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PARLIAMENT OF TASMANIA

REPORT OF THE AUDITOR-GENERAL

GOVERNMENT DEPARTMENTS AND PUBLIC BODIES 2004-2005

PART B - VOLUME TWO
Government Businesses

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GOVERNMENT BUSINESSES

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

The State Government owns a diverse portfolio of businesses, which at 1 July 2004 comprised 10 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.

Government businesses have $3.896b in net assets, generate $127.500m in after tax profits, employ about 3 900 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 the Energy Businesses and the Port Corporations separate sections are included comparing performance between the four ports in 2004-05.

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. The Dividend Policy Guidelines for Government Businesses Enterprises imposes a distribution target of at least 50% of after-tax profits.

Dividend policy guidelines were reviewed in 2003 and revised guidelines applied 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 (5.11% at 30 June 2005) 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 ENERGY BUSINESSES

Tasmania's three government owned energy businesses were established in their current form in 1998. Details of the legislation under which each operates are documented in each entity's section of this Report. This Chapter summarises their performance on a comparative basis. Readers should take care in drawing conclusions from comparisons such as this due to the differing nature of each entity's business and their differing corporate structures.

At the same time, however, there are many similarities and comparative assessment is provided for the first time to assist in assessing relative performance.

The three entities are Hydro-Electric Corporation (Hydro Tasmania or Hydro), Aurora Energy Pty Ltd (Aurora) and Transend Networks Pty Ltd (Transend).

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	Hydro	**Aurora**	**Transend**
	$'000s	$'000s	$'000s
Electricity sales/transmission/distribution	399 177	687 341	108 029
Other operating revenue	62 588	27 651	11 466
Non-operating revenue	0	19	0
Total Revenue	**461 765**	**715 011**	**119 495**
Borrowing costs	71 526	27 110	2 449
Depreciation	77 835	52 871	32 955
Labour	83 642	57 565	17 751
Energy and Other operating expenses	143 201	527 653	22 276
Non-operating expenses	5 165	406	698
Total Expenses	**381 369**	**665 605**	**76 129**
Result from Ordinary Activities	**80 396**	**49 406**	**43 366**
Income tax expense	35 986	19 225	15 833
Result after taxation	**44 410**	**30 181**	**27 533**

Comment

Each entity operated at a profit for the year with Hydro contributing 46% of the total before tax results. Currently power generated by Hydro is sold to Aurora although this changed in late May 2005 when both Hydro and Aurora entered the National Energy Market. Aurora's Energy and other operating costs includes $477.422m for purchase of energy and transmission costs resulting in its electricity sales to retail and business customers.

Hydro's Other operating revenues represents a greater share of total revenues compared to Aurora and Transend primarily due to the diversified activities of its Consulting Division.

Borrowing costs represent differing percentages of total costs as noted below:

Hydro	18.76%
Aurora	4.07%
Transend	3.22%

which is due to their operating structures, the nature of costs incurred by each and their respective capital structures. This matter is commented upon further in the financial analysis section of this chapter.

FINANCIAL POSITION

	Hydro $'000s	Aurora $'000s	Transend $'000s
Cash	10 221	2 437	23
Receivables	35 192	59 143	12 659
Unbilled energy	0	37 882	0
Investments	130 277	54 197	0
Inventories	549	6 579	153
Future income tax benefit	9 188	0	0
Energy contracts accrued	68 200	43 994	0
Other	5 105	1 594	365
Total Current Assets	**258 732**	**205 826**	**13 200**
Payables	61 310	86 015	18 253
Borrowings	32 912	19	17 806
Energy contracts accrued	43 800	43 994	0
Provisions	54 522	19 069	12 388
Other	1 051	10 601	1 270
Total Current Liabilities	**193 595**	**159 698**	**49 717**
Working Capital	**65 137**	**46 128**	**(36 517)**
Property, plant and equipment	2 900 667	849 133	679 152
Investments	9 767	318	0
Future income tax benefit	58 145	16 913	5 378
Unamortised hedging costs	19 028	0	0
Other	2 061	55	0
Total Non-Current Assets	**2 989 668**	**866 419**	**684 530**
Borrowings	1 178 606	436 856	35 095
Provisions	182 567	39 759	12 059
Deferred hedging costs	19 028	0	0
Deferred income tax	136 996	31 646	28 862
Total Non-Current Liabilities	**1 517 197**	**508 261**	**76 016**
Net Assets	**1 537 608**	**404 286**	**571 997**
Capital	0	201 555	336 549
Reserves	1 348 133	99 858	158 804
Share of joint venture equity	1 000	0	0
Retained profits	188 475	102 873	76 644
Total Equity	**1 537 608**	**404 286**	**571 997**

