from the sale of the business ($1.991m) and proceeds from the disposal of non-current assets ($0.032m);
- Receivables included $1.560m relating to sale of the business;
- Property, plant and equipment was included in Other current assets, due to the sale of the business;
- Similarly, all employee provisions were classified as current; and
- The finance lease was paid out as part of the sale of the business; hence the Board had no borrowings at the end of the reporting period.

CASH POSITION

	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s	2002-03 $'000s	2003-04 $'000s
Receipts from customers	4 947	8 829	8 167	15 024	3 702
Payments to suppliers and employees	(5 316)	(8 531)	(7 600)	(14 484)	(2 966)
Interest received	92	106	75	105	45
Taxation expense	(13)	(102)	(124)	(198)	(60)
Cash from operations	**(290)**	**302**	**518**	**447**	**721**
Payments for property, plant and equipment	(285)	(215)	(374)	(481)	(26)
Proceeds from sale of property, plant and equipment	5	8	109	0	2 023
Cash used in investing activities	**(280)**	**(207)**	**(265)**	**(481)**	**1 997**
Dividends paid	(7)	(76)	(58)	(121)	0
Finance lease payment				(17)	(11)
Cash from financing activities	**(7)**	**(76)**	**(58)**	**(138)**	**(11)**
Net increase in cash	**(577)**	**19**	**195**	**(172)**	**2 707**
Cash at the beginning of the period	1 389	812	831	1 026	854
Cash at end of the period	**812**	**831**	**1 026**	**854**	**3 561**

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 was due to the changed relationship with the AWB as described previously.

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

The explanations for the primary cash movements for 2003-04 are described under the Financial Performance and Financial Position sections.

FINANCIAL ANALYSIS

A financial analysis section has not been completed due to the sale of the business.

OVERALL COMMENT

The business was sold at a loss of $0.702m, albeit as a going concern, following several years of marginal returns to the State.

1.11 TASMANIAN INTERNATIONAL VELODROME MANAGEMENT AUTHORITY

INTRODUCTION

The Tasmanian International Velodrome Management Authority (the 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 (DPIWE).

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

At 30 June 2004 the Responsible Minister was the Minister for Sport and Recreation.

AUDIT OF THE 2003-04 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2004 and an unqualified audit report was issued on 12 October 2004.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s	2002-03 $'000s	2003-04 $'000s
Sporting Operations	42	33	37	36	53
Non Sporting Operations	49	47	76	70	76
Other Revenue	209	202	163	190	267
Government Deficit Contribution	185	275	275	269	275
Non-operating revenue	63	0	0	0	0
Total Revenue	**548**	**557**	**551**	**565**	**671**
Employee Expenses	239	264	249	257	261
Depreciation	58	42	29	19	68
Other operating expenses	275	326	255	308	358
Non-operating expenses	0	0	0	0	0
Total Expenses	**572**	**632**	**533**	**584**	**687**
Result from ordinary activities	**(24)**	**(75)**	**18**	**(19)**	**(16)**
Income tax expense	0	0	0	0	0
Result after taxation	**(24)**	**(75)**	**18**	**(19)**	**(16)**

Comment

Total 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 main items in revenue from sporting operations were cycling, basketball and netball income. Non-sporting operations included live entertainment, exhibitions, meeting and function room hire. Recoveries of expenditure and merchandising from events make up the majority of other revenue.

A Government deficit contribution of $0.185m was received for each of the five-year periods under review. During the last four years under review the Authority has also received additional funding in order to enable the operations of the Silverdome to continue. It should also be noted that the Authority only pays $1 per annum to the Government for the rental of its premises.

Non-operating revenue, $0.063m for 1999-00 related 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.

Depreciation expense increased in the 2003-04 financial year due to the impact of a revaluation and reassessment of useful lives of all plant, equipment and leasehold assets at 30 June 2003.

FINANCIAL POSITION

	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s	2002-03 $'000s	2003-04 $'000s
Cash	59	65	71	31	159
Receivables	19	8	12	18	10
Other	15	18	30	30	35
Total Current Assets	**93**	**91**	**113**	**79**	**204**
Payables	9	28	28	43	66
Provisions	64	64	66	79	83
Other	16	57	34	10	75
Total Current Liabilities	**89**	**149**	**128**	**132**	**224**
Working Capital	**4**	**(58)**	**(15)**	**(53)**	**(20)**
Plant, equipment and leasehold improvements	240	227	202	453	405
Total Non-Current Assets	**240**	**227**	**202**	**453**	**405**
Net Assets	**244**	**169**	**187**	**400**	**385**
Accumulated Losses	(371)	(446)	(428)	(453)	(468)
Reserves	615	615	615	853	853
Total Equity	**244**	**169**	**187**	**400**	**385**

Comment

Cash held by the Authority at 30 June 2004 was higher than in prior years due to the timing of receipt of a portion of government deficit funding at the end of the year.

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

Employee benefit provisions increased steadily over the years under review. The majority of these balances relate to annual and long service leave accrued by the longer-term employees of the Authority. The Authority acknowledged that a number of employees have large entitlements and was working towards reducing these balances. However, given the small number of permanent employees, it was difficult for extended periods of leave to be taken.

CASH POSITION

	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s	2002-03 $'000s	2003-04 $'000s
Receipts from customers	293	387	303	403	536
Receipts from deficit funding	185	275	275	269	275
Payments to suppliers and employees	(537)	(627)	(570)	(682)	(683)
Interest received	7	5	3	4	8
Borrowing costs	0	0	0	0	0
Taxation expense	0	0	0	0	0
Cash from operations	**(52)**	**40**	**11**	**(6)**	**136**
Payments for plant and equipment	(28)	(41)	(5)	(47)	(9)
Proceeds from sale of plant and equipment	0	7	0	13	0
Cash used in investing activities	**(28)**	**(34)**	**(5)**	**(34)**	**(9)**
Dividends paid	0	0	0	0	0
Cash from financing activities	**0**	**0**	**0**	**0**	**0**
Net increase in cash	**(80)**	**6**	**6**	**(40)**	**127**
Cash at the beginning of the period	139	59	65	71	31
Cash at end of the period	**59**	**65**	**71**	**31**	**158**

Comment

Receipts from customers included sporting, non-sporting and other income receipts and had been increasing over the years under review. Corresponding increases were noted in payments to suppliers and employees over the same period.

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 2003-04 year increased by $0.127m.

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations ($'000s)		(272)	(350)	(257)	(288)	(291)
EBIT ($'000s)		(24)	(75)	18	(19)	(16)
Operating margin	>1.0	0.52	0.45	0.52	0.51	0.58
Return on assets		-6.3%	-23.0%	5.7%	-4.5%	-2.8%
Return on equity		-9.4%	-36.3%	10.1%	-6.5%	-4.1%
Financial Management						
Debt to equity		-	-	-	-	-
Debt to total assets		-	-	-	-	-
Interest cover	>3	-	-	-	-	-
Current ratio	>1	1.04	0.61	0.88	0.60	0.91
Cost of debt	7.5%	-	-	-	-	-
Debt collection	30 days	24	11	16	23	9
Creditor turnover	30 days	11	22	24	26	30
Returns to Government						
Dividends paid or payable ($'000s)		-	-	-	-	-
Income tax paid or payable ($'000s)		-	-	-	-	-
Total return to the State ($'000s)		-	-	-	-	-
Other information						
Staff numbers FTEs		7	7	7	7	7
Average staff costs ($'000s)		34	38	38	39	39

Comment

The Authority did 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 were made to the State.

The financial performance ratios revealed that the Authority made a loss from operations in all of the past five years and, as a result, the operating margin for each year was well below the benchmark of one. EBIT reflected the impact of the Government deficit funding received each year.

The current ratio reflected the decline in operating income and the continuing cash flow problems. The current ratio had fallen below the benchmark for the last four years under review.

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

OVERALL COMMENT

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

Following the Government's advice during the 2002-03 financial year that sale options for the Silverdome would be investigated, the Authority was advised in October 2003 that the complex was removed from the Asset Sale Register pending the results of an audit of indoor sporting venues in the State.

It would seem that a decision on the future of the Silverdome is still some time away. However, the Authority believes that the past year was one of the most positive as much had been achieved in increasing government and departmental interest and knowledge of the workings of the complex and its on-going issues such as funding and maintenance.

The Silverdome enjoyed increased usage in the past twelve months and every endeavour will be made to continue this trend.

The Authority continues to be concerned with the limited ongoing maintenance of the Silverdome. 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, broken window repairs and external painting still remain beyond the Authority's financial capabilities in the current economic climate.

Under the terms of the property lease the Authority was responsible for internal maintenance of leasehold improvements, furnishings and fittings and other internal systems such as wiring, water pipes and fire protection systems. DPIWE was responsible for external maintenance including keeping "…the exterior of the Premises including the main drains, the foundations, the main boundary walls and the roof in good and tenantable repair and condition."

I note that while the Authority was conscious that the Government wished to make a decision on the future of the Silverdome before spending significant funds on the facility, the Authority stated that some of the maintenance issues involve occupational health and safety matters and should be considered with some priority.

1.12 TASMANIAN PUBLIC FINANCE CORPORATION

INTRODUCTION

The Corporation (Tascorp) was established by the *Tasmanian Public Finance Corporation Act 1985.* Tascorp comprises four members appointed by the Governor. The functions of Tascorp 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 2003-04 FINANCIAL STATEMENTS

Financial statements were received on 15 August 2004 and an unqualified audit report was issued on 23 August 2004.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1999-00 $'000s	**2000-01** $'000s	**2001-02** $'000s	**2002-03** $'000s	**2003-04** $'000s
Interest Revenue	405 653	448 745	389 821	401 558	398 086
Other operating revenue	3 814	4 025	4 540	4 889	3 644
Non-operating revenue	23	25	21	28	28
Total Revenue	**409 490**	**452 795**	**394 382**	**406 475**	**401 758**
Interest Expense	396 743	437 002	380 715	392 217	388 104
Other operating expenses	7 582	10 023	5 249	5 410	4 644
Non-operating expenses	23	29	22	26	26
Total Expenses	**404 348**	**447 054**	**385 986**	**397 653**	**392 774**
Profit from ordinary activities	**5 142**	**5 741**	**8 396**	**8 822**	**8 984**
Income tax expense	919	2 721	2 425	2 647	2 695
Net Profit	**4 223**	**3 020**	**5 971**	**6 175**	**6 289**

Comment

During the past five years, interest revenues and expenses have fluctuated, as returns are a function of:

- Market conditions;
- Underlying interest rates;
- Margins;
- Investment strategies; and
- Management of interest rate exposures.

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 peaks noted in other operating expenses are due to amounts being recorded for the debt reconstruction amortisation, which led to a qualified audit opinion in previous years. This amortisation significantly reduced to $0.724m in 2001-02, accounting for the large decrease in operating expenses.

FINANCIAL POSITION

	1999-00	**2000-01**	**2001-02**	**2002-03**	**2003-04**
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	775	(671)	77	103	749
Receivables	115 691	89 429	4 273	305	222
Investments	1 700 117	1 489 684	1 835 765	2 184 317	2 650 433
Advances	3 137 316	3 203 719	3 559 568	2 831 341	2 822 778
Derivative Instrument Receivable	151 131	251 918	49 327	21 832	69 923
Property, plant and equipment	17 687	17 647	17 860	18 287	18 232
Other	5 750	2 344	16 526	15 935	35 855
Total Assets	**5 128 467**	**5 054 070**	**5 483 396**	**5 072 120**	**5 598 192**
Payables	109 188	86 865	4 383	185 581	160 000
Deposits	949 027	1 116 965	1 480 760	1 180 073	1 274 824
Borrowings	4 009 082	3 771 404	3 942 701	3 673 467	4 119 017
Derivative Instrument Payable	4 676	10 177	34 735	15 124	26 737
Other	35 695	54 221	8 485	7 875	7 614
Provisions	10 799	4 438	2 332	0	0
Total Liabilities	**5 118 467**	**5 044 070**	**5 473 396**	**5 062 120**	**5 588 192**
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

The major movements over the past five years were a function of the duration (i.e. average time to maturity) of investments and borrowing instruments. 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

	1999-00	2000-01	2001-02	2002-03	2003-04
	$'000s	$'000s	$'000s	$'000s	$'000s
Interest Receipts	509 722	435 245	512 267	496 292	388 591
Interest Payments	(476 451)	(499 339)	(470 257)	(428 859)	(396 846)
Other Receipts from customers	3 366	6 012	4 608	5 010	3 118
Payments to suppliers and employees	(14 804)	(3 236)	(4 352)	(4 519)	(3 724)
Taxation expense	0	(991)	(7 114)	(4 061)	(3 018)
Cash from operations	**21 833**	**(62 309)**	**35 152**	**63 863**	**(11 879)**
Net (Increase)/Decrease in Advances & others	(49 974)	(326 251)	(219 263)	160 778	(8 804)
Net (Increase)/Decrease in Investments	114 067	261 376	(211 634)	(18 653)	(226 280)
Payments for property, plant and equip.	(118)	(112)	(342)	(561)	(192)
Proceeds from sale of property, plant and equip.	23	25	21	28	28
Cash used in investing activities	**63 998**	**(64 962)**	**(431 218)**	**141 592**	**(235 248)**
Net Increase/(Decrease) in Deposits & others	(67 543)	26 131	117 192	192 271	(88 184)
Net Increase/(Decrease) in Borrowings	176 694	(131 572)	137 414	(268 441)	437 891
Dividends paid	(2 978)	(4 223)	(4 976)	(5 971)	(6 175)
Cash from financing activities	**106 173**	**(109 664)**	**249 630**	**(82 141)**	**343 532**
Net increase in cash	**192 004**	**(236 935)**	**(146 436)**	**123 314**	**96 405**
Cash at the beginning of the period	169 970	361 974	125 039	(21 397)	101 917
Cash at end of the period	**361 974**	**125 039**	**(21 397)**	**101 917**	**198 322**

Comment

Tascorp included 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, was merely a function of Tascorp's investment strategies. The figures noted only represented net movements in types of investments (investment and advances) and borrowings (deposits, borrowings) as well as swap prepayments.

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations ($'000s)		5 142	5 741	8 396	8 822	8 984
Operating margin	>1.0	1.01	1.01	1.02	1.02	1.02
Return on equity		42.2%	30.2%	59.7%	61.8%	62.9%
Financial Management						
Cost of debt	7.5%	6.7%	6.0%	5.5%	5.5%	5.8%
Returns to Government						
Dividends paid or payable ($'000s)		4 223	4 976	5 971	6 175	6 289
Dividend payout ratio	50%	100.0%	164.8%	100.0%	100.0%	100.0%
Dividend to equity ratio		42.2%	49.8%	59.7%	61.8%	62.9%
Income tax paid or payable ($'000s)		0	5 676	4 159	2 647	2 695
Effective tax rate	30%	0.0%	98.9%	49.5%	30.0%	30.0%
Total return to the State ($'000s)		4 223	10 652	10 130	8 822	8 984
Total return to equity ratio		42.2%	106.5%	101.3%	88.2%	89.8%
Other information						
Staff numbers FTEs		14	14	14	13	14
Average staff costs ($'000s)		86	88	77	104	86

Comment

Tascorp 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 were not applicable in Tascorp's context.

During the 2002-2003 year, the Treasurer granted Tascorp an exemption from the National Taxation Equivalent Regime (NTER). Under the Treasurer's Instruction, tax equivalent payments are calculated by applying the current corporate tax rate to accounting profit.

Due to Tascorp's low equity base, significant returns on equity were noted for each of the five years under review. Overall, in tax and dividends, Tascorp returned $42.811m to the state over the past five years, at an average of $8.562m per annum.

Average staff costs in 2002-03 were higher due to a number of redundancies paid during the year.

OVERALL COMMENT

The audit of the financial statements for the 2003-04 year was completed with satisfactory results, and an unqualified audit opinion was issued for the first time within the five-year period under analysis.

1.13 THE PUBLIC TRUSTEE

INTRODUCTION

The Public Trustee was established by the *Public Trustee Act 1930* and it is a Government Business Enterprise (GBE). Principal commercial activities undertaken include the provision to the general community of 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 financial statements of The Public Trustee report the results of its provision of the above services and its management of the Common Fund. Estate and other assets under administration are not included in its financial statements but are dealt with elsewhere in its annual report.

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 Chief Executive Officer of The Public Trustee is also a Board member.

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

AUDIT OF THE 2003-04 FINANCIAL STATEMENTS

Financial statements were signed by a Director and the Chief Executive Officer on 13 August 2004 and an unqualified audit report was issued on 19 October 2004.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s	2002-03 $'000s	2003-04 $'000s
Operating revenue	3 259	3 885	4 245	4 390	4 749
Non-operating revenue	294	17	0	483	32
Total Revenue	**3 553**	**3 902**	**4 245**	**4 873**	**4 781**
Employee costs	2 008	2 485	2 491	2 827	3 198
Depreciation	91	92	87	82	79
Other operating expenses	1 356	1 081	1 683	1 213	1 388
Non-operating expenses	107	0	0	0	0
Total Expenses	**3 562**	**3 658**	**4 261**	**4 122**	**4 665**
Result from ordinary activities	**(9)**	**244**	**(16)**	**751**	**116**
Income tax expense	0	0	(1 488)	58	12
Result after taxation	**(9)**	**244**	**1 472**	**693**	**104**

Comment

The Public Trustee's Operating revenue was 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 this analysis, commission and fees earned (exclusive of CSOs) approximated 80% of total Operating revenue (excluding revaluation write backs). Interest and rental revenue increased from $0.283m in 2002-03 to $0.337m in 2003-04, while its investment balance at 30 June for each of those years has risen from $3.611m to $4.103m.