Comment

The positive net working capital position at Hydro and Aurora is primarily due to the high investment balances arising from short-term investment of long term funds borrowed to satisfy the financial conditions of their financial services licences. Without these investments their working capital positions would have been:

Hydro	$(34.863)m
Aurora	$(3.872)m

suggesting that liquidity is relatively tight for all the entities although, after eliminating provisions, which have little cash flow impact, the working capital positions of both Hydro and Aurora are positive.

The amounts due in relation to Energy contracts accrued are highlighted separately because they represent significant amounts resulting from these entities now operating under the National Energy Market. The impact on Transend was minimal at 30 June 2005. Detailed commentary on these balances is provided in the chapters reporting separately on Hydro and Aurora.

As expected, infrastructure assets, resulting in high depreciation charges, dominate each entity's balance sheet. Revaluation reserves are also high resulting from the application by each of accounting policies requiring that these assets be regularly revalued.

A significant difference between these three entities is the manner in which their capital structures have been established with Hydro having no capital. This relates partly to the establishment of Aurora and Transend as separate entities established under the *Corporations Act 2001* in 1998.

CASH POSITION

	Hydro	**Aurora**	**Transend**
	$'000s	$'000s	$'000s
Receipts from customers	455 731	780 042	134 986
Payments to suppliers and employees	(232 891)	(653 827)	(51 120)
Interest received	2 654	3 107	48
Borrowing costs	(71 284)	(24 824)	(2 464)
Income tax equivalents paid	(29 955)	(23 850)	(14 744)
Cash from operations	**124 255**	**80 648**	**66 706**
Payments for investments	(9 000)	0	0
Payments for property, plant and equipment	(79 759)	(101 953)	(74 946)
Proceeds from sale of property, plant and equipment	1 096	1 038	213
Cash used in investing activities	**(87 663)**	**(100 915)**	**(74 733)**
Proceeds from borrowings	1 382 605	161 910	17 970
Repayment of borrowings	(1 247 645)	(90 409)	0
Repayment of Treasury loans	(3 991)	0	0
Dividend paid	(40 000)	(13 942)	(9 924)
Cash from financing activities	**90 969**	**57 559**	**8 046**
Net increase/(decrease) in cash	**127 561**	**37 292**	**19**
Cash at the beginning of the period	12 937	19 342	4
Cash at end of the period	**140 498**	**56 634**	**23**

Comment

These entities generated significant cash from operations and from borrowings in 2004-05. In the cases of Hydro and Aurora, proceeds from borrowings included funds borrowed to satisfy the financial conditions of their financial services licences which is reflected in the high net increases in cash at year end for each of them.

To a significant extent each entity has invested cash generated in property, plant and equipment and in paying dividends.

FINANCIAL ANALYSIS

	Bench Mark	Hydro	Aurora	Transend
Financial Performance				
Result from operations ($'000s)		85 561	49 793	42 134
EBIT ($'000s)		151 922	76 516	46 599
EBITDA ($'000s)		229 757	129 387	79 554
Operating margin	>1.0	1.23	1.07	1.56
Return on assets		4.4%	7.7%	6.9%
Return on equity		2.5%	7.7%	4.9%
Financial Management				
Debt to equity		78.8%	108.1%	9.2%
Debt to total assets		37.3%	40.7%	7.6%
Interest cover - EBIT	>3	2.12	2.8	14.4
Interest cover - funds from operations	>3	2.91	3.9	28.0
Current ratio	>1	1.34	1.29	0.27
Leverage ratio		211.3%	90.0%	n/a
Cost of debt	7.50%	6.2%	6.8%	7.3%
Debt collection	30 days	51 days	33 days	7 days
Creditor turnover	30 days	70 days	16 days	17 days
Capital Exp/Depreciation	1	1.02	1.89	2.3
Returns to Government				
Dividends paid or payable ($'000s)		40 000	11 977	13 767
Dividend payout ratio	50%	90.1%	39.7%	50.0%
Dividend to equity ratio	6%	2.2%	3.1%	2.5%
Income tax paid or payable ($'000s)		25 959	19 225	13 587
Effective tax rate	30%	32.3%	38.9%	31.3%
Government guarantee fees		4 020	1 393	0
Total return to the State ($'000s)		69 979	32 595	27 354
Total return to equity ratio		3.9%	8.4%	4.9%
CSO funding		6 030	11 513	0
Other information				
Staff numbers - FTEs		829	981	183
Average staff costs ($'000s)		101	59	97

Comment

Applying conventional profitability ratios indicate that all three entities achieve operating margins above the benchmark with positive returns on assets and equity. Their debt to equity ratios vary, with Hydro and Aurora relying to a greater extent on debt funding than does Transend, resulting in their much lower interest cover ratios, indicating that higher levels of profit are needed by them to cover interest costs. This situation is confirmed by the high leverage ratios in Hydro and Aurora.

All three entities continue to invest strongly in capital expenditure as indicated by their capital expenditure to depreciation ratios.

In total these three entities returned $129.900m to the State in 2004-05.

2 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 $2.496b, employ over 1 660 people, and generate $120.960m 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 97% of the net assets controlled by all GBEs, earn 99% of total net profit after tax earned by GBEs and employ 87% of all staff employed in GBEs:

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

2.1 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 2004-05 FINANCIAL STATEMENTS

Financial statements, signed by the Board on 29 August 2005, which were incomplete, were received on 31 August 2005. The financial statements were completed on 29 September 2005 and an unqualified audit report was issued on 30 September 2005.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Forest sales revenue	137 589	137 139	119 880	95 879	100 268
Share of GMO JV revenues	22 350	24 588	24 783	28 987	22 010
Forest management services revenue	14 251	13 508	12 514	0	0
Other operating revenue	9 876	13 796	9 141	13 994	15 474
Non-operating revenue	1 646	2 369	1 548	5 379	2 018
Total Revenue	**185 712**	**191 400**	**167 866**	**144 239**	**139 770**
Employee benefits and expenses	31 874	30 612	28 391	26 985	30 317
Contractors expenses	73 438	74 851	56 614	41 070	43 225
Share of GMO JV expenses	20 705	21 495	21 665	23 805	18 643
Borrowing costs	1 594	1 180	829	757	48
Depreciation	9 065	8 092	6 725	8 556	8 564
Other operating expenses	33 781	36 540	31 772	26 374	28 605
Non-operating expenses	1 749	2 130	1 961	6 074	2 289
Total Expenses	**172 206**	**174 900**	**147 957**	**133 621**	**131 691**
Result from ordinary activities before net market value adjustment	**13 506**	**16 500**	**19 909**	**10 618**	**8 079**
Forest net market value adjustment	(12 645)	9 303	(25 377)	(2 676)	16 682
Result from ordinary activities after market value adjustment	**861**	**25 803**	**(5 468)**	**7 942**	**24 761**
Income tax expense	(695)	6 913	5 765	1 240	5 665
Result after taxation	**1 556**	**18 890**	**(11 233)**	**6 702**	**19 096**

Comment

Forest sales revenue increased considerably over the past three years, rising from $95.879m to $137.589m. 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 compared to sales made at stump. Increased contractor expenses offset the increased mill door sales.