The amount received/receivable by way of CSOs were $0.723m in 2003-04, $0.661m in both 2002-03 and 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 three years, CSOs have contributed approximately 16% of total Operating revenue excluding revaluation write backs.

Non-operating revenue was high in 1999-00 and related to employee 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 and in 2003-04 included a gain on disposal of assets, $0.032m.

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

Employee costs increased steadily over the five-year period under review. Staff numbers have doubled over this period.

The negative tax expense in 2001-02 represented the recognition of an income tax benefit arising from the entry of GBEs into the National Tax Equivalent Regime (NTER).

FINANCIAL POSITION

	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s	2002-03 $'000s	2003-04 $'000s
Cash	1	1	1	1	1
Receivables	52	252	248	279	309
Investments	1 992	2 350	2 849	3 610	4 102
Other	6	31	166	78	87
Total Current Assets	**2 051**	**2 634**	**3 264**	**3 968**	**4 499**
Payables	243	343	381	440	393
Provisions	550	937	1 377	1 789	1 903
Other	0	0	21	95	96
Total Current Liabilities	**793**	**1 280**	**1 779**	**2 324**	**2 392**
Working Capital	**1 258**	**1 354**	**1 485**	**1 644**	**2 107**
Property, plant and equipment	3 409	3 327	3 311	3 732	3 363
Other	0	0	1 551	1 660	1 867
Total Non-Current Assets	**3 409**	**3 327**	**4 862**	**5 392**	**5 230**
Provisions	3 725	3 616	3 768	3 806	4 350
Other	0	0	43	0	0
Total Non-Current Liabilities	**3 725**	**3 616**	**3 811**	**3 806**	**4 350**
Net Assets	**942**	**1 065**	**2 536**	**3 230**	**2 987**
Retained profits	942	1 065	2 536	3 230	2 987
Total Equity	**942**	**1 065**	**2 536**	**3 230**	**2 987**

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 of CSO receipts – now received in arrears whereas previously received in advance. The final CSO receivable in relation to 2003-04 was $0.257m (2003: $0.240m).

Investments were The Public Trustee's funds invested in the Common Fund which have more than doubled since 1999-2000 as The Public Trustee invested surplus cash generated from operations.

The increase in Current provisions was 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 the future income tax benefit in 2001-02, total equity more than doubled to $2.536m in this year. Equity increased in 2002-03 due to the profit earned in that year and Equity dropped in 2003-04 due to the payment of a dividend to the State government of $0.347m.

CASH POSITION

	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s	2002-03 $'000s	2003-04 $'000s
Receipts from customers	3 240	3 662	4 115	4 449	4 711
Payments to suppliers and employees	(3 349)	(3 310)	(3 422)	(3 531)	(3 976)
Taxation expense	0	0	0	(134)	(219)
Cash from operations	**(109)**	**352**	**693**	**784**	**516**
Proceeds from investments	200	0	0	0	0
Payments for investments	0	(300)	(500)	(750)	(500)
Payments for property, plant and equipment	(149)	(51)	(72)	(23)	(97)
Proceeds from sale of property, plant and equipment	0	57	0	0	420
Cash used in investing activities	**51**	**(294)**	**(572)**	**(773)**	**(177)**
Dividends paid	0	0	(122)	0	(347)
Cash from financing activities	**0**	**0**	**(122)**	**0**	**(347)**
Net increase in cash	**(58)**	**58**	**(1)**	**11**	**(8)**
Cash at the beginning of the period	252	193	251	250	261
Cash at end of the period	**194**	**251**	**250**	**261**	**253**

Comment

For the purposes of the analysis above, cash 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 around $0.250m.

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations ($'000s)		(196)	227	(16)	268	84
EBIT ($'000s)		(9)	244	(16)	751	116
Operating margin	>1.0	0.94	1.06	1.00	1.07	1.02
Return on assets		-0.2%	4.3%	-0.2%	8.6%	1.2%
Return on equity		-1.0%	24.3%	81.8%	24.0%	3.3%
Financial Management						
Current ratio	>1	2.59	2.06	1.83	1.71	1.88
Creditor turnover	30 days	15	29	28	50	35
Returns to Government						
Dividends paid or payable ($'000s)		0	0	122	0	347
Dividend payout ratio	50%	-	-	8.3%	-	333.7%
Dividend to equity ratio		-	-	6.8%	-	11.2%
Income tax paid or payable ($'000s)		0	0	0	134	218
Effective tax rate	30%	-	-	-	17.8%	187.9%
Total return to the State ($'000s)		0	0	122	134	565
Total return to equity ratio		-	-	6.8%	4.6%	18.2%
Other information						
Staff numbers FTEs		49	49	49	46	49
Average staff costs ($'000s)		38	51	61	61	65

Comment

The financial performance ratios reflect one-off events in years of high profitability. The increased return on equity ratio for 2001-02 was due almost exclusively to the impact of the taxation adjustments referred to earlier. The receipt of the CSO funding contributed to the larger positive returns on equity.

The Current ratio 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.

Although creditor turnover appeared high for 2002-03, this was due to an end of year accumulation of amounts owing for various administrative fees and did not represent any lag in payment of creditors.

The effective income tax rate for 2003-04 was skewed by the higher level of profit earned in the prior year.

Average staff costs have increased in recent years due to increases in awards and variations in staff numbers.

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, have accounted for approximately 16% of its Operating revenue. For the past three years, employee-related costs (which included adjustments to retirement benefit provisions) accounted for approximately 70% of its Operating Expenditure. The financial performance is susceptible to one-off transactions such as occurred on entry into the NTER in 2001-02 and the write back of the revaluation increment of $0.483m in 2002-03.

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 the *Corporations Act 2001*, are referred to as State Owned Corporations (SOCs).

Tasmania's SOCs (excluding Port Corporations) collectively have net assets valued at $1.80bn, employ 2 144 people, and generate $44.489m in net profit after taxation 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 2004 for the entities within this group were as follows:

Entity	Responsible Minister
Aurora Energy Pty Ltd	Minister for Infrastructure, Energy and Resources
Metro Tasmania Pty Ltd	Minister for Infrastructure, Energy and Resources
TOTE Tasmania Pty Ltd	Minister for Racing
Transend Networks Pty Ltd	Minister for Infrastructure, 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 on behalf of the State of Tasmania. The Office of the Tasmanian Electricity Regulator sets the maximum prices Aurora can charge.

Aurora consists of six 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), Contract Services (customer contracting management and compliance), National Market (national energy sales) and New Ventures (identifying opportunities for growth).

Aurora holds a majority interest in Aurora Energy AAPT Pty Ltd (trading as TasTel) and a 100% interest in Ezikey Group Pty Ltd which promotes 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. During the year Aurora's longest serving Chief Executive Officer (CEO) Mr N McIlfatrick departed to head the Department of Economic Development. Former General Manager Aurora Retail, Dr P Davis now leads Aurora as CEO.

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

AUDIT OF THE 2003-04 FINANCIAL STATEMENTS

Signed financial statements were received on 27 September 2004 and an unqualified audit report was issued on 30 September 2004.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s	2002-03 $'000s	2003-04 $'000s
Business Customer Sales	338 798	349 242	363 695	392 291	407 590
General Sales	181 062	192 051	202 768	214 859	232 518
Other Operating Revenue	32 413	31 714	20 510	23 319	22 632
Non-operating revenue	2 300	0	0	205	0
Total Revenue	**554 573**	**573 007**	**586 973**	**630 674**	**662 740**
Energy and Transmission Purchases	343 358	362 867	384 201	411 881	440 357
Renewable Energy Credit Purchases	0	0	2	2 663	4 049
Employee Expenses	39 074	41 051	42 440	48 668	53 981
Borrowing costs	41 912	34 307	28 432	28 799	26 594
Depreciation	39 183	40 673	44 783	46 203	51 221
Other operating expenses	57 927	56 599	46 585	45 699	40 790
Non-operating expenses	4 014	508	393	0	46
Total Expenses	**525 468**	**536 005**	**546 836**	**583 913**	**617 038**
Result from ordinary activities	**29 105**	**37 002**	**40 137**	**46 761**	**45 702**
Income tax expense	9 002	16 856	9 082	17 995	18 225
Result after taxation	**20 103**	**20 146**	**31 055**	**28 766**	**27 477**

Comment

Operating revenue has continued to increase steadily with sales revenue for both Business Customers and General Sales increasing by 20% and 28% respectively over this five-year period. During the same period Energy and Transmission costs increased by 28%.

Non-operating revenue in 1999-00 related to an adjustment of $2.300m to the Retirements Benefits Fund (RBF) non-contributory provision for superannuation.

Other operating revenue decreased to $20.510m in 2001-02 because the previous year including $14.009m in receipts for contributions to the consolidated fund. This provision was repealed effective for income derived from 1 July 2001 onwards. This revenue decrease was offset by a similar decrease in other operating expenses to $46.585m in the same year, which represented the payments made into the Consolidated Fund.

As a wholesale purchaser Aurora is required to annually purchase and surrender Renewable Energy Certificates under the Commonwealth Government's *Renewable Energy (Electricity) Act 2000.* Within this Act increasing targets are phased in over the period of 2001 – 2010. The effect of this can be seen in the last two years of operations.

Borrowing costs declined in 2001-02 due to loan restructuring in 2000-01 arising from revised debt management procedures. Minor restructuring has occurred each year since, taking advantage of current and future favourable interest rates available.

Increases in depreciation across the years of the analysis are driven by new assets brought into service and revaluations of existing assets.

Non-operating expenses in 1999-00 included redundancy payments of $2.062m together with $0.415m for Y2K costs and $0.438m for GST implementation.

Aurora is subject to the 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 tax deduction for the annual movement in the provision for superannuation 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

	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s	2002-03 $'000s	2003-04 $'000s
Cash	10	8	235	854	1 852
Receivables	34 170	43 603	46 107	48 974	49 402
Unbilled Energy	44 108	42 946	43 478	36 639	27 889
Investments	3 100	0	14 389	20 898	17 490
Inventories	3 905	3 559	3 414	3 288	4 752
Other	2 772	2 594	1 059	2 581	898
Total Current Assets	**88 065**	**92 710**	**108 682**	**113 234**	**102 283**
Payables	60 681	55 734	59 265	63 016	68 643
Borrowings	20 000	72 198	29 448	23 663	30 106
Provisions	31 045	36 434	40 878	32 678	32 558
Other	3 017	3 590	5 801	8 481	9 473
Total Current Liabilities	**114 743**	**167 956**	**135 392**	**127 838**	**140 780**
Working Capital	**(26 678)**	**(75 246)**	**(26 710)**	**(14 604)**	**(38 497)**
Property, plant and equipment	672 000	693 919	714 800	735 860	789 170
Investments	0	564	202	680	514
Future Income Tax Benefit	4 601	4 902	12 437	13 905	15 020
Other	0	0	0	107	81
Total Non-Current Assets	**676 601**	**699 385**	**727 439**	**750 552**	**804 785**
Borrowings	358 138	306 392	348 554	342 337	335 901
Provisions	19 333	18 922	18 883	20 521	24 424
Deferred Income Tax	34 369	35 656	35 573	33 969	30 185
Total Non-Current Liabilities	**411 840**	**360 970**	**403 010**	**396 827**	**390 510**
Net Assets	**238 083**	**263 169**	**297 719**	**339 121**	**375 778**
Capital	201 555	201 555	201 555	201 555	201 555
Reserves	20 277	35 459	51 518	63 771	87 704
Retained profits	16 251	26 155	44 646	73 795	86 519
Total Equity	**238 083**	**263 169**	**297 719**	**339 121**	**375 778**

Comment

Receivables constitute amounts due for the provision of services. Unbilled energy is an estimate of electricity supplied to customers between the date of the last meter reading and the year-end. Factors effecting unbilled energy include the increased adoption of Pay-as-you-go meters and revised billing practices. This has seen some recent reductions to the unbilled energy. With improvements in metering and monitoring systems in recent years, Aurora is currently revising the method of calculating unbilled energy. Overall receivables and unbilled energy have averaged $83.463m over the past five years.

Current Investments represents Aurora's money market account and fluctuates as part of normal operations. Other non-current asset increases in 2001-02 and 2002-03 are principally driven by increases in Future Income Tax Benefits.

The Company has recorded a negative working capital in each of the five financial years under review. The level of current borrowings significantly impacts upon this result. Aurora regularly replaces current borrowings with longer-term borrowings, and as a result the overall borrowing position of the company has not changed significantly within the years of this analysis. The reduction in unbilled energy in 2002-03 and 2003-04 has also had an impact on the level of working capital.

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. Increases to the Company's assets are a combination of additions and revaluation adjustments. Revaluation adjustments are reflected in increases to the Asset Revaluation Reserve, which is reported in the Reserves amount.

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. Borrowings remain at this level.

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

CASH POSITION

	1999-00 $'000s	**2000-01** $'000s	**2001-02** $'000s	**2002-03** $'000s	**2003-04** $'000s
Receipts from customers	565 316	610 638	635 141	698 192	749 039
Payments to suppliers and employees	(440 074)	(508 006)	(520 144)	(561 727)	(604 403)
Interest received	1 292	939	504	1 257	1 632
Borrowing costs	(45 121)	(32 280)	(26 513)	(27 820)	(26 337)
Taxation expense	(11 835)	(13 532)	(16 718)	(18 868)	(23 853)
Cash from operations	**69 578**	**57 759**	**72 270**	**91 034**	**96 078**
Payments for investments	0	(800)	0	(660)	0
Payments for property, plant and equipment	(57 112)	(50 060)	(54 372)	(59 229)	(81 715)
Proceeds from sale of property, plant and equipment	1 635	2 143	4 378	4 483	1 260
Cash used in investing activities	**(55 477)**	**(48 717)**	**(49 994)**	**(55 406)**	**(80 455)**
Proceeds from borrowings	163 700	38 639	71 075	79 137	98 909
Repayment of borrowings	(173 700)	(39 169)	(72 203)	(92 501)	(100 561)
Dividends paid	(6 200)	(10 052)	(10 244)	(12 567)	(14 754)
Cash from financing activities	**(16 200)**	**(10 582)**	**(11 372)**	**(25 931)**	**(16 406)**
Net increase in cash	**(2 099)**	**(1 540)**	**10 904**	**9 697**	**(783)**
Cash at the beginning of the period	3 163	1 064	(476)	10 428	20 125
Cash at end of the period	**1 064**	**(476)**	**10 428**	**20 125**	**19 342**

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 Aurora's customers has increased from 250 893 at 30 June 2003 to 253 522 customers at 30 June 2004. The introduction of the GST from 1 July 2000 caused a one-off increase in both receipts from customers and payments to suppliers from 2000-01 onwards.

Borrowing costs have declined in recent years in line with debt restructuring and lower debt-servicing costs referred to earlier. Overall, prudent debt management has seen genuine reductions in borrowing costs over the five-year period.

Payments for property plant and equipment represent improvements and upgrades to the distribution system.

Proceeds from and repayments of borrowings mainly offset each other. However, there were reductions in total borrowings of $10.000m in 1999-00, and $12.000m in 2002-2003. Other financing activity cash flows are for dividend payments, which were paid in line with Government policy based on operating profits generated.

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations ($'000s)		30 819	37 510	40 530	46 556	45 748
EBIT ($'000s)		71 017	71 309	68 569	75 560	72 296
Operating margin	>1.0	1.06	1.07	1.07	1.08	1.07
Return on assets		9.3%	9.2%	8.4%	8.9%	8.2%
Return on equity		8.6%	8.0%	11.1%	9.0%	7.7%
Financial Management						
Debt to equity		158.8%	143.9%	127.0%	107.9%	97.4%
Debt to total assets		49.5%	47.8%	45.2%	42.4%	40.4%
Interest cover	>3	1.7	2.1	2.4	2.6	2.7
Current ratio	>1	0.77	0.55	0.80	0.89	0.73
Leverage Ratio		85%	99%	82%	71%	65%
Cost of debt	7.5%	10.9%	9.1%	7.5%	7.7%	7.3%
Debt collection	30 days	37	46	46	46	44
Creditor turnover	30 days	4	4	1	3	4
Returns to Government						
Dividends paid or payable ($'000s)		10 052	10 244	12 566	14 754	13 942
Dividend payout ratio	50%	50.0%	50.8%	40.5%	51.3%	50.7%
Dividend to equity ratio	6%	4.3%	4.1%	4.5%	4.6%	3.9%
Income tax paid or payable ($'000s)		9 002	16 856	9 082	17 995	18 225
Effective tax rate	30%	30.9%	45.6%	22.6%	38.5%	39.9%
Statutory 5% Levy		14 510	14 009	1 632	0	0
Total return to the State ($'000s)		33 564	41 109	23 280	32 749	32 167
Total return to equity ratio		14.4%	16.4%	8.3%	10.3%	9.0%
CSA Funding		9 779	9 727	9 745	13 005	11 319
Other information						
Staff numbers FTEs		841	810	820	845	881
Average staff costs ($'000s)		46	51	52	58	61

Comment

Aurora’s operating result continued to remain strong at $45.748m for the current financial year. The return on equity ratio, dividend payout 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 NTER was not assessable for dividends. The effective tax rate was lower in 1999-00 due to the impact 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 financial management ratios remained relatively stable. The current ratio for the previous financial year increased due to timing increases of current assets and changes in borrowings structure. The effect of debt reductions and restructuring over the years 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 invoices are received.

OVERALL COMMENT

As a result of strong operations in 2003-04 the Tasmanian Government will receive $36.936m comprising income tax equivalence, $18.225m, proposed dividend based on 50% of after tax profit, $13.942, payroll tax, $3.457m and debt guarantee fees, $1.312m.

The Tasmanian Government has a Community Service Agreement with Aurora to provide discounts to pensioners. In 2003-04 reimbursements for this community service, plus administration costs, were $11.319m. Commencing from 1 July 2003 the Government has expanded this agreement to include eligible Commonwealth Health Care Cardholders in the two winter quarters.

With construction of Bass Link well underway Aurora has created a National Market group to prepare for its entry into the National Electricity Market (NEM). During the year Aurora signed its first interstate customer. Detailed planning to identify further national sales on mainland Australia continues.

The 2003-04 Audit was completed with satisfactory results.

2.2 METRO TASMANIA PTY LTD

INTRODUCTION

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

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

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

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

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

AUDIT OF THE 2003-04 FINANCIAL STATEMENTS

Signed financial statements of Metro and Metro Coaches were received on 13 August 2004 and unqualified audit reports were issued on 31 August 2004.

FINANCIAL RESULTS

Every three years the Government Prices Oversight Commission (GPOC) undertakes a review of Metro's pricing policies with the last review being carried out in 2002-03.

Metro has entered into a Community Service Agreement (CSA) with the Government with contract payments designed to enable it 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 $21.259m in 2003-04. As Metro's contract payments have been determined on the basis of achieving a break-even outcome it is not possible for Metro to be judged on the basis of normal commercial yardsticks such as return of equity.

In July 2001 Metro commenced a major bus replacement program aimed at:

- Stabilizing the average age of its vehicle fleet at around 12 years;
- Meeting the requirements of the Commonwealth *Disability Discrimination Act*; and
- Providing Metro customers and staff with a fleet of modern, convenient and comfortable vehicles.

It is understood that a reassessment of future acquisitions under the bus replacement program will soon be undertaken to ensure that Metro maintains an appropriate mix of vehicle sizes in its fleet to meet the needs of customers, and to reflect the age profile of its remaining fleet.

As shown below, both revenue and expenditure for Metro have been steady over the five-year period. In regard to its Statement of Financial Position, total borrowings have been decreasing in line with its retirement of debt. Cash and payables balances have varied mainly due to the purchase of buses.

FINANCIAL PERFORMANCE

	1999-00	**2000-01**	**2001-02**	**2002-03**	**2003-04**
	$'000s	$'000s	$'000s	$'000s	$'000s
Government contribution	18 730	18 829	19 345	19 990	21 259
Fare revenue	7 244	6 984	7 064	7 306	7 669
Other operating revenue	3 868	3 137	3 126	2 780	2 840
Non-operating revenue	40	44	70	(30)	40
Total Revenue	**29 882**	**28 994**	**29 605**	**30 046**	**31 808**
Borrowing costs	427	262	227	215	201
Depreciation	2 992	2 790	2 975	3 128	3 128
Administration	3 799	3 566	3 445	3 532	3 667
Employee expenses	15 764	16 940	17 299	17 891	19 085
Other operating expenses	6 137	5 489	5 246	5 200	5 664
Non-operating expenses	0	0	0	0	0
Total Expenses	**29 119**	**29 047**	**29 192**	**29 966**	**31 745**
Result from ordinary activities	**763**	**(53)**	**413**	**80**	**63**
Income tax expense	0	0	0	0	0
Result after taxation	**763**	**(53)**	**413**	**80**	**63**

Comment

As mentioned previously Metro receives the majority of its revenue from the CSA, which has been gradually increasing over the years in line with increases in Metro’s costs as contract payments are indexed.

Fare revenue has been growing gradually, despite some small declines in patronage. Metro fares are periodically adjusted in line with movements in the Metro Index, although student fares have remained fixed at 1996 levels in line with Government policy.

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.

Employee expenses have been steadily increasing over the years, particularly in 2003-04 when salary increases of up to 7% were awarded to bus drivers.

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

FINANCIAL POSITION

	1999-00	**2000-01**	**2001-02**	**2002-03**	**2003-04**
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	175	1 329	3 704	4 599	2 445
Receivables	380	1 068	863	652	946
Investments	2 673	3 092	2 695	5 688	5 990
Inventories	700	696	742	795	793
Other	260	431	497	560	460
Total Current Assets	**4 188**	**6 616**	**8 501**	**12 294**	**10 634**
Payables	1 497	1 975	2 726	2 018	2 626
Borrowings	514	71	4	169	2 826
Provisions	3 828	3 995	4 474	5 511	4 959
Other	0	0	0	0	
Total Current Liabilities	**5 839**	**6 041**	**7 204**	**7 698**	**10 411**
Working Capital	**(1 651)**	**575**	**1 297**	**4 596**	**223**
Property, plant and equipment	27 800	26 834	26 039	24 538	32 379
Investments	2 599	1 990	2 630	0	0
Other	143	127	304	288	272
Total Non-Current Assets	**30 542**	**28 951**	**28 973**	**24 826**	**32 651**
Borrowings	3 179	3 034	3 030	2 861	35
Provisions	9 804	9 431	10 052	9 775	11 289
Other	0	0	0	0	0
Total Non-Current Liabilities	**12 983**	**12 465**	**13 082**	**12 636**	**11 324**
Net Assets	**15 908**	**17 061**	**17 188**	**16 786**	**21 550**
Capital	15 498	15 501	15 502	15 503	15 503
Reserves	0	1 207	1 192	1 017	5 704
Retained profits	410	353	494	266	343
Total Equity	**15 908**	**17 061**	**17 188**	**16 786**	**21 550**

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 Commonwealth 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 $2.657m in current borrowings in 2003-04 was offset by a corresponding decrease in the non-current liability as a result of a large proportion of total borrowings being due in 2004-05.

Current and Non-Current Provisions increased in 2001-02 due to a superannuation provision increase of $0.609m resulting from an adjustment in actuarial assumptions, an increase in Non-Current leave liabilities of $0.126m and an increase in the workers' compensation provision of $0.138m. Non-current provisions increased in 2003-04 due to increases in salaries as mentioned previously.

Land, buildings and buses were re-valued in 2000-01, resulting in the creation of an asset revaluation reserve of $1.207m. Further revaluations occurred in 2004 resulting in an increase in the reserve of $4.687m.

Payables in 2001-02 included $0.698m for two buses delivered prior to the end of the year. Similarly the higher amount in 2003-04 reflects a greater level of purchasing activity.

CASH POSITION

	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s	2002-03 $'000s	2003-04 $'000s
Receipts from customers	29 159	28 700	29 969	30 848	32 360
Payments to suppliers and employees	(25 010)	(26 132)	(25 274)	(27 931)	(28 062)
Interest received	335	387	384	458	477
Borrowing costs	(427)	(262)	(227)	(215)	(227)
Cash from operations	**4 057**	**2 693**	**4 852**	**3 160**	**4 548**
Proceeds from investments	2 500	500	0	5 547	0
Payments for investments	(3 656)	(335)	(298)	(5 910)	(302)
Payments for property, plant and equipment	(1 047)	(858)	(2 899)	(2 608)	(6 354)
Proceeds from sale of property, plant and equipment	1 073	275	791	996	123
Cash used in investing activities	**(1 130)**	**(418)**	**(2 406)**	**(1 975)**	**(6 533)**
Proceeds from borrowings	2 792	0	2 792	0	0
Repayment of borrowings	(5 923)	(588)	(2 863)	(4)	(169)
Dividends Paid	0	(533)	0	(286)	0
Cash from financing activities	**(3 131)**	**(1 121)**	**(71)**	**(290)**	**(169)**
Net increase in cash	**(204)**	**1 154**	**2 375**	**895**	**(2 154)**
Cash at the beginning of the period	379	175	1 329	3 704	4 599
Cash at end of the period	**175**	**1 329**	**3 704**	**4 599**	**2 445**

Comment

Receipts from customers increased in 2003-04 due mainly to a rise in the level of Government contributions.

Payments for property, plant and equipment included the purchase of seven buses in 2001-02, six buses in 2002-03 and 14 buses in 2003-04.

Borrowings have gradually been reducing over the years.

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 investments reflect the change in investment strategy as mentioned previously.

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations ($'000s)		723	(97)	343	110	23
EBIT ($'000s)		1 190	209	640	295	264
Operating margin	>1.0	1.02	1.00	1.01	1.00	1.00
Return on assets		3.3%	0.6%	1.8%	0.8%	0.7%
Return on equity		4.8%	-0.3%	2.4%	0.5%	0.3%
Financial Management						
Debt to equity		23.2%	18.2%	17.7%	18.1%	13.3%
Debt to total assets		10.6%	8.7%	8.1%	8.2%	6.6%
Interest cover	>3	2.79	0.80	2.82	1.37	1.31
Current ratio	>1	0.72	1.10	1.18	1.60	1.02
Leverage ratio		218.3%	208.5%	218.0%	221.1%	200.9%
Cost of debt	7.5%	8.1%	7.7%	7.4%	7.1%	6.8%
Debt collection	30 days	5	13	11	8	11
Creditor turnover	30 days	26	32	51	39	30
Returns to Government						
Dividends paid or payable ($'000s)		533	0	286	0	0
Dividend payout ratio	50%	69.9%	-	69.2%	-	-
Dividend to equity ratio		3.4%	-	1.7%	-	-
Income tax paid or payable ($'000s)		0	0	0	0	0
Effective tax rate	30%	-	-	-	-	-
Total return to the State ($'000s)		533	0	286	0	0
Total return to equity ratio		3.4%	-	1.7%	-	-
CSA funding ($'000s)		18 730	18 829	19 345	19 990	21 259
Other information						
Staff numbers FTEs		378	371	367	363	357
Average staff costs ($'000s)		42	46	50	51	53

Comment

The debt to equity and debt to total assets ratios have generally declined as Metro reduced its borrowings.

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

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

As mentioned previously, due to the Community Service Agreement with Government being based on achieving a break-even outcome, returns to the State continue to be well below that which would be normally 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 result from operations and earnings before interest were lower than 2001-02 due to the receipt in 2001-02 of $0.336m from the

Retirement Benefits Fund Board relating to superannuation benefits of employees that had transferred to Metro.

OVERALL COMMENT

The 2003-04 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 (the Company) on 5 March 2001. The Company is empowered to establish and conduct totalizator betting in Tasmania under *The Racing Regulation Act 1952*. The Company's share capital is held on behalf of the State of Tasmania by the Minister for Racing and the Treasurer.

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 2004 the Responsible Minister was the Minister for Racing.

AUDIT OF THE 2003-04 FINANCIAL STATEMENTS

Signed statements were received on 7 October 2004 and an unqualified audit report was issued on 8 October 2004.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s	2002-03 $'000s	2003-04 $'000s
Wagering revenue	26 215	30 830	36 595	40 879	43 504
Government Grant	0	350	1 085	1 085	2 212
Interest received	231	305	316	423	554
Other revenue	1 729	3 000	3 691	5 329	5 976
Non-operating revenue	401	0	0	210	26
Total Revenue	**28 576**	**34 485**	**41 687**	**47 926**	**52 272**
Borrowing costs	0	154	215	340	452
Depreciation and amortisation	2 221	2 326	2 784	3 243	3 249
Employee benefits	5 867	5 247	6 310	6 617	7 087
Prize money, benefits, incentives	7 035	10 977	11 847	12 361	13 377
Wagering pooling fees	1 869	2 161	3 596	5 264	6 163
Other operating expenses	11 167	12 724	15 440	18 674	21 034
Non-operating expenses	260	1	195	0	0
Total Expenses	**28 419**	**33 590**	**40 387**	**46 499**	**51 362**
Result from ordinary activities	**157**	**896**	**1 300**	**1 427**	**910**
Income tax expense	0	362	497	234	412
Result after taxation	**157**	**533**	**803**	**1 193**	**498**

Comment

The five-year comparatives refer to the TAB for the period 1999-00 to 4 March 2001, the Company from 5 March 2001 to 30 June 2001 and the Company from 2001-02 onwards. 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.

Wagering revenue comprises investments from customers and settlements from other TABs less the cost of dividends and taxes.

Non-operating revenue relates to profit on sale of assets.

During 2003-04 Government Grants included $0.650m to assist in the purchase of a large television screen (the 'big screen') for use at racetracks around the State. The unit was acquired in 2002-03 and was written down to a recoverable amount of $0.194m during the 2003-04 financial year.

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

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

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

In 2003-04, wagering revenue rose by $2.625m (2003: $4.284m) and other revenue rose by $1.720m (2003: $1.638m). These were offset by increases in most operating expenses including increases in prize money and incentives ($0.746m; 2003: $1.383m) wagering and pooling expense ($0.899m; 2003: $1.668m), racing administration expense ($0.594m; 2003: $1.250m), and commission expense ($0.894m; 2003: $0.722m). 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. Profit before tax decreased again during the current year to $0.910m.

Government grants increased from previous levels primarily as a result of $0.775m for racing industry infrastructure.

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

	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s	2002-03 $'000s	2003-04 $'000s
Cash	2 957	993	2 002	2 854	2 027
Receivables	1 055	1 144	1 520	2 406	2 117
Investments	2 632	4 909	6 498	7 411	8 827
Other	555	973	517	382	340
Total Current Assets	**7 200**	**8 018**	**10 537**	**13 053**	**13 311**
Payables	2 244	2 054	1 849	2 770	5 157
Borrowings	1 052	0	0	0	1 050
Provisions	1 270	1 669	2 547	1 095	1 227
Telephone Betting deposits	1 300	1 643	2 030	2 635	2 656
Dividends and Refunds Due and Unpaid	403	506	537	511	527
Other	400	434	412	324	500
Total Current Liabilities	**6 669**	**6 306**	**7 375**	**7 335**	**11 117**
Working Capital	**531**	**1 712**	**3 162**	**5 718**	**2 194**
Property, plant and equipment	17 000	16 791	14 292	13 261	15 571
Tax Assets	0	0	549	510	604
Intangibles	861	833	693	431	460
Receivables	0	0	0	423	423
Other	0	0	191	172	154
Total Non-Current Assets	**17 861**	**17 624**	**15 725**	**14 797**	**17 212**
Borrowings	1 732	2 784	2 819	3 232	1 979
Provisions	1 157	929	1 000	1 031	1 069
Total Non-Current Liabilities	**2 889**	**3 713**	**3 819**	**4 263**	**3 048**
Net Assets	**15 503**	**15 623**	**15 068**	**16 252**	**16 358**
Capital	9 892	9 892	14 382	14 602	14 602
Reserves	5 511	5 505	383	162	162
Retained profits	100	226	303	1 488	1 594
Total Equity	**15 503**	**15 623**	**15 068**	**16 252**	**16 358**

Comment

Most items in the Statement of Financial Position show changes in 1999-00 following the assumption of Racing Tasmania and the introduction of taxation equivalents in 2000-01. Property, plant and equipment include buildings, racecourse leasehold improvements and computer equipment.

During 2003-04 additional upgrades at racecourses totalled $4.627m. Computer equipment additions during the year were $0.894m.

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 2002-03 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.

Accruals and accounts payable have increased significantly during 2003-04 as a result of work undertaken on the developments at Mowbray and Longford racecourses and the relocation project at Elwick racecourse. In addition there have been timing differences related to cut-off at year-end.

Since 2002-03 there is no provision for dividend due to a change in accounting standards. The Company has proposed a dividend in relation to 2003-04 of $0.249m.

CASH POSITION

	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s	2002-03 $'000s	2003-04 $'000s
Receipts from customers and other TABs	215 107	163 512	184 146	204 131	211 715
Other receipts	403	400	3 694	6 502	7 722
Interest received	238	290	322	422	525
Payments to customers	(178 825)	(131 457)	(149 667)	(162 107)	(167 820)
Payments to suppliers and employees	(25 561)	(30 132)	(34 169)	(43 174)	(46 256)
Borrowing costs	(109)	(169)	(196)	(160)	(198)
Other payments	(10 693)	(183)	(87)	(785)	(604)
Cash from operations	**560**	**2 261**	**4 043**	**4 829**	**5 084**
Proceeds from investments	1 764	2 633	47	423	0
Payments for investments	0	(41)	0	(423)	(121)
Payments for property, plant and equipment	(1 576)	(2 410)	(2 369)	(4 461)	(5 159)
Proceeds from sale of property, plant and equipment	252	503	1 282	2 230	910
Cash used in investing activities	**441**	**685**	**(1 040)**	**(2 231)**	**(4 370)**
Proceeds from borrowings	0	0	0	0	0
Repayment of borrowings	0	0	(10)	(18)	(302)
Transfer from Racing Tasmania	36	0	0	0	0
Dividends paid	0	0	(407)	(803)	(474)
Cash from financing activities	**36**	**0**	**(417)**	**(821)**	**(776)**
Net increase in cash	**1 037**	**2 945**	**2 586**	**1 777**	**(62)**
Cash at the beginning of the period	1 920	2 957	5 902	8 488	10 266
Cash at end of the period	**2 957**	**5 902**	**8 488**	**10 265**	**10 204**

Comment

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

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 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 were further increases in 2002-03 and 2003-04.