The share of GMO (Grantham, Mayo and Otterloo) Renewable Resources Joint Venture revenues decreased by $2.238m in 2004-05 due to a fall in the volume of softwood sold. This industry wide aspect was also felt by Forestry Tasmania itself, which explains the minimal growth in Forest Sales revenue for the 2004-05 year.

Income from forest management services has been itemised separately for 2002-03 onwards. This revenue represents services provided by Forestry within other joint venture partners and private enterprise arrangements. These revenues were previously included within other revenues, until they became an expanding part of Forestry’s business.

Other operating revenue decreased to $9.876m in 2004-05 primarily due to a decrease in the fire-fighting reimbursement from Treasury of $3.330m and a decrease in grants received of $1.445m. Grants in the previous financial year included a major capital grant of $1.600m for the Dismal Swamp project.

Employee benefits and expenses decreased by $3.332m in the 2001-02 year due to a greater number of employees engaged in capital works programs and a reduction in employee numbers. Since that time, employee expenditure has increased in line with wage increases of approximately 3.5% per annum.

The depreciation expense has increased steadily over the past two financial years due to the increased capitalised expenditure on Forestry's road network.

The high borrowing costs in 2001-02 were due to a bank overdraft being maintained through the majority of that 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. Increased borrowings in 2004-05 led to the higher borrowing cost of $1.594m recorded in 2004-05.

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

The current year's decrease in other operating expenses of $2.759m was primarily due to:

- A decrease in the interest expense relating to the unfunded superannuation liability of $3.300m;
- A decrease in contractor expenses of $0.944m resulting from less external plant hire from decreased activity relating to fire fighting activity and lease plan operations; and
- A reduction in freight charges of $0.561m.

This was offset by an increase in council rates of $1.537m due to councils being able to rate for Forestry land for the first time in 2004-05.

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 2000-01 year saw the introduction of Australian Accounting Standard AAS 35 "Self Generating and Regenerating Assets", which required that movements in the Forest asset be 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.

In the 2004-05 financial year, Forestry changed its accounting policy with respect to the application of AASB 1037 "Self Generating and Regenerating Assets". The Board determined that the native forest asset was more in the nature of Property, Plant and Equipment. This was determined due to:

- The biological growth of native forests occurs up to and sometimes greater than an 80 year rotation and therefore the biological growth measurement as required by AASB 1037 is difficult to measure; and
- The main drivers of the change in value are related to changes in the discount rate, changes in stumpage prices and costs associated with forest management, not from biological growth.

As a result, a valuation decrement relating to native forests totalling $74.527m was recorded against the Forest Estate Valuation Reserve. Hence, it is considered as a revaluation of a class of Property, Plant and Equipment and the native forests will continue to be revalued on an annual basis.

The decrease in the Forest Net Market Value adjustment in 2004-05 of $12.645m relates solely to hardwood and softwood plantation standing timber. This decrease in the net market value was principally due to increased costs included within the model, such as the increase in council rates, and increased land rental charges caused by the land revaluation increment of $42.603m. There was also an increase in plantation establishment costs incurred during the year of $2.700m, resulting in total expenditure of $11.292m.

The negative income tax expense for 2004-05 is due to the over provision of tax from the prior year.