The increase in other receipts since 2001-02 was largely due to Sky Channel Fees; the further increase in 2002-03 was due to the sale of properties.

The increase in Payments to Suppliers and Employers during 2003-04 related to the increase in the cost of dividends payable in winning bets.

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. During 2003-04 these payments increased due largely to the upgrade of the Devonport, Mowbray and Longford racecourses.

A loan of $0.423m was refinanced on behalf of the Tasmanian Racing Club in 2002-03 to assist with their cash flow.

The overall decrease in cash during 2003-04 reflects the considerable expenditure made in capital improvements during the year.

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations ($'000s)		157	896	1 300	1 427	910
EBIT ($'000s)		157	1 050	1 460	1 582	1 060
Operating margin	>1.0	1.00	1.03	1.03	1.03	1.02
Return on assets		0.7%	4.1%	5.6%	5.8%	3.6%
Return on equity		1.1%	3.4%	5.2%	7.6%	3.1%
Financial Management						
Debt to equity		18.0%	17.8%	18.7%	19.9%	18.5%
Debt to total assets		11.1%	10.9%	10.7%	11.6%	9.9%
Interest cover	>3	-	7	9	10	7
Current ratio	>1	1.08	1.27	1.43	1.78	1.20
Cost of debt	7.5%	-	5.5%	5.8%	5.8%	5.8%
Debt collection	30 days	15	14	38	22	23
Creditor turnover	30 days	41	29	22	27	42
Returns to Government						
Dividends paid or payable ($'000s)		0	407	803	473	249
Dividend payout ratio	50%	-	76.3%	100.0%	39.6%	50.0%
Dividend to equity ratio	6%	-	2.6%	5.2%	3.0%	1.5%
Income tax paid or payable ($'000s)		0	362	497	457	549
Effective tax rate	30%	-	40.4%	38.2%	32.0%	60.3%
Total return to the State ($'000s)		0	769	1 300	930	798
Total return to equity ratio		-	4.9%	8.5%	5.9%	4.9%
Other information						
Staff numbers FTEs		98	102	112	115	114
Average staff costs ($'000s)		60	51	56	58	62

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 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 from 2000-01 onwards. In 2000-01 the current liability for borrowings was reclassified to non-current, as required by Australian Accounting Standards. The Company does not anticipate this debt will have to be repaid in the near future.

The high in creditor turnover in 1999-00 and 2000-01 related to the takeover of Racing Tasmania.

Creditor turnover was again high in 2003-04 and related to the increase in payables described earlier due to the developments occurring at the Devonport, Mowbray and Longford racecourses.

Average staff costs for the period under review have remained fairly steady.

In 2000-01 the Company became liable to pay income tax.

The profit in 2001-02 resulted in the Company 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 no longer brought to account at year-end.

OVERALL COMMENT

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

The majority of changes to the Company 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 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 resulting in a taxation expense.

The Cash position during 2003-04 reflects considerable expenditure on the upgrade of the Mowbray Racecourse. Turnover has continued to increase.

The 2003-04 audit was completed with satisfactory results.

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 Act on 17 June 1998. Two shares were issued to each of its two shareholders – the Treasurer and the Minister for Infrastructure, Energy and Resources, who held these shares on behalf of the State of Tasmania.

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 net liabilities of $1.860 (excluding GST) transferred to Transend.

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

AUDIT OF THE 2003-04 FINANCIAL STATEMENTS

Draft statements were received on 10 August 2004. Signed statements were received on 29 September 2004 and an unqualified audit report was issued on 1 October 2004.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1999-00	2000-01	2001-02	2002-03	2003-04
	$'000	$'000	$'000	$'000	$'000
Transmission use of system (TUOS)	66 644	68 185	70 702	71 601	85 946
System Controller	0	8 329	9 145	9 757	9 508
Other revenue	3 054	1 425	1 180	1 755	1 544
Total Revenue	**69 698**	**77 939**	**81 027**	**83 113**	**96 998**
Borrowing costs	338	1 006	1 153	981	2 052
Depreciation	15 457	17 454	21 314	22 537	26 979
Other operating expenses	19 592	27 899	29 780	32 267	35 593
Non-operating expenses	91	9 173	143	173	200
Total Expenses	**35 478**	**55 532**	**52 390**	**55 958**	**64 824**
Result from ordinary activities	**34 220**	**22 407**	**28 637**	**27 155**	**32 174**
Income tax expense	11 821	12 341	8 963	10 789	12 327
Result after taxation	**22 399**	**10 066**	**19 674**	**16 366**	**19 847**

Comment

The increase in revenue from TUOS in 2003-04 was due to: a higher return on capital allowed by the Australian Competition and Consumer Commission (ACCC); a higher capital base; and an increase in the allowance for operating and maintenance expenditure. The ACCC gave a determination of the regulated income for five and a half years from January 2004.

The increase in borrowing costs in 2000-01 was caused by interest on the Provision for Superannuation. The increase in 2003-04 was the result of higher borrowings.

Higher depreciation expenses were 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 partly due to costs associated with Basslink and Tasmania's entry into the National Electricity Market (NEM). Transend established a special project, Tasmanian Wholesale Electricity Market, (TWEM) to ensure the successful implementation of these initiatives. In addition, more funds were required to be spent on vegetation management, some critical work had to be done at the Company's substations and there was an 80 per cent increase in insurance premiums.

Non-operating expenses in 2000-01 were largely due to write-offs of decommissioned assets of $9.431m.

The income tax expense reduced in 2001-02 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 NEM. These costs were not anticipated in the Energy Regulator's allowance for transmission use of system charges.

FINANCIAL POSITION

	1999-00 $'000	2000-01 $'000	2001-02 $'000	2002-03 $'000	2003-04 $'000
Cash	0	0	0	0	4
Receivables	9 191	9 744	9 075	9 389	10 169
Investments	0	530	0	3 946	0
Inventories	489	489	481	425	421
Other	70	1 102	112	264	234
Total Current Assets	**9 750**	**11 865**	**9 668**	**14 024**	**10 828**
Bank Overdraft	117	76	197	37	0
Payables	10 138	10 806	9 344	12 221	13 410
Borrowings	9 400	5 052	1 760	4 994	9 896
Provisions	15 971	16 387	12 972	5 038	9 277
Other	63	826	1	1	1
Total Current Liabilities	**35 689**	**33 147**	**24 274**	**22 291**	**32 584**
Working Capital	**(25 939)**	**(21 282)**	**(14 606)**	**(8 267)**	**(21 756)**
Property, plant and equipment	426 708	451 682	580 736	586 251	633 568
Other	394	623	2 817	3 357	4 238
Total Non-Current Assets	**427 102**	**452 305**	**583 553**	**589 608**	**637 806**
Borrowings	9 945	10 418	15 490	20 510	25 191
Provisions	17 311	25 248	30 196	34 422	39 186
Total Non-Current Liabilities	**27 256**	**35 666**	**45 686**	**54 932**	**64 377**
Net Assets	**373 907**	**395 357**	**523 261**	**526 409**	**551 673**
Capital	336 549	336 549	336 549	336 549	336 549
Reserves	16 164	37 639	155 707	142 489	156 089
Retained profits	21 194	21 169	31 005	47 371	59 035
Total Equity	**373 907**	**395 357**	**523 261**	**526 409**	**551 673**

Comment

Investments in cash related assets were high 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.

Increases in total borrowings have been to provide for the Company's capital expenditure program, designed to improve the reliability of the State's transmission system.

The increase in total provisions in 2000-01 was due to both the addition of the System Controller to Transend's structure and an increase in the superannuation liability as determined by the State Actuary. Provisions increased from 2001-02 to 2003-04 mainly due to additional staff and the retention of longer serving staff. This item also includes the income tax provisions (2003-04: current, $5.870m; non-current, $28.551m). No provision has been made for dividends since 2002-03 in accordance with changes to accounting standards.

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

The negative Working Capital is mainly due to a lack of cash, resulting in high Payables and Borrowings. Transend has a $1.000m bank overdraft facility, and a $20.000m overnight borrowing arrangement with Tascorp.

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 was inflated to 30 June 2002 values by applying an escalation factor (2.8%), and also in subsequent years (2002-03, 2.7%; 2003-04, 2.5%), based upon the Australian Bureau of Statistics' consumer price index.

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 in subsequent years.

Changes in Reserves related to the revaluation of Transend's assets mentioned above.

CASH POSITION

	1999-00 $'000	2000-01 $'000	2001-02 $'000	2002-03 $'000	2003-04 $'000
Receipts from customers	70 588	87 434	89 551	90 994	105 067
Interest received	0	45	44	190	91
Payments to suppliers and employees	(17 427)	(32 749)	(38 544)	(35 741)	(40 345)
Borrowing costs	(555)	(1 124)	(1 203)	(1 186)	(2 338)
Taxation expense	(11 290)	(8 295)	(10 293)	(6 197)	(7 225)
Cash from operations	**41 316**	**45 311**	**39 555**	**48 060**	**55 250**
Transfer of system controller functions		2 046			
Proceeds from sale of property and plant	90	197	221	542	360
Payments for fixed assets	(35 975)	(32 073)	(32 359)	(43 076)	(60 915)
Cash used in investing activities	**(35 885)**	**(29 830)**	**(32 138)**	**(42 534)**	**(60 555)**
Proceeds from borrowings	10 073	5 689	2 553	10 177	9 583
(Payment of)/proceeds from investments	(4 740)	(9 930)	0	(5 706)	3 946
Dividends paid	(9 994)	(11 199)	(10 091)	(9 837)	(8 183)
Cash from financing activities	**(4 661)**	**(15 440)**	**(7 538)**	**(5 366)**	**5 346**
Net increase in cash	**770**	**41**	**(121)**	**160**	**41**
Cash at the beginning of the period	(887)	(117)	(76)	(197)	(37)
Cash at end of the period	**(117)**	**(76)**	**(197)**	**(37)**	**4**

Comment

Transend is generating significant cash from its operations. Despite this, amounts due to suppliers (see Creditor turnover under Financial Analysis) is growing slowly as payments to them continue to be around 60 days.

A mixture of cash generated from operations and borrowings has been used to fund the large capital investment program.

The cash result at the end of most years has been a small bank overdraft.

Receipts from customers increased after 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 is also attributable to the additional costs of the System Controller and in 2001-02 to the costs associated with the Company's TWEM Project.

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

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations ($'000s)		31 257	21 826	18 455	15 816	21 322
EBIT ($'000s)		35 067	23 863	30 261	28 862	34 441
Operating margin	>1.0	1.88	1.47	1.35	1.28	1.33
Return on assets		8.3%	5.3%	5.7%	4.8%	5.5%
Return on equity		6.2%	2.6%	4.3%	3.1%	3.7%
Financial Management						
Debt to equity		5.2%	3.9%	3.3%	4.8%	6.4%
Debt to total assets		4.4%	3.3%	2.9%	4.2%	5.4%
Interest cover	>3	41.4	16.4	18.6	16.9	15.2
Current ratio	>1	0.27	0.36	0.40	0.63	0.33
Cost of debt	7.5%	5.1%	8.4%	9.9%	8.0%	7.5%
Debt collection	30 days	12	9	7	11	7
Creditor turnover	30 days	8	4	0	15	4
Returns to Government						
Dividends payable ($'000s)		11 199	10 091	9 837	8 183	9 924
Dividend payout ratio	50%	50.0%	100.0%	50.0%	50.0%	50.0%
Dividend to equity ratio	6%	3.1%	2.6%	2.1%	1.6%	1.8%
Income tax payable ($'000s)		9 483	8 855	7 001	7 653	7 345
Effective tax rate	30%	27.7%	39.5%	24.4%	28.2%	22.8%
Total return to the State ($'000s)		20 682	18 946	16 838	15 836	17 269
Total return to equity ratio		5.7%	4.9%	3.7%	3.0%	3.2%
Other information						
Staff numbers FTEs		52	91	113	125	157
Average staff costs ($'000s)		78	83	82	87	88

Comment

Transend has had good Results from operations since its inception in 1998. More recent years have been affected by costs associated with Basslink and Tasmania's entry into the NEM. The lower EBIT in 2000-01 was primarily the result of the impact of writing off decommissioned assets.

The strong capital investment program is being funded by a mixture of cash generated from operations and borrowings with one outcome being a very tight liquidity position as evidenced by a low current ratio (2003-04, 0.33:1).

At the same time the Debt to equity ratio is very low (2003-04, 6.4%), resulting in a high Interest cover (2003-04, 15.2:1). This suggests that the Company's Debt to equity structure may require review.

The Return on assets and Return on equity is lower in latter years due to movements in the asset revaluation reserve impacting on equity and relatively lower operating profits. The decrease in the 2002-03 ratios is due to the revaluation decrement discussed previously.

The Interest cover, while lower in recent years was still significantly above the benchmark due to comparably lower levels of debt.

The current ratio is low mainly as a result of low amounts of cash offset by high amounts of creditors, borrowings and provisions.

The cost of debt in recent years reflects the transition from short-term to long-term borrowings

The Company has paid consistent dividends to the Government. 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 declined since 1999-2000, but with improvement in 2003-04.

In 2002-03 Transend commenced bringing dividends to account when declared, resulting in no year-end provision. Accordingly, the amount for dividends payable has been taken from figures disclosed in notes to the financial statements, whereas previously the figures were taken from the statement of financial position.

The number of people employed by Transend has trebled since the company started operations. Staff numbers increased significantly from 1 July 2000 as a result of the transfer of the System Controller function. Additional staff have been employed since 2001-02 mainly for special projects such as TWEM and the Revenue Reset.

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

OVERALL COMMENT

Transend's financial position is sound. Although its liquidity is very tight, the Company is continuing its long-term capital investment program to upgrade and modernise Tasmania's electricity transmission system. This continues to impact the financial results.

Operations since 2001-02 have been affected by costs associated with Basslink and Tasmania's entry into the NEM.

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 $9.924m for 2003-04.

2.5 TT-LINE COMPANY PTY LTD

INTRODUCTION

TT-Line Company Pty Ltd (the Company) 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 and Devonport and Sydney. The Devonport to Sydney service commenced on 13 January 2004.

The Company was incorporated on 1 November 1993 as a Company limited by shares and is registered under the *Corporations Act 2001*. The shareholders of the Company are the Responsible Minister and the Treasurer who hold the shares on behalf of the State of Tasmania.

At 30 June 2004 the Responsible Minister was the Minister for Tourism, Parks and Heritage.

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

AUDIT OF THE 2003-04 FINANCIAL STATEMENTS

Signed financial statements were received on 17 September 2004 and an unqualified audit report was issued on 29 September 2004.

FINANCIAL RESULTS

The Company has undergone significant change during the five years under review. As a result commentary below and on the following pages is limited to financial performance in the more recent years. Comments made regarding events occurring in the earlier years, have been included in previous Reports to the Parliament and are not all repeated here.

FINANCIAL PERFORMANCE

	1999-00	2000-01	2001-02	2002-03	2003-04
	$'000s	$'000s	$'000s	$'000s	$'000s
Operating revenue	77 507	81 829	86 129	134 111	154 212
Non-operating revenue	4	13	107	61 407	38
Total Revenue	**77 511**	**81 842**	**86 236**	**195 518**	**154 250**
Employee costs	16 373	16 777	17 816	24 309	30 444
Borrowing costs	3 267	2 696	1 958	12 673	13 954
Depreciation	6 040	5 970	6 304	13 994	18 635
Other operating expenses	51 595	51 031	50 501	79 194	94 613
Non-operating expenses	0	0	30 940	62 736	0
Total Expenses	**77 275**	**76 474**	**107 519**	**192 906**	**157 646**
Result from ordinary activities	**236**	**5 368**	**(21 283)**	**2 612**	**(3 396)**
Income tax expense	0	0	0	0	0
Result after taxation	**236**	**5 368**	**(21 283)**	**2 612**	**(3 396)**

Comment

The majority of the Company's revenue is generated from ferry operations. In the three-year period covering 1999-00 to 2001-02, the Company provided a regular service between Devonport and Melbourne and a summer catamaran service between George Town and Melbourne.

During the 2001-02 year the decision was made to discontinue this catamaran service.

In 2002-03 the Company's operating revenue increased by $47.296m as a result of the operation of the new dual vessel (Spirits of Tasmania I and II) service, which commenced in September 2002. This level of revenue exceeded the Company's budgetary expectations. In 2003-04, the revenue for the dual vessel service again exceeded budgetary forecasts, with a significant increase in freight revenue being achieved.

On 13 January 2004, the Company introduced a third vessel (Spirit of Tasmania III) to provide a service between Devonport and Sydney. The impact of this operation resulted in an increase in operating revenue, however the service is operating considerably below budgeted expectations and is the cause of the overall loss of $3.396m for 2003-04. Losses incurred by Spirit of Tasmania III were due to the delayed commencement of the new service with budgets based on commencement of the service prior to the peak summer period.

The introduction of the dual vessel service and of Spirit of Tasmania III has seen increases in passenger numbers and freight as shown in the table below:

	2000-01 $'000's	2001-02 $'000's	2002-03 $'000's	2003-04 $'000's
Passenger Numbers	330 961	348 435	504 350	505 587
% Increase		**5.27%**	**44.74%**	**0.25%**
Vehicle Numbers	127 124	134 829	210 194	220 608
% Increase		**6.06%**	**55.89%**	**4.95%**
Freight (TEU)	21 771	22 525	39 543	51 412
% Increase		**3.46%**	**75.55%**	**30.01%**

The Company incurred net non-operating losses totalling $32.374 million ($30.887m in 2001-02 and $1.487m in 2002-03) as a result of the sale of the ferry, Spirit of Tasmania.

Employee costs over the five-year period reflect the changing operations of the Company with the most recent increase in 2003-04, of $6.135m attributable to a full years' operation of the dual vessels between Devonport and Melbourne and the introduction of the Sydney service in January 2004.

Borrowing costs are a significant item for the Company and movements reflect borrowings raised to finance the acquisition of the new ferries. The Company drew down new borrowings of $291.461m, relating to the purchase of the two new vessels, in June 2002 with the full impact of these borrowings felt in 2002-03.

During 2003-04, the Company incurred further loan debt of $125m, which funded the purchase and refurbishment of the third Spirit and further upgrades to Spirits I and II. The new borrowings were offset by loan principal repayments of $47.350m sourced from new equity.

Consistent with the acquisition of the new ferries, depreciation expense increased in 2002-03 by $7.690m to $13.994m and by a further $4.641m to $18.635m in 2003-04 and operating expenses increased similarly.

In summary the Company has reported operating profits (before non-operating revenues and costs) in the first four years under review recording its first operating loss in 2003-04.

FINANCIAL POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	3 010	12 039	7 814	94	1 543
Receivables	5 179	4 743	3 261	11 906	16 561
Inventories	550	581	492	803	1 388
Other	799	583	62 769	429	722
Total Current Assets	**9 538**	**17 946**	**74 336**	**13 232**	**20 214**
Payables	5 708	6 999	12 461	16 216	16 984
Borrowings	2 526	16 971	112 511	53 060	48 321
Provisions	3 909	3 639	3 436	5 063	5 265
Other	4 881	5 176	5 810	5 154	6 954
Total Current Liabilities	**17 024**	**32 785**	**134 218**	**79 493**	**77 524**
Working Capital	**(7 486)**	**(14 839)**	**(59 882)**	**(66 261)**	**(57 310)**
Property, plant and equipment	105 769	101 655	304 806	392 518	407 715
Total Non-Current Assets	**105 769**	**101 655**	**304 806**	**392 518**	**407 715**
Borrowings	39 810	22 587	201 536	151 931	233 237
Provisions	1 558	1 946	2 388	2 557	2 978
Other	0	0	0	87 394	0
Total Non-Current Liabilities	**41 368**	**24 533**	**203 924**	**241 882**	**236 215**
Net Assets	**56 915**	**62 283**	**41 000**	**84 375**	**114 190**
Capital	94 568	94 568	94 568	135 822	169 033
Reserves	0	0	0	0	0
Retained profits	(37 653)	(32 285)	(53 568)	(51 447)	(54 843)
Total Equity	**56 915**	**62 283**	**41 000**	**84 375**	**114 190**

Comment

The Company maintained a strong cash position over the three-year period to 2001-02 when it was able to finance capital acquisitions and loan repayments using internally generated resources. In more recent years the cash position has been tight with an overdraft of $1.082m existing at 30 June 2003. This tight liquidity position is likely to continue until the Sydney to Devonport line becomes profitable.

Receivables for 2002-03 increased by $8.645m due to the Company accruing loan interest of $5.519m, which was paid to Tascorp 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.

The 2003-04 Receivables balance increased by a further $4.655m, which was mainly attributable to capital contributions to be received from Port of Devonport Corporation Pty Ltd and the Victorian Department of Infrastructure being their respective contributions to capital works undertaken by the Company on both the Devonport and Station Pier terminal areas. The total receivables of $16.561m also included loan interest receivable amounting to $3.768m.

Inventory balances increased in both 2002-03 and 2003-04 reflecting the change in the Company's operations. The majority of the balance comprises fuel stocks on hand.

The balance of Payables increased by $3.755m in 2002-03 due to an increase in accrued loan interest, totalling $5.271m and additional creditors relating to the increased running costs of operating the two vessels. The balance of Payables in 2003-04 is consistent with 2002-03 and includes a loan interest accrual of $5.748m.

The majority of the provisions balance relates to the Company's liability for annual leave, long service leave and employee superannuation. The Company has a liability in relation to superannuation for employees within the State's Retirement Benefit Fund. The provisions balance has increased over the five-year period under review consistent with increases in employee costs and numbers.

Other current liabilities represent revenue received in advance relating to ticket sales for voyages after 30 June. The balance at each 30 June has increased in line with the increase in the Company's activities.

As expected, the Property, plant and equipment balance has moved significantly over the period under review primarily reflecting the purchases (including fit outs, the acquisition of the Edgewater Hotel in 2003-04 and capitalised interest) and disposals of vessels during this five year period less depreciation charges.

Total loan debt over the five-year period increased from $42.336m in 1999-00 to $281.588m in 2003-04 reflecting debt incurred in acquiring the three Spirits currently operated by the Company less repayments totalling $110.138m, primarily being the State Government's commitment to assist in the repayment of debt associated with one of the vessels, $41.254m plus proceeds from the sale of the Spirit of Tasmania, $61.249m.

A further $47.350 of loan debt was repaid in 2003-04, partly funded by a contribution of $33.211m from the State Government.

The 2002-03 balance of Other non-current liabilities, $87.394m was for the purchase of the third vessel, with an estimated project cost at that time of $105.000m.

Capital increased in each of 2002-03 and 2003-04 being the State Government's contributions referred to previously.

CASH POSITION

	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s	2002-03 $'000s	2003-04 $'000s
Receipts from customers	78 406	90 201	96 565	137 781	166 937
Payments to suppliers and employees	(69 755)	(74 917)	(76 263)	(115 080)	(139 422)
Interest received	469	387	468	87	50
Borrowing costs	(3 652)	(2 722)	(1 271)	(6 409)	(14 665)
Cash from operations	**5 468**	**12 949**	**19 499**	**16 379**	**12 900**
Payments for property, plant and equip.	(1 537)	(1 229)	(298 321)	(17 703)	(121 268)
Proceeds from sale of property, plant and equip.	34	87	107	61 406	38
Cash used in investing activities	**(1 503)**	**(1 142)**	**(298 214)**	**43 703**	**(121 230)**
Proceeds from borrowings	0	0	291 461	0	125 000
Repayment of borrowings	(12 597)	(2 778)	(16 971)	(110 138)	(47 350)
Contribution from owners	0	0	0	41 254	33 211
Cash from financing activities	**(12 597)**	**(2 778)**	**274 490**	**(68 884)**	**110 861**
Net increase in cash	**(8 632)**	**9 029**	**(4 225)**	**(8 802)**	**2 531**
Cash at the beginning of the period	11 642	3 010	12 039	7 814	(988)
Cash at end of the period	**3 010**	**12 039**	**7 814**	**(988)**	**1 543**

Comment

The Company has maintained positive cash flows from operations over the period under review with increases in Cash from operations generally representing increasing passenger, vehicle and freight movements.

Cash flows from operations in 2003-04 of $12.900m are $3.479m below the 2002-03 result. The decrease is unusual as 2003-04 was the first full year of operations for the dual vessel service between Devonport and Melbourne and included five months of operations for the Devonport to Sydney run. This decrease in cash flows is attributable to the failure of the Devonport to Sydney run to meet budgeted revenue projections, consistent with the comments made previously within this summary.

Payments for Property, plant and equipment increased significantly in 2001-02 as a result of the purchase of the two new vessels. This increase was funded 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.

During 2003-04, the Company made payments for Property, plant and equipment totalling $121.268m. The majority of the payments relate to the purchase and refurbishment of the third vessel, $108.17m.

The cash flows relating to Proceeds from borrowings and the Payment of borrowings are consistent with the previous comments made regarding the borrowings balances within the Financial Position section. The loan 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.

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations ($'000s)		232	5 355	9 550	3 941	(3 434)
EBIT ($'000s)		3 503	8 064	(19 325)	15 285	10 558
Operating margin	>1.0	1.00	1.07	1.12	1.03	0.98
Return on assets		2.9%	6.9%	-7.7%	3.9%	2.5%
Return on equity		0.4%	9.0%	-41.2%	4.2%	-3.4%
Financial Management						
Debt to equity		74.4%	63.5%	766.0%	243.0%	246.6%
Debt to total assets		36.7%	33.1%	82.8%	50.5%	65.8%
Interest cover	>3	1.1	3.0	(9. 87)	1. 21	0.76
Current ratio	>1	0.56	0.55	0.55	0.17	0.26
Cost of debt	7.5%	6.7%	6.7%	5.2%	5.8%	5.7%
Debt collection	30 days	25	21	14	32	39
Creditor turnover	30 days	19	24	33	24	26
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 ($'000s)		0	0	0	0	0
Total return to equity ratio		-	-	-	-	-
Other information						
Employee costs as % of operating expenses		27%	28%	30%	23%	24%
Staff numbers FTEs		347	345	366	527	635
Average staff costs ($'000s)		47	49	49	49	48

Comment

The results above confirm the earlier analysis in that the Company has returned a profit from operations and a positive operating margin for the first four years under review.

In 2003-04, the Company recorded a loss from operations totalling $5.941m, which is attributable to the performance of the Devonport to Sydney run operating at a significant deficit.

In 2002-03, the first period of the dual vessel service, the Company recorded a 4.2% return on equity based upon the surplus of $3.941m divided by an average equity balance for the financial year. However, the loss in operations, as noted previously for 2003-04, resulted in a negative return on equity of 3.4%.

The impact of the purchase of the two new vessels and the associated loan debt had a significant impact on the debt ratios as would be expected with the position stabilising to some extent in the latter two financial years.

The debt to equity ratio is considered to be extremely high, but future equity injections by the State Government, as part of its commitment to repay the loan debt on one of the vessels, will improve this.

In the 1999-00 and 2000-01 years, the Company made sufficient profits (EBIT) to meet interest costs associated with its borrowings. This is reflected in the interest cover ratios. In 2001-02, the ratio was affected by the significant loss. The impact of the write-down in the valuation of the Spirit of Tasmania resulted in 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 positive result (EBIT) in 2002-03, the Company improved its interest cover to a level near the benchmark. The ratio for 2003-04 deteriorated as a result of increased borrowing costs associated with the purchase of the third vessel not being supported by a corresponding increase in profits.

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, in previous financial years demonstrated the ability to generate sufficient cash flows through its operations to meet all current liabilities. However, the failure of the Devonport to Sydney operation to generate positive cash flows in the first five months of operations will require close monitoring by management.

The debt collection and creditor turnover ratios have been within the benchmarks over the period under review. The only exception is the 2003-04 debt collection ratio, which is distorted by $3.9m in contributions owing for capital works from the Port of Devonport Corporation Pty Ltd and the Victorian Department of Infrastructure.

The Company has significant tax losses primarily resulting from the write down of the Spirit of Tasmania and its subsequent sale. Consequently, the taxation calculations do not result in any taxation payments being required.

OVERALL COMMENT

The introduction of the Devonport to Sydney operation in January 2004 has had a negative impact on the financial results of the Company and it is understood that operations in 2004-05 to date continue to generate losses in what is traditionally a slow time of the year. The Company will need to continue to closely monitor the Devonport to Sydney operations.

The 2003-04 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 corporations.

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 corporations.

Tasmanian port corporations comprise:

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

These corporations have net assets of $142.644m, employ 265 people, generate $9.912m in net profit after tax, 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 the weighted cost of capital 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 corporations 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 5.87%) 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%.

On 23 June 2004 the Minister for Infrastructure, Energy and Resources announced a high-level review of the Tasmanian port system. The review committee will report to the shareholding Ministers in December 2004.

RESPONSIBLE MINISTER

At 30 June 2004 the responsible Minister was the Minister for Infrastructure, Energy and Resources who with the Treasurer held the shares in the companies.

FINANCIAL RESULTS

When reading the comparative analysis set out in the remainder of this chapter, readers need to bear in mind that the nature of the activities of the four Tasmanian ports varies. Details of their activities are included under the separate analysis of each port. For example, types of freight vary, not all provide passenger terminals, one provides a stevedoring service, some manage airport and cool store operations, one provides services on the Australian mainland and so on.

In addition, their investments in port assets, in particular port infrastructure, vary as do their debt equity structures.

FINANCIAL PERFORMANCE

	Burnie		**Devonport**		**Hobart**		**Launceston**	
	$'m	%	$'m	%	$'m	%	$'m	%
Operating revenue	11.8		12.3		36.0		9.8	
Non-operating revenue	-		-		0.7		0.1	
Total Revenue	**11.8**		**12.3**		**36.7**		**9.9**	
Borrowing costs	0.5	4.24	0.6	4.88	0.6	1.67	0.8	8.16
Depreciation	2.2	18.6	2.0	16.3	2.1	5.8	1.4	14.3
Employee costs	2.7	22.9	2.4	19.5	12.9	35.8	2.8	28.6
Other operating expenses	4.6	39.0	3.6	29.3	14.3	39.7	3.8	38.8
Non-operating expenses	-		0.2		0.6		-	
Total Expenses	**10.0**		**8.8**		**30.5**		**8.8**	
Result from ordinary activities	**1.8**	**15.3**	**3.5**	**28.5**	**6.2**	**16.9**	**1.1**	**11.1**
Income tax expense	-		1.1		1.3		0.3	
Result after taxation	**1.8**		**2.4**		**4.9**		**0.8**	

Percentages – expense categories have been expressed as a percentage of operating revenue and the result from ordinary activities as a % of total revenue.

Comment

All four ports recorded operating profits for the financial year with Hobart Port making the highest profit. However, on the basis of return on total revenue, Devonport stands out at 28.5%, having the lowest operating costs relative to revenue earned.

Hobart Port's depreciation charge is comparatively low due to a predominance of land and buildings in its asset base with land not being depreciated and buildings generally being depreciated over a longer time frame. This Port had the lowest relative levels of borrowings and the highest relative employee costs primarily due to its stevedoring activities.

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	414	8 987	11 915	2 848
Receivables	1 413	2 180	5 467	1 761
Investments	13 383	0	0	0
Inventories	236	5	647	466
Other	58	159	101	107
Total Current Assets	**15 504**	**11 331**	**18 130**	**5 182**
Payables	179	577	5 451	352
Borrowings	793	0	439	1 391
Provisions	660	790	2 426	586
Other	4 758	2 702	0	1 124
Total Current Liabilities	**6 390**	**4 069**	**8 316**	**3 453**
Working Capital	**9 114**	**7 262**	**9 814**	**1 729**
Property, plant & equipment	23 888	43 358	65 358	35 221
Other	0	259	27 651	3 070
Total Non-Current Assets	**23 888**	**43 617**	**93 009**	**38 291**
Borrowings	6 259	12 032	40 100	9 007
Provisions	97	63	3 185	110
Other	7 200	1 414	370	4 237
Total Non-Current Liabilities	**13 556**	**13 509**	**43 655**	**13 354**
Net Assets	**19 446**	**37 370**	**59 168**	**26 666**
Reserves	23 390	32 936	54 050	24 451
Retained surpluses	(3 944)	4 434	5 118	2 215
Total Equity	**19 446**	**37 370**	**59 168**	**26 666**

Comment

Current investments for Burnie Port includes advance payments of revenue made by Brambles Shipping in 2000-01 and 2001-02 as part of a ten-year service agreement. Interest generated from the investment was used to assist in loan repayments.

Hobart, Devonport and Launceston Ports all classified their current investments as part of the cash balance.

In the case of Hobart Port, the above position includes consolidation for the first time of Hobart International Airport Pty Ltd (HIA)
Particularly large movements in balances were:

- Loans from other financial institutions have increased as at 30 June 2004, HIA had total borrowings from other institutions of $31.500m; and
- Non-current 'Other' assets comprise $26.163m, which is the carrying value of capitalised lease assets acquired with the debt referred to.

The Launceston Port has a significant balance of $3.070m in Other non-current assets, which represents Future Income Tax Benefits relating to carried forward tax losses of $9.433m.

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 $7.200m representing $12.000m revenue in advance from Brambles Shipping, less four-years' amortisation. The amount is being amortised over the ten-year life of the service agreement.