FINANCIAL POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	18 691	10 520	11 393	11 126	3 229
Receivables	28 866	28 625	23 566	16 488	12 569
Forest Estate	26 336	22 949	19 696	25 066	19 168
Inventories	6 997	6 281	6 302	5 827	5 918
Other	560	574	2 651	2 535	7 428
Total Current Assets	**81 450**	**68 949**	**63 608**	**61 042**	**48 312**
Payables	11 456	10 543	9 635	5 708	8 407
Borrowings	0	0	30	4 085	6 457
Provisions	16 585	15 582	16 199	19 655	20 093
Tax Liabilities	0	2 024	3 409	0	0
Other	22 594	16 766	11 634	14 492	12 417
Total Current Liabilities	**50 635**	**44 915**	**40 907**	**43 940**	**47 374**
Working Capital	**30 815**	**24 034**	**22 701**	**17 102**	**938**
Forest Estate	710 173	737 763	714 028	717 973	779 442
Property, plant and equipment	30 754	27 568	24 774	22 211	31 616
Investments	16 523	16 840	14 024	13 759	14 560
Deferred Tax Assets	24 229	22 269	21 528	21 432	5 182
Other	255	916	127	137	288
Total Non-Current Assets	**781 934**	**805 356**	**774 481**	**775 512**	**831 088**
Borrowings	32 000	25 000	21 000	10 030	3
Deferred Tax Liabilities	25 484	22 452	18 363	15 911	13 433
Provisions	58 450	55 301	48 661	46 453	45 628
Total Non-Current Liabilities	**115 934**	**102 753**	**88 024**	**72 394**	**59 064**
Net Assets	**696 815**	**726 637**	**709 158**	**720 220**	**772 962**
Capital	233 057	232 057	232 057	232 057	232 057
Reserves	419 440	446 586	444 153	443 829	519 405
Retained profits	44 318	47 994	32 948	44 334	21 500
Total Equity	**696 815**	**726 637**	**709 158**	**720 220**	**772 962**

Comment

The rise in the cash balance at the end of the 2001-02 year was due to the proceeds of the new borrowings not being fully utilised, and a decrease in capital expenditure to $12.359m. The increase in cash for 2004-05 was due to the advance receipt of $12.500m in relation to the Tasmanian Community Forest Agreement.

It is anticipated that the full impact of this agreement on Forestry's financial statements will be recognised in 2005-06.

The increase in Receivables 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 in 2003-04 was 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 Forest Estate by approximately $11.000m).

The decrease of $24.203m recorded in the Forest Estate in 2004-05 relates to a number of factors. They include:

- Decrease in the net market value of the native forest of $74.527m;
- Decrease in the net market value of GMO JV plantation forests of $5.250m;
- An increase in the valuation of forest land of $42.603m;
- Increase in the net market value of plantation forests of $3.897m; and
- A net increase in the road network and other capital additions of $9.074m.

The major influence on the write-down of the net market value of native forest at 30 June 2005 was due to a change in the discount rate used, moving from 6.64% to 8.94%. This was altered due to an increase in the weighted average cost of capital due to greater risk associated with native forest and old growth forest movements. It is estimated that the financial impact of the movement in the discount rate alone is approximately $52.700m. Other influences on the decrement include the impact of increased costs within the model due to the payment of local government rates on State forest land and a reduction in woodflows due to additional forest being taken to conservation reserves.

The decrease in the Forest Estate asset during 2001-02, $55.571m, was 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.

There is no current tax liability at the end of 2004-05, due to the over provision of tax from the prior year. This resulted in a current tax asset of $3.522m included within receivables.

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 $7.000m being borrowed in 2002-03, $4.000m in 2003-04 and a further $7.000m in 2004-05. The borrowings have been principally utilised for investment in road construction and plantation establishment programs.

During 2003-04, 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 included 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.

For 2004-05, Other current liabilities increased to $22.594m due principally to the revenue received in advance of $12.500m relating to the proceeds from the Tasmanian Community Forest Agreement.