Burnie Port's accumulated deficit of $3.944m 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	10 517	12 964	42 124	10 752
Payments to suppliers and employees	(7 255)	(7 178)	(36 092)	(7 999)
Interest received	640	363	271	104
Borrowing costs	(565)	(528)	(468)	(832)
Taxation expense	0	(1 092)	0	0
Cash from operations	**3 337**	**4 529**	**5 835**	**2 025**
Proceeds from investments	4 254	0	7 553	0
Payments for investments	(4 019)	(113)	(1 199)	0
Payments for P, P & Equipment	(394)	(8 186)	(4 659)	(1 600)
Proceeds from sale of P, P & E	19	322	672	216
Cash used in investing activities	**(140)**	**(7 977)**	**2 367**	**(1 384)**
Proceeds from borrowings	0	4 560	0	1 000
Repayment of borrowings	(2 673)	0	(408)	(1 097)
Dividends paid	(382)	(902)	(875)	(475)
Cash from financing activities	**(3 055)**	**3 658**	**(1 283)**	**(572)**
Net increase in cash	**142**	**210**	**6 919**	**69**
Cash at the beginning of the period	272	59	4 996	2 779
Cash at the end of the period	**414**	**269**	**11 915**	**2 848**

Comment

Burnie and Devonport cash balances do not include significant current investment balances, which are not defined as cash for the purposes of the cash flow statement. Burnie Port held current investments of $13.383m, while Devonport Port held $8.718m in deposits at call and short-term investments.

All Port corporations recorded significant inflows from operations, which were used to meet the cash requirements of their investing and financing activities.

Devonport Port recorded significant Payments for property, plant and equipment during 2003-04, $8.186m, in support of TT-Line activities, which was attributable to capital work on a lay up berth for Spirit III, totalling $5.200m, the completion of the first stage of the cold store and the top deck loading ramp, $1.480m.

As a result of this significant capital expenditure incurred by Devonport Port and further expenditure committed to the stage two upgrade of the cold store on Saleyard Road, a decision was made to obtain loan funding. Consequently, Proceeds from borrowings of $4.560m were received in 2003-04.

Proceeds from investments for Hobart Port includes $7.267m cash arising from the consolidation of HIA activities into Port operations.

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

All Ports paid dividends during the year.

FINANCIAL ANALYSIS

	Bench Mark	Burnie	Devonport	Hobart	Launceston
Financial Performance					
Result from operations ($'000s)		1 750	3 638	6 054	1 025
EBIT ($000s)		2 297	4 141	6 758	1 133
Operating margin	>1.0	1.17	1.42	1.20	1.12
Return on assets		5.9%	8.1%	7.2%	2.6%
Return on equity		9.4%	6.7%	8.6%	3.0%
Financial Management					
Debt to equity		36.3%	32.2%	68.5%	39.0%
Debt to total assets		17.9%	21.9%	36.5%	23.9%
Interest cover	>3	4.31	7.10	11.70	1.40
Current ratio	>1	2.43	2.78	2.18	1.50
Cost of debt	7.5%	6.3%	6.8%	6.4%	7.3%
Debt collection	30 days	32	62	55	66
Creditor turnover	30 days	14	21	35	34
Returns to Government					
Dividends paid or payable ($000s)		618	1,488	1,000	475
Dividend payout ratio	50%	35.0%	61.0%	20.4%	59.2%
Dividend to equity ratio		3.3%	4.1%	1.7%	1.8%
Income tax paid or payable ($000s)		0	999	2 106	0
Effective tax rate	30%	-	28.1%	34.1%	-
Total return to the State ($000s)		618	2 487	3 106	475
Total return to equity ratio		3.3%	6.8%	5.4%	1.8%
Other information					
Staff numbers FTEs		42	39	149	35
Average staff costs ($'000s)		66	62	88	67

Comment

Each of the Ports recorded positive returns on their assets and equity. With the exception of Launceston Port the returns were within acceptable limits prescribed by the shareholding Ministers.

The Hobart Port has a significantly greater debt to equity and debt to total assets position than the other ports, and this situation was a reflection of the borrowings associated with HIA operations that were consolidated for the first time on 30 June 2004.

All the Ports have acceptable current ratios and their cost of debt was 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, provided total returns to the State of 5.4% and 6.8% of equity, respectively. 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 were consistent, however the average for the Hobart Port was distorted because contract and casual labour numbers were not included in staff numbers.

OVERALL COMMENT

Excepting the Launceston Port, the returns on equity to the Government are considered acceptable in comparison to the shareholders' expectations of 5.5% to 7.5% after tax.

Collectively the four Ports made after tax profits totalling $9.912m (2002-03 - $8.814m), manage net assets of $142.650m (2002-03 - $135.372m) and contributed $6.686m (2002-03 - $5.255m) to the State Government in the form of dividends and taxes paid.

3.1 BURNIE PORT CORPORATION PTY LTD

INTRODUCTION

The Burnie Port Corporation Pty Ltd (the Corporation) is Australia's fifth largest container port handling cargoes from and for international and domestic markets. The Corporation manages a cold store and handles the following types of cargoes:

- Wood-pulp;
- Woodchips;
- Magnetite and other bulk mineral concentrates;
- Pine and hardwood logs; and
- Motor vehicles, newsprint, machinery, fruit, vegetables and cheese products.

The joint shareholders of the Corporation are the Treasurer and the Minister for Infrastructure, Energy and Resources, who hold these shares on behalf of the State of Tasmania. 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.

AUDIT OF THE 2003-04 FINANCIAL STATEMENTS

Signed financial statements were received on 7 September 2004 and an unqualified audit report issued on 21 September 2004.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1999-00	2000-01	2001-02	2002-03	2003-04
	$'000s	$'000s	$'000s	$'000s	$'000s
Services revenue	13 278	10 382	9 760	9 496	10 481
Rental income	539	673	617	536	663
Interest revenue	408	458	555	674	645
Non-operating revenue	500	345	17	18	14
Total Revenue	**14 725**	**11 858**	**10 949**	**10 724**	**11 803**
Borrowing costs	1 624	1 622	919	735	533
Depreciation	2 220	2 966	2 652	2 580	2 192
Employee benefit expenses	2 658	2 745	2 808	2 597	2 755
Other operating expenses	5 664	3 485	3 193	3 687	4 559
Non-operating expenses	5 143	3 576	480	0	0
Total Expenses	**17 309**	**14 394**	**10 052**	**9 599**	**10 039**
Result from ordinary activities	**(2 584)**	**(2 536)**	**897**	**1 125**	**1 764**
Income tax expense	0	0	0	0	0
Result after taxation	**(2 584)**	**(2 536)**	**897**	**1 125**	**1 764**

Comment

Services revenue decreased from 1999-00 to 2000-01 by $2.896m due to a new service agreement with Brambles Shipping (now Toll Shipping) and the loss of the AAA Consortium. The decrease in services and rental revenue in 2002-03 of $0.345m is mainly due to the absence of airport passenger levies, landing charges and rental following the sale of the Airport in 2001-02.

The increase in services revenue in 2003-04 of $0.985m is attributable to a number of factors including:

- An increase in revenue from recoverable expenditure of $0.564m, which was mainly due to the construction of a new mooring dolphin; and
- Revenue received from two contractors for the Yolla gas platform and connecting gas pipeline to Victoria. The Port of Burnie was chosen as the base for delivery of the pipes and the gas platform was towed into the Port in March 2004 where the development engineers undertook pre-installation work on the platform. Both contractors set up operations in the Port during their respective stays.

These increases were offset by a decline in cold store revenue of $0.361m, due to reduced storage and handling by customers.

Non-operating revenue in 1999-00 and 2000-01 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, in this financial year, the Corporation changed the accounting treatment in relation to the Post-Panamax crane, previously recognised as an operating lease, by capitalising this asset at a net cost of $3.321m as a finance lease. The lease payments previously expensed in other operating expenses, are now 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 because the 2000-01 expense balance included 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.

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.

During 2003-04, the finance lease relating to the Post-Panamax crane ceased and the Corporation negotiated the acquisition of the crane for $4.000m. The acquisition price included the settlement of all outstanding issues between the parties, including recovery of legal costs. The finalisation of the lease resulted in a reduction in amortisation expense of $0.536m, which was offset by an increase in depreciation expense of $0.106m relating to the newly acquired crane.

In 2000-01, other operating expenditure decreased by $2.179m as a result of the change in lease classification. Lease repayments under the previous operating lease were expensed as operating expenditure. From 2000-01 onwards, these payments were allocated between interest expense and a reduction of the lease liability.

Other operating expenditure increased by $0.983m in 2003-04 due mainly to:

- An increase in recoverable expenditure of $0.551m, which was mainly due to the construction of a new mooring dolphin; and
- Legal costs of $0.713m incurred in relation to the resolution of the Post-Panamax crane dispute and its subsequent acquisition.

These increases were offset by a reduction in cold store expenditure of $0.160m.

Non-operating expenditure in 1999-00 of $5.143m relates to a revaluation decrement arising from the use of the deprival value method to value depreciable assets. 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 included 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 included the loss on the sale of the Airport, $0.394m and associated redundancy payments of $0.086m.

The impact of these Non-operating charges resulted in significant losses in 1999-00 and 2000-01. The loss in 1999-00 of $2.584m is the result of material asset decrements as detailed above. The loss of $2.536m in 2000-01 is attributable to the non-operating charges 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 more recent three years, the Corporation has recorded profits from ordinary activities totalling $3.786m.

FINANCIAL POSITION

	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s	2002-03 $'000s	2003-04 $'000s
Cash	0	182	265	272	414
Receivables	2 044	1 127	874	948	1 413
Investments	9 000	7 108	15 273	13 619	13 383
Inventories	262	268	253	258	236
Other	73	39	81	60	58
Total Current Assets	**11 379**	**8 724**	**16 746**	**15 157**	**15 504**
Payables	427	342	174	419	179
Borrowings	8 107	2 559	3 226	2 673	793
Provisions	748	598	606	558	660
Other	1 931	723	728	649	4 758
Total Current Liabilities	**11 213**	**4 222**	**4 734**	**4 299**	**6 390**
Working Capital	**166**	**4 502**	**12 012**	**10 858**	**9 114**
Property, plant and equipment	29 787	29 614	24 591	22 736	23 888
Total Non-Current Assets	**29 787**	**29 614**	**24 591**	**22 736**	**23 888**
Borrowings	10 722	12 950	9 725	7 052	6 259
Provisions	38	53	69	77	97
Other	345	4 800	9 600	8 400	7 200
Total Non-Current Liabilities	**11 105**	**17 803**	**19 394**	**15 529**	**13 556**
Net Assets	**18 848**	**16 313**	**17 209**	**18 065**	**19 446**
Reserves	24 025	24 025	24 025	24 025	23 390
Retained profits	(5 177)	(7 712)	(6 816)	(5 960)	(3 944)
Total Equity	**18 848**	**16 313**	**17 209**	**18 065**	**19 446**

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 received from 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.

These two balloon payments have been recorded as revenue received in advance and credited to revenue over the life of the service agreement of 10 years – see comments on the following pages of this Report.

The decrease in receivables in 2000-01 of $0.917m was mainly due to the new service agreement with Brambles Shipping, which now pays a monthly service fee. The increase in receivables in 2003-04 of $0.465m was mostly due to an increase in the balance of GST owing and accrued of

$0.321m. The GST debtor balance at 30 June 2004 included $0.364m relating to the acquisition price of the Post-Panamax crane.

Property, plant and equipment has decreased by $5.899m 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 $12.857m 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.

In 1999-00 borrowings totalling $8.107m were reclassified from a Non-current liability in anticipation of being repaid. The repayment of loans was enabled by the $6.000m payment received from Brambles Shipping referred to earlier. The decrease in current borrowings in 2003-04 of $1.880m is primarily due to the settlement of the finance lease relating to the Post-Panamax crane.

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. The balance of Other current liabilities at 30 June 2004 includes an accrual of $4.000m for the acquisition of the Post-Panamax crane and settlement of the related lease dispute.

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 2004, four years of the agreement had been completed and $4.800m amortised as revenue.

CASH POSITION

	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s	2002-03 $'000s	2003-04 $'000s
Receipts from customers	13 667	18 367	16 924	9 694	10 517
Payments to suppliers and employees	(7 921)	(9 498)	(7 759)	(7 051)	(7 255)
Interest received	399	466	526	678	640
Borrowing costs	(1 552)	(1 352)	(955)	(766)	(565)
Cash from operations	**4 593**	**7 983**	**8 736**	**2 555**	**3 337**
Proceeds from investments	1 800	5 270	3 856	4 817	4 254
Payments for investments	(4 000)	(3 378)	(12 020)	(3 162)	(4 019)
Payments for property, plant and equipment	(504)	(759)	(451)	(734)	(394)
Proceeds from sale of property, plant and equipment	46	0	2 521	27	19
Cash used in investing activities	**(2 658)**	**1 133**	**(6 094)**	**948**	**(140)**
Repayment of borrowings	(2 027)	(8 903)	(2 559)	(3 226)	(2 673)
Dividends paid	0	0	0	(270)	(382)
Cash from financing activities	**(2 027)**	**(8 903)**	**(2 559)**	**(3 496)**	**(3 055)**
Net increase in cash	**(92)**	**213**	**83**	**7**	**142**
Cash at the beginning of the period	61	(31)	182	265	272
Cash at end of the period	**(31)**	**182**	**265**	**272**	**414**

Comment

The increase in receipts from customers in 2000-01 and 2001-02 is attributable to the balloon payments of $6.000m received 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 previously. Receipts from customers and payments to suppliers decreased again in 2002-03 following the sale of the Airport in 2001-02. The increase in receipts from customers in 2003-04 of $0.823m reflects the increased service revenue noted under the Financial Performance section.

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. Dividends totalling $0.652m have been paid in the most recent two financial years relating to the 2001-02 and 2002-03 operating results.

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations ($'000s)		2 059	695	1 360	1 107	1 750
EBIT ($'000s)		(960)	(914)	1 816	1 860	2 297
Operating margin	>1.0	1.17	1.06	1.14	1.12	1.17
Return on assets		-2.2%	-2.3%	4.6%	4.7%	5.9%
Return on equity		-12.8%	-14.4%	5.4%	6.4%	9.4%
Financial Management						
Debt to equity		99.9%	95.1%	75.3%	53.8%	36.3%
Debt to total assets		45.7%	40.5%	31.3%	25.7%	17.9%
Interest cover	>3	(0.59)	(0.56)	1.98	2.53	4.31
Current ratio	>1	1.01	2.07	3.54	3.53	2.43
Cost of debt	7.5%	7.6%	6.8%	6.3%	6.3%	6.3%
Debt collection	30 days	53	35	30	31	32
Creditor turnover	30 days	28	36	20	41	14
Returns to Government						
Dividends paid or payable ($'000s)		0	0	270	383	618
Dividend payout ratio	50%	-	-	30.1%	34.0%	35.0%
Dividend to equity ratio		-	-	1.6%	2.2%	3.3%
Total return to the State ($'000s)		0	0	270	383	618
Total return to equity ratio		-	-	1.6%	2.2%	3.3%
Other information						
Staff numbers FTEs		49	48	44	41	42
Average staff costs ($'000s)		54	57	61	63	66

Comment

Over the past five years, the return from operations (i.e.: operating revenue less operating expenses) has totalled $6.971m or an annual average return of $1.394m. The profit from ordinary activities before income tax and after adjusting for interest expense totalled $4.099m for the five years or an annual average of $0.820m.

The debt to equity ratio has decreased from 99.9% in 1999-00 to 36.3% in 2003-04 due to the settlement of the Post-Panamax crane finance lease and significant loan repayments (refer to the Cash Position section for further detail).

The interest cover ratio improved in 2001-02 as a result of the Corporation's debt reduction strategies. The cost of debt ratio has also decreased from 7.6% in 1999-00 to 6.3% in 2003-04.

The debt collection ratio for 1999-00 was significantly greater than the 30-day benchmark. This reflected 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 service agreement with Brambles, which incorporates monthly service fees, assisted in the improvement in this ratio from 2000-01 onwards.

The creditor turnover ratio indicates the Corporation is clearing its creditors in a suitable time frame. The 41-day ratio in 2002-03 was the result of several additional creditor balances being incurred as at balance date.

No dividends were paid or payable in relation to the first two years under review. Negotiations with Brambles Shipping on a new service agreement resulted in the shareholders waiving dividends in respect of the 1999-00 financial period. The Board paid dividends of $0.270m and $0.383m during 2002-03 and 2003-04 in respect to the 2001-02 and 2002-03 years respectively. Subsequent to 30 June 2004, the directors recommended a dividend of $0.618m for 2003-04.

There have been no income tax equivalent payments or provisions for income tax payable for the five-year period due to operating losses and carried forward tax losses. At 30 June 2004, the Corporation had future income tax benefits, relating to tax losses not brought to account, totalling $2.268m.

The average staff cost has increased from $0.054m to $0.066m over the five-year period. The 2003-04 average cost of $0.066m includes an accrual of $0.111m for leave payouts under a new enterprise bargaining agreement.

OVERALL COMMENT

The Corporation recorded a profit of $1.764m for the 2003-04 financial year. The past three 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.

The 2003-04 audit was completed with no issues outstanding.

3.2 HOBART PORTS CORPORATION PTY LTD

INTRODUCTION

The Hobart Ports Corporation Pty Ltd (the Corporation) is a diversified company providing shipping and port services, including supply chain and transport logistics management, to Tasmanian businesses.

The principal activities of the Corporation and its subsidiary companies include:

- Port facilities and related properties at Hobart, Triabunna, Port Huon, Strahan, Stanley and King Island;
- Hobart Cold Storage Centre and Quarantine Fumigation Services;
- Services including stevedoring, plant hire, and maintenance;
- Fuel Distribution at Hobart and on King and Flinders Islands;
- Airport facilities (from 30 June 2004 comprises a wholly-owned subsidiary, Hobart International Airport Pty Ltd); and.
- Elizabeth Street Pier Apartments/Function Centre Complex in Hobart.

The joint shareholders of the Corporation are the Treasurer and the Minister for Infrastructure, Energy and Resources, who hold these shares on behalf of the State of Tasmania. The shareholders were each issued with one ordinary share.

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

On 29 June 2004 the Corporation's ownership interest in Hobart International Airports Pty Ltd (HIA) increased from 98% to 100%. The Corporation also acquired the 5 000 B class shares which were held by Toll Transport. In the past, HIA was a joint venture with Toll Transport. The Corporation was only able to exert significant influence over the airport, and hence consolidation of HIA was not appropriate under Australian accounting standards.

The Corporation equity accounted for its interest in HIA until 29 June 2004, and then for one day (30 June 2004) consolidated its interest in HIA in accordance with accounting standards. The consolidation of HIA created a discount on acquisition, which has been written off against the capitalised leased assets of HIA in the 30 June 2004 financial report.

AUDIT OF THE 2003-04 FINANCIAL REPORT

The financial report of the Corporation was signed on 23 September 2004 and an unqualified audit report was issued on 1 October 2004.

FINANCIAL RESULTS

The financial results commented on below all relate to the consolidated position. The continued growth in revenue for the period under review can be largely attributed to the success of the Corporation's stevedoring operations.

In relation to its subsidiaries, King Island Ports Corporation (KIPC) has increased revenues of $0.417m for the year ended 30 June 2004. This was due to a combination of increased port operations, steady fuel sales and the acquisition of Lovell Transport in February 2004 and Island Fuel Supplies of Flinders Island during June 2004.

HIA contributed $1.851m to the Corporation's profit before tax of $6.178m for 2003-04.

FINANCIAL PERFORMANCE

	1999-00	**2000-01**	**2001-02**	**2002-03**	**2003-04**
	$'000s	$'000s	$'000s	$'000s	$'000s
Services Revenue	9 422	15 060	24 892	28 820	29 046
Rental Income	6 210	6 602	6 644	6 961	6 735
Interest Revenue	145	135	181	220	197
Non-operating revenue	1 051	403	657	987	672
Total Revenue	**16 828**	**22 200**	**32 374**	**36 988**	**36 650**
Borrowing costs	685	668	634	617	580
Depreciation	1 211	1 480	1 519	1 903	2 121
Employee benefit expenses	6 599	8 921	10 117	12 409	13 083
Other operating expenses	6 543	9 524	13 791	14 978	14 140
Non-operating expenses	1 026	390	1 030	958	548
Total Expenses	**16 064**	**20 983**	**27 091**	**30 865**	**30 472**
Result from ordinary activities	**764**	**1 217**	**5 283**	**6 123**	**6 178**
Income tax expense	(37)	518	1 589	1 452	1 271
Result after taxation	**801**	**699**	**3 694**	**4 671**	**4 907**

Comment

Services revenue increased by $5.638m 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, KIPC commenced the business of petroleum importation and distribution on King Island, which contributed $1.680m to group operating revenue.

The increase in Services revenue in 2001-02, $9.832m, 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 during 2002-03 came mainly from the port itself but revenues increased at King Island and the Risdon Port Services subsidiaries.

Operating expenses in 2002-03 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).

Non-operating income in each year generally represents the sales value on disposal of non-current assets, while non-operating expenditure items generally reflect the carrying values of those assets.

The Corporation 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 this review and at $6.178m for 2003-04 (2003: $6.123m), the Corporation has achieved a commercial rate of return on net assets.

FINANCIAL POSITION

	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s	2002-03 $'000s	2003-04 $'000s
Cash	2 191	2 281	2 766	4 996	11 915
Receivables	3 490	4 948	5 049	5 641	5 467
Investments	256	0	355	55	0
Inventories	30	56	223	254	647
Other	83	57	560	90	101
Total Current Assets	**6 050**	**7 342**	**8 953**	**11 036**	**18 130**
Payables	2 262	3 374	3 087	3 196	5 451
Borrowings	329	2 202	380	409	439
Provisions	1 528	1 714	3 505	2 324	2 426
Total Current Liabilities	**4 119**	**7 290**	**6 972**	**5 929**	**8 316**
Working Capital	**1 931**	**52**	**1 981**	**5 107**	**9 814**
Property, plant and equipment	51 631	51 352	51 916	51 876	65 358
Investments	5 415	10 230	10 882	12 118	0
Other	1 007	866	898	920	27 651
Total Non-Current Assets	**58 053**	**62 448**	**63 696**	**64 914**	**93 009**
Borrowings	9 681	12 095	12 215	11 807	40 100
Provisions	2 278	2 481	2 787	2 912	3 185
Other	0	0	186	166	370
Total Non-Current Liabilities	**11 959**	**14 576**	**15 188**	**14 885**	**43 655**
Net Assets	**48 025**	**47 924**	**50 489**	**55 136**	**59 168**
Reserves	47 402	47 132	49 746	52 400	54 050
Retained profits	623	792	743	2 736	5 118
Total Equity	**48 025**	**47 924**	**50 489**	**55 136**	**59 168**

Comment

In June 1998 the Corporation purchased a 49% interest in Hobart International Airport Pty Ltd (HIA) for $0.269m and provided subordinated debt to that company totalling $5.574m. During 1999-00, the Corporation increased its shareholding in HIA to 68% at a cost of $0.423m and, during 2000-01, still further increased its holding to 98%, and acquired the remaining 2% during 2003-04. In prior years, conditions attaching to the various subsequent acquisitions required the Corporation to assume the subordinated debt of the disposing shareholders. At the end of 2003, subordinated debt provided to HIA totalled $9.641m, of which $9.041m was interest free and was reflected in the non-current asset item, Investments. Associated with the latter acquisitions, additional borrowings totalling $2.767m were provided on an interest free basis by HIA to HPC.

The majority of 2003-04 asset and liability balances increased due to the consolidation of HIA into the Corporation's statement of financial position for the first time. Particularly large movements in balances were:

- Loans from other financial institutions have increased as at 30 June 2004, HIA had total borrowings from other institutions of $31.500m; and
- Non-current 'Other' assets comprise $26.163m, which is the carrying value of capitalised lease assets acquired with the debt referred to.

On 1 July 2000 the Corporation elected to deem the carrying values of its property plant and equipment to be cost in accordance with Australian Accounting Standard AASB 1041 "Revaluation of Non-Current Assets". Consequently, the balance 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 2002-03 by a transfer of $2.008m to retained profits.

The Corporation's cash and net working capital positions have improved considerably over the five-year period under review.

CASH POSITION

	1999-00	**2000-01**	**2001-02**	**2002-03**	**2003-04**
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	15 879	23 224	32 595	37 444	42 124
Payments to suppliers and employees	(13 056)	(20 303)	(27 051)	(31 854)	(36 092)
Interest received	142	133	178	218	271
Borrowing costs	(671)	(680)	(578)	(730)	(468)
Cash from operations	**2 294**	**2 374**	**5 144**	**5 078**	**5 835**
Proceeds from investments	440	806	224	325	286
Payments for investments	(245)	(3 425)	(414)	(17)	(1 199)
Payments for property, plant and equipment	(2 051)	(1 966)	(2 918)	(2 788)	(4 659)
Proceeds from sale of property, plant and equipment	1 051	403	690	987	672
Cash used in investing activities	**(805)**	**(4 182)**	**(2 418)**	**(1 493)**	**(4 900)**
Proceeds from borrowings	0	2 767	500	0	0
Repayment of borrowings	(294)	(329)	(2 201)	(380)	(408)
Dividends paid	(700)	(540)	(540)	(975)	(875)
Cash from financing activities	**(994)**	**1 898**	**(2 241)**	**(1 355)**	**(1 283)**
Net increase in cash	**495**	**90**	**485**	**2 230**	**(348)**
Cash at the beginning of the period	1 696	2 191	2 281	2 766	4 996
Cash from Hobart Int'l Airports P/L acquisition	0	0	0	0	7 267
Cash at end of the period	**2 191**	**2 281**	**2 766**	**4 996**	**11 915**

Comment

Receipts from customers have increased markedly since 1999-00 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 Corporation paid only relatively low levels of income tax on revenue from ordinary activities.

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations ($'000s)		739	1 204	5 656	6 094	6 054
EBIT ($'000s)		1 449	1 885	5 917	6 740	6 758
Operating margin	>1.0	0.63	0.73	0.96	0.96	0.97
Return on assets		2.3%	2.8%	8.3%	9.1%	7.2%
Return on equity		1.7%	1.5%	7.5%	8.8%	8.6%
Financial Management						
Debt to equity		20.8%	29.8%	24.9%	22.2%	68.5%
Debt to total assets		15.6%	20.5%	17.3%	16.1%	36.5%
Interest cover	>3	2.1	2.8	9.3	10.9	11.7
Current ratio	>1	1.47	1.01	1.28	1.86	2.18
Cost of debt	7.5%	13.3%	5.5%	6.3%	6.2%	6.4%
Debt collection	30 days	93	95	59	60	55
Creditor turnover	30 days	51	39	24	17	35
Returns to Government						
Dividends paid or payable ($'000s)		540	540	975	875	1 000
Dividend payout ratio	50%	67.4%	77.3%	26.4%	18.7%	20.4%
Dividend to equity ratio		1.2%	1.1%	2.0%	1.7%	1.7%
Income tax paid or payable ($'000s)		0	0	179	1 906	2 106
Effective tax rate	30%	-	-	3.4%	31.1%	34.1%
Total return to the State ($'000s)		540	540	1 154	2 781	3 106
Total return to equity ratio		1.2%	1.1%	2.3%	5.3%	5.4%
Other information						
Staff numbers FTEs		130	119	114	121	149
Average staff costs ($'000s)		49	75	89	103	88

Comment

The Corporation recorded substantial increases in operating revenue prior to 2001-02 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.

The debt-to-equity ratio increased sharply during 2003-04 due to the consolidation of HIA for the first time.

The dividend payout ratio was quite high in the earlier years but much lower on the higher profits more recently. The Board has recommended a final dividend of $1.000m for the 2003-04 financial year (2003: $0.875m). Income tax was zero or minimal in the earlier years due to timing differences and carried forward tax losses. The current situation shows a more normal effective tax rate, which is consistent with an improvement in the total return to equity ratios. This return has to be taken in context of one of the two principal objectives of the Corporation, which is the facilitation of trade for the economic benefit of the State.

The return on equity ratio has improved particularly in 2002-03 and 2003-04 (8.8% and 8.6% respectively).

Staff numbers do not include the impact of contract or casual labour used by the Corporation during any one year, which distorts average employee costs for the year. The increase during 2003-04 reflects acquisitions of businesses referred to previously.

OVERALL COMMENT

The strategy of diversification for the Corporation has continued to prove favourable with ongoing sizeable returns to the State for the past three years. With the acquisition of the remaining shares in HIA plus other business acquisitions on King and Flinders Islands, the Corporation should be well-positioned to continue to perform strongly in coming years.

However, the impact on profitability of current negotiations concerning the possible transfer of the Corporation's assets remains unclear.

3.3 PORT OF DEVONPORT CORPORATION PTY LTD

INTRODUCTION

The Port of Devonport Corporation Pty Ltd (the Corporation or the Port) is one of the state's fastest growing ports. The Port is best known as the home of TT-Line Pty Ltd's fleet of Spirit of Tasmania ferries that operate from the Port to both Melbourne and Sydney. It also services a number of key customers, including Patrick Shipping and Cement Australia.

The Port has also recently become the state's second largest cold store operator, with the expansion of their cold store operations and it also generates income from the Devonport Airport, which is serviced principally by QantasLink and Regional Express.

The Corporation's combined seaport and airport operations facilitated the movement of just over 620 000 passengers in and out of Tasmania in the past financial year.

The joint shareholders of the Corporation are the Treasurer and the Minister for Infrastructure, Energy and Resources, who hold these shares on behalf of the State of Tasmania. The shareholders were each issued with one ordinary share.

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

AUDIT OF THE 2003-04 FINANCIAL STATEMENTS

Signed financial statements were received on 28 September 2004 and an unqualified audit report was issued on 30 September 2004.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	1999-00	2000-01	2001-02	2002-03	2003-04
	$'000s	$'000s	$'000s	$'000s	$'000s
Service revenue	9 617	9 806	9 610	10 761	11 636
Rental income	220	282	216	291	284
Interest revenue	551	660	533	420	365
Non-operating revenue	19	202	18	12	76
Total Revenue	**10 407**	**10 950**	**10 377**	**11 484**	**12 361**
Borrowing costs	627	522	514	507	587
Depreciation	1 850	1 919	1 809	1 916	2 023
Employee benefit expenses	2 357	2 315	2 420	2 451	2 404
Other operating expenses	3 354	3 392	4 937	3 865	3 633
Non-operating expenses	150	1 734	198	215	160
Total Expenses	**8 338**	**9 882**	**9 878**	**8 954**	**8 807**
Result from ordinary activities	**2 069**	**1 068**	**499**	**2 530**	**3 554**
Income tax expense	848	852	343	869	1 116
Result after taxation	**1 221**	**216**	**156**	**1 661**	**2 438**

Comment

The Corporation has been trading profitably over the five-year period under review.

Service revenue remained fairly stable over the three-year period from 1999-00 to 2001-02, but increased by $1.151m, to $10.761m in 2002-03. The increase was 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 operation of the new cold store on Saleyard Road.

A further increase of $0.875m was recorded in 2003-04 for Service revenue. The increase is primarily the result of a revised service agreement with the TT-Line Company Pty Ltd for the operation of a third vessel on the Sydney service.

Non-operating revenue comprised the net gain on disposal of assets. Non-operating revenue in 2000-01 of $0.202m comprised the net gain on 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, resulting in a net gain of $0.026m, which was accounted for as revenue of $0.076m and expenditure of $0.050m.

Borrowing costs decreased by $0.105m in 2000-01 as the Corporation repaid the final of its principal and interest loans in 1999-00. In the four-year period from 2000-01 to 2003-04, Borrowing costs have been static. This is attributable to the loan debt being interest only loans. It is expected that the borrowing costs will increase in 2004-05 as the full impact of new borrowings, totalling $4.560m in 2003-04 take effect.

Depreciation and Employee benefit expenses have been fairly stable over the period under review. An increase of $0.107m was noted in the 2003-04 deprecation expense due to the first full year's depreciation of the new cold store.

The increase in Other operating expenses in 2001-02, $1.545m, 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 this expense for that year were costs associated with the new Port Access Road in East Devonport, $0.427m, which mainly related 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 was 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.

FINANCIAL POSITION

	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s	2002-03 $'000s	2003-04 $'000s
Cash	1	10 174	9 298	8 664	8 987
Receivables	1 390	2 078	1 645	1 924	2 180
Investments	9 188	0	0	0	0
Inventories	6	8	5	9	5
Other	300	104	122	152	159
Total Current Assets	**10 885**	**12 364**	**11 070**	**10 749**	**11 331**
Payables	143	208	333	319	577
Borrowings	1 039	1 543	0	0	0
Provisions	1 248	723	628	736	790
Current tax liability	724	643	127	551	458
Other	218	562	551	857	2 244
Total Current Liabilities	**3 372**	**3 679**	**1 639**	**2 463**	**4 069**
Property, plant and equipment	33 870	32 599	33 556	36 101	43 358
Investments	550	0	0	0	0
Deferred tax assets	226	198	205	237	259
Total Non-Current Assets	**34 646**	**32 797**	**33 761**	**36 338**	**43 617**
Borrowings	6 543	5 975	7 472	7 472	12 032
Provisions	20	36	43	43	63
Deferred tax liabilities	1 486	1 253	1 303	1 275	1 414
Total Non-Current Liabilities	**8 049**	**7 264**	**8 818**	**8 790**	**13 509**
Net Assets	**34 110**	**34 218**	**34 374**	**35 834**	**37 370**
Capital	0	0	0	0	0
Reserves	33 049	32 936	32 936	32 936	32 936
Retained profits	1 061	1 282	1 438	2 898	4 434
Total Equity	**34 110**	**34 218**	**34 374**	**35 834**	**37 370**

Comment

The movement in cash and investment balances from 1999-00 to 2000-01 is 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 Payables balance of $0.577m for 2003-04 is significantly greater than prior periods due to an amount of $0.369m relating to capital works on stage two of the cold store on Saleyard Road.

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 when the Corporation moved to holding interest only loans.

The Provisions balances for 1999-00 and 2000-01 include employee entitlements and dividends payable. In 2001-02, the Corporation adopted AASB 1044 "Provisions, Contingent Liabilities and contingent Assets" and did not record a liability for the proposed annual dividend. Consequently, the proposed dividends for the three periods 2001-02 to 2003-04 have not been recorded as a provision, but brought to account when paid.

The Current tax liability balances reflect tax payable in relation to operating profits. The balances fluctuate as a result of the individual profit figures and estimated tax equivalent payments made during each year.

Other current liabilities reflect accrued expenses. The balance for 2002-03 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. The increase in other current liabilities in 2003-04, totalling $1.387m is primarily the result of $1.500m payable to the TT-Line Company Pty Ltd to refund capital costs incurred in upgrading the terminal car parking area.

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 increase in Property, plant and equipment of $7.257m in 2003-04 is due to capital work on a lay up berth for Spirit III, totalling $5.200m, the completion of the top deck loading ramp, $1.480m and the capitalisation of leasehold improvements on the car park area for the TT-Line Company Pty Ltd, $1.500m.

Retained earnings have increased by $3.373m over the five-year period. The increase represents profits from operations less dividend and tax equivalent payments. The Corporation has adhered to the Shareholders' requirement to pay 70% of pre-tax profits in either tax equivalent payments or dividends.

CASH POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	9 978	10 795	11 049	11 894	12 964
Payments to suppliers and employees	(5 419)	(6 518)	(7 955)	(7 271)	(7 178)
Interest received	550	517	754	442	363
Borrowing costs	(642)	(357)	(516)	(504)	(528)
Taxation expense	(794)	(1 137)	(816)	(453)	(1 092)
Cash from operations	**3 673**	**3 300**	**2 516**	**4 108**	**4 529**
Proceeds from investments	0	1 355	1 058	510	0
Payments for investments	(672)	(1 789)	0	0	(113)
Payments for property, plant and equipment	(1 837)	(2 488)	(3 352)	(4 819)	(8 186)
Proceeds from sale of property, plant and equipment	114	282	114	155	322
Cash used in investing activities	**(2 395)**	**(2 640)**	**(2 180)**	**(4 154)**	**(7 977)**
Proceeds from borrowings	0	26	0	0	4 560
Repayment of borrowings	(1 017)	(55)	0	0	0
Dividends paid	(304)	(621)	(108)	(78)	(902)
Cash from financing activities	**(1 321)**	**(650)**	**(108)**	**(78)**	**3 658**
Net increase in cash	**(43)**	**10**	**228**	**(124)**	**210**
Cash at the beginning of the period	(12)	(55)	(45)	183	59
Cash at end of the period	**(55)**	**(45)**	**183**	**59**	**269**

Comment

Cash at the end of 2003-04 equalled $0.269m, but the Corporation also holds $8.718m in deposits at call and short term investments, which are not defined as cash for the purposes of the cash flow statement.

The Corporation has generated strong cash inflows from operations over the five-year period under review. Receipts from customers have steadily increased since 1999-00, which reflects the increase in operating revenue. Payments to suppliers and employees in 2001-02 include the impact of the maintenance dredging works undertaken in that period. The general increase in receipts from customers and payments to suppliers from 1999-00 to 2000-01 is also 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 Corporation has undertaken significant capital works during the five-year period under review, as reflected by the Payments for property, plant and equipment. Payments for property, plant and equipment in 2002-03 reflect work on the new Saleyard Road cold store building and an upgrade of TT-Line facilities, including a walkway extension, terminal entrance modifications and a top deck-loading ramp.

The significant increase of $3.367m in Payments for property, plant and equipment in 2003-04, which totalled $8.186m is attributable to capital work on a lay up berth for Spirit III, totalling $5.200m, the completion of the first stage of the cold store and the top deck loading ramp, $1.480m.

As a result of the significant capital expenditure incurred by the Corporation and further expenditure committed to the stage two upgrade of the cold store on Saleyard Road, a decision was made to obtain loan funding. Consequently, Proceeds from borrowings of $4.560m were received in 2003-04.

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 the three-year period 2001-02 to 2003-04.

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations ($'000s)		2 200	2 600	679	2 733	3 638
EBIT ($'000s)		2 696	1 590	1 013	3 037	4 141
Operating margin	>1.0	1.27	1.32	1.07	1.31	1.42
Return on assets		5.9%	3.5%	2.3%	6.6%	8.1%
Return on equity		3.6%	0.6%	0.5%	4.7%	6.7%
Financial Management						
Debt to equity		22.2%	22.0%	21.7%	20.9%	32.2%
Debt to total assets		16.7%	16.6%	16.7%	15.9%	21.9%
Interest cover	>3	4.3	3.0	2.0	6.0	7.1
Current ratio	>1	3.23	3.36	6.75	4.36	2.78
Cost of debt	7.5%	7.8%	6.9%	6.9%	6.8%	6.8%
Debt collection	30 days	52	64	58	64	62
Creditor turnover	30 days	16	22	25	30	21
Returns to Government						
Dividends paid or payable ($'000s)		621	108	78	902	1 488
Dividend payout ratio	50%	50.9%	50.0%	50.0%	54.3%	61.0%
Dividend to equity ratio		1.8%	0.3%	0.2%	2.6%	4.1%
Income tax paid or payable ($'000s)		827	1 057	304	876	999
Effective tax rate	30%	40.0%	99.0%	60.9%	34.6%	28.1%
Total return to the State ($'000s)		1 448	1 165	382	1 778	2 487
Total return to equity ratio		4.3%	3.4%	1.1%	5.1%	6.8%
Other information						
Staff numbers FTEs		42	41	41	40	39
Average staff costs ($'000s)		56	56	59	61	62

Comment

Over the past five years, the return from operations (i.e. operating revenue less operating expenses) has totalled $11.850m, representing an annual average return of $2.370m. The result from ordinary activities before income tax and after adjusting for interest expense (EBIT) totalled $11.970m for the five years or an annual average of $2.394m.

Returns on assets and on equity reflect the fluctuation in the Corporation's profits over the five-year period. Return on equity is based on the profit after tax and as a result is lower than the Return on assets, which used the EBIT. The return on equity ratios for 2000-01, 0.6% and 2001-02, 0.5% are lower due to the profits in those years being effected by the loss on disposal of assets of $1.684m (2000-01) and maintenance dredging expenditure of $1.323m (2001-02).

The debt to equity and debt to total assets ratios have been fairly consistent over the first four years under review. The ratios for 2003-04 were affected by the new borrowings of $4.560m.

The Corporation's current ratio is consistently above the benchmark and indicates that it is able to meet all short term liabilities.

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 at the end of each month and therefore outstanding at year-end.

The creditor turnover ratio of 21 days in 2003-04 was calculated after excluding from the Payables balance a material capital creditor of $0.369m.

The Corporation's returns to government have been consistent over the period under review. The dividend payout ratio represents approximately 50% of the Corporation's after tax profit.

With the exception of 2001-02, the total return on equity ratio have been consistent. As noted previously, the 2001-02 profit was affected by maintenance dredging expenditure.

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 costs have increased in line with annual payroll increases.

OVERALL COMMENT

In the five years under review, the Corporation recorded total profits after tax of $5.692m. Returns to the State, from both dividends and income tax paid or payable, over the five-year period, total $7.260m or an average return of $1.452m per annum. The Corporation has a strong working capital and is able to meet future financial obligations. There is sufficient evidence to suggest that the Corporation is in a sound financial position.

The 2003-04 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 (the Company) 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 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 each issued with one ordinary share.

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 2003-04 FINANCIAL STATEMENTS

Signed financial statements were received on 26 August 2004, and an unqualified audit report was issued on 9 September 2004.

FINANCIAL RESULTS

Financial results are based on the consolidated results of the company and Flinders Island Ports Company Pty Ltd.

FINANCIAL PERFORMANCE

	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s	2002-03 $'000s	2003-04 $'000s
Services revenue	9 010	8 318	8 431	9 158	9 224
Rental income	689	667	597	528	497
Interest revenue	152	150	94	115	105
Non-operating revenue	385	326	85	0	108
Total Revenue	**10 236**	**9 461**	**9 207**	**9 801**	**9 934**
Borrowing costs	1 194	1 066	944	867	828
Depreciation	1 376	1 338	1 375	1 372	1 372
Employee benefit expenses	2 732	2 481	2 617	3 221	2 789
Other operating expenses	3 473	4 115	3 328	3 173	3 812
Non-operating expenses	29	0	0	71	0
Total Expenses	**8 804**	**9 000**	**8 264**	**8 704**	**8 801**
Result from ordinary activities	**1 432**	**461**	**943**	**1 097**	**1 133**
Income tax expense	259	180	299	370	330
Result after taxation	**1 173**	**281**	**644**	**727**	**803**

Comment

The Company has traded profitably for the five-year period under review.

Operating revenue in 1999-00 included $2.000m, which related to the settlement of a writ issued by the Company. Had the writ settlement proceeds been excluded from the 1999-00 operating revenue, revenue would have increased by $1.284m during the 2000-01 year. The major reasons for the increased revenue were a combination of the decision by the AAA Consortium to operate exclusively from Bell Bay, increased exports by most of the Company's major customers, and increased revenue from maintenance contracts.

In 2001-02 the Company was able to maintain its operating revenue in line with that recorded in 2000-01. The Company continued to improve operating revenue in 2002-03 with increases of $0.400m in wharfage and $0.200m in woodchip exports. During 2003-04, the Company continued to increase operating revenue.

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

Borrowing costs have decreased by $0.366m over the period and reflect the reduction in the level of debt held.

Employee benefit expenses have been stable over the five-year period under review, although the increase in 2002-03 of $0.604m included $0.435m in redundancy costs, as the Company reduced its workforce by seven people.

Other operating expenses were significantly greater than other periods under review in 2000-01, due to additional maintenance costs in finalising the port access roads upgrade. In 2003-04, Other operating costs were again above prior years primarily due to significant maintenance costs in upgrading the No 7 Berth marshalling area, major maintenance to a 30 tonne crane and long conveyor, and expenditure relating to a safety induction program.

FINANCIAL POSITION

	1999-00 $'000s	2000-01 $'000s	2001-02 $'000s	2002-03 $'000s	2003-04 $'000s
Cash	50	1 745	3 538	2 779	2 848
Receivables	1 187	1 693	1 607	1 628	1 761
Investments	3 259	0	0	0	0
Inventories	555	530	557	465	466
Other	79	460	45	199	107
Total Current Assets	**5 130**	**4 428**	**5 747**	**5 071**	**5 182**
Payables	62	469	767	523	352
Borrowings	1 729	809	907	1 012	1 391
Provisions	440	780	498	473	586
Other	534	677	1 195	1 428	1 124
Total Current Liabilities	**2 765**	**2 735**	**3 367**	**3 436**	**3 453**
Working Capital	**2 365**	**1 693**	**2 380**	**1 635**	**1 729**
Property, plant and equipment	36 205	35 609	34 995	35 113	35 221
Deferred tax assets	3 226	3 358	3 386	3 357	3 070
Total Non-Current Assets	**39 431**	**38 967**	**38 381**	**38 470**	**38 291**
Payables	0	0	0	0	35
Borrowings	12 193	11 382	10 494	9 483	9 007
Provisions	82	102	121	125	110
Deferred tax liabilities	3 196	3 509	3 835	4 160	4 202
Total Non-Current Liabilities	**15 471**	**14 993**	**14 450**	**13 768**	**13 354**
Net Assets	**26 325**	**25 667**	**26 311**	**26 337**	**26 666**
Reserves	24 454	24 454	24 454	24 451	24 451
Retained profits	1 871	1 213	1 857	1 886	2 215
Total Equity	**26 325**	**25 667**	**26 311**	**26 337**	**26 666**

Comment

The movement in cash and investment balances from 1999-00 to 2000-01 is 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, totalling $3.259m were reclassified as cash assets in accordance with the definitions contained in AASB 1040. Total cash holdings at 30 June 2000 were high due to the receipt of $2.174m from the disposal of non-current assets in that year. 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.

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.

Other current liabilities represent accrued expenses. The increase in the balance for 2002-03 is attributable to a one-off transaction, resulting in the balance reverting back to a normal level in 2003-04.

The Company has had a positive working capital for each of the five years under review. At 30 June 2004 the working capital was $1.729m, giving a current ratio of 1.50, which represents a solid financial position.

Property, plant and equipment has decreased by $0.984m over the period of review representing $4.782m in general asset acquisitions over the period since 30 June 2000 offset by the continuing depreciation of assets ($5.457m) and asset disposals.

Deferred tax assets represent future income tax benefits available to the Company in future periods and include carried forward tax losses of $9.433m. Deferred tax liabilities represent taxes deferred for payment in the future and arises primarily from timing differences associated with depreciation of non-current assets.

The amount of borrowings outstanding has decreased from $13.922m at 30 June 2000 to $10.398m at 30 June 2004 due to regular loan repayments. The Company borrowed $1.000m in 2003-04 to fund capital works.

CASH POSITION

	1999-00	2000-01	2001-02	2002-03	2003-04
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	9 724	9 434	10 213	11 218	10 752
Payments to suppliers and employees	(6 222)	(6 946)	(6 473)	(8 179)	(7 999)
Interest received	137	161	98	118	104
Borrowing costs	(1 322)	(1 143)	(954)	(878)	(832)
Cash from operations	**2 317**	**1 506**	**2 884**	**2 279**	**2 025**
Proceeds from investments	0	17	0	0	0
Payments for investments	(2 739)	0	0	0	0
Payments for property, plant and equipment	(879)	(841)	(739)	(1 602)	(1 600)
Proceeds from sale of property, plant and equipment	2 174	117	774	133	216
Cash used in investing activities	**(1 444)**	**(707)**	**35**	**(1 469)**	**(1 384)**
Proceeds from borrowings	0	0	0	0	1 000
Repayment of borrowings	(1 386)	(1 730)	(791)	(907)	(1 097)
Dividends paid	(150)	(604)	(335)	(662)	(475)
Cash from financing activities	**(1 536)**	**(2 334)**	**(1 126)**	**(1 569)**	**(572)**
Net increase in cash	**(663)**	**(1 535)**	**1 793**	**(759)**	**69**
Cash at the beginning of the period	713	3 280	1 745	3 538	2 779
Cash at end of the period	**50**	**1 745**	**3 538**	**2 779**	**2 848**

Comment

The balance of cash held by the Company decreased by $1.535m during 2000-01 that was 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 Company completed the construction of a woodchip conveyor system for $1.001m.

During 2003-04, the Company’s cash position remained static. However, it borrowed $1.000m during this period, which was used primarily to fund capital works totalling $1.600m. Major capital works included No 7 Berth marshalling area asphalting $0.496m, No 6 Berth area asphalting and lighting $0.386m and No 4 Berth fire fighting tower $0.211m.

FINANCIAL ANALYSIS

	Bench Mark	1999-00	2000-01	2001-02	2002-03	2003-04
Financial Performance						
Result from operations ($'000s)		1 076	135	858	1 168	1 025
EBIT ($'000s)		2 626	1 527	1 887	1 097	1 133
Operating margin	>1.0	1.12	1.02	1.10	1.14	1.12
Return on assets		5.8%	3.5%	4.3%	2.5%	2.6%
Return on equity		4.6%	1.1%	2.5%	2.8%	3.0%
Financial Management						
Debt to equity		52.9%	47.5%	43.3%	39.8%	39.0%
Debt to total assets		31.2%	28.1%	25.8%	24.1%	23.9%
Interest cover	>3	2.2	1.4	2.0	1.3	1.4
Current ratio	>1	1.86	1.62	1.71	1.48	1.50
Cost of debt	7.5%	8.2%	7.8%	7.5%	7.5%	7.3%
Debt collection	30 days	56	69	65	61	66
Creditor turnover	30 days	7	42	43	60	34
Returns to Government						
Dividends paid or payable ($'000s)		604	335	0	662	475
Dividend payout ratio	50%	51.5%	119.2%	-	91.1%	59.2%
Dividend to equity ratio	6%	2.3%	1.3%	-	2.5%	1.8%
Income tax paid or payable ($'000s)		0	0	0	0	0
Effective tax rate	30%	-	-	-	-	-
Total return to the State ($'000s)		604	335	0	662	475
Total return to equity ratio		2.3%	1.3%	-	2.5%	1.8%
Other information						
Staff numbers FTEs		39	38	38	33	35
Average staff costs ($'000s)		62	62	65	69	67

Comment

The financial performance ratios show the Company has recorded an operating surplus in each of the five years under review. In addition, the Company has recorded strong results from ordinary activities before income tax and after adjusting for interest expense.

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 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.

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 1999-00, the Company has paid dividends to the State Government totalling $2.076m. 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 and 2002-03 financial years, dividends of $0.662m and $0.475m were recommended. A dividend in respect to the 2003-04 period has not yet been determined.

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

OVERALL COMMENT

In the five years under review, the Company recorded total profits after taxation of $3.628m. Returns to the State from dividends over the five-year period totalled $2.076m, an average return of $0.415m per annum. The Company has strong working capital and is able to meet future financial obligations. There is sufficient evidence to suggest that the Company is in a sound financial position.

The audit of the financial statements for the 2003-04 financial year was completed satisfactorily with no major issues noted.