CASH POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	192 338	175 693	149 019	126 184	126 829
Payments to suppliers and employees	(166 186)	(153 779)	(133 540)	(114 278)	(121 199)
Interest received	485	449	299	341	821
Borrowing costs	(1 594)	(1 180)	(829)	(757)	(73)
Taxation equivalents paid	(3 778)	(2 942)	0	0	0
Cash from operations	**21 265**	**18 241**	**14 949**	**11 490**	**6 378**
Proceeds from investments	3 000	0	0	1 600	0
Payments for property, plant and equipment	(20 508)	(21 640)	(18 269)	(12 359)	(24 617)
Proceeds from sale of property, plant and equipment	1 646	2 370	1 548	5 379	2 018
Cash used in investing activities	**(15 862)**	**(19 270)**	**(16 721)**	**(5 380)**	**(22 599)**
Proceeds from borrowings	7 000	4 000	7 000	14 000	0
Repayment of borrowings	0	0	0	(42)	(157)
Equity Contribution	1 000	0	0	0	0
Dividends paid	(5 232)	(3 844)	(4 961)	(5 759)	(8 687)
Cash from financing activities	**2 768**	**156**	**2 039**	**8 199**	**(8 844)**
Net increase in cash	**8 171**	**(873)**	**267**	**14 309**	**(25 065)**
Cash at the beginning of the period	10 520	11 393	11 126	(3 183)	21 882
Cash at end of the period	**18 691**	**10 520**	**11 393**	**11 126**	**(3 183)**

Comment

The decrease in Payments to suppliers and employees to $114.278m in 2001-02 was 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 increase in Receipts from customers in 2004-05 is due to the proceeds from the Tasmanian Community Forest Agreement of $12.500m.

The decrease in Payments for property, plant and equipment for 2001-02 reflects reduced expenditure in that year, particularly for roads and forest establishment. Expenditure since that time has increased, with an average expenditure of $20.139m per annum over the most recent three years.

The equity contribution of $1.000m relates to a contribution from the State Government towards the cost of the Maydena Hauler project.

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations ($'000s)		13 609	16 261	20 322	11 313	8 350
EBIT ($'000s)		18 577	24 668	24 057	14 139	9 671
Operating margin	>1.0	1.08	1.09	1.14	1.09	1.06
Return on assets		0.7%	4.0%	-0.2%	1.3%	3.1%
Return on equity		0.2%	2.6%	-1.6%	0.9%	2.5%
Financial Management						
Debt to equity		4.6%	3.4%	3.0%	2.0%	0.8%
Debt to total assets		3.7%	2.9%	2.5%	1.7%	0.7%
Interest cover	>3	3	3	5	3	4
Current ratio	>1	1.61	1.54	1.55	1.39	1.02
Cost of debt	7.5%	5.7%	5.6%	5.5%	8.4%	8.4%
Debt collection	30 days	48	44	46	38	43
Creditor turnover	30 days	39	37	42	32	45
Returns to Government						
Dividends paid or payable ($'000s)		4 847	4 359	3 844	4 961	5 759
Dividend payout ratio	50%	311.5%	23.1%	-34.2%	74.0%	30.2%
Dividend to equity ratio		0.6%	0.5%	0.5%	0.6%	0.7%
Income tax paid or payable ($'000s)		(1 767)	3 565	3 409	0	0
Effective tax rate	30%	-205.2%	13.8%	-62.3%	0.0%	0.0%
Total return to the State ($'000s)		3 080	7 924	7 253	4 961	5 759
Total return to equity ratio		0.4%	1.0%	0.9%	0.6%	0.7%
Other information						
Staff numbers FTEs		560	570	542	532	564
Average staff costs ($'000s)		57	54	52	51	61

Comment

In the five financial years of analysis, Forestry has generated average operating results of $13.971m per annum, with return on equity peaking at 2.6% in 2003-04. It should be noted that the first three sets of figures noted in the table above do not take into account the net market movement in the forest asset. This key item is excluded because it is operating results before the market value adjustment that Forestry uses to calculate its dividend and taxation expenses. Total returns to the State in 2004-05 of $3.080m were significantly impacted by the negative income tax payable of $1.767m. This arose due to the over provision for tax in the prior year, combined with the low profit from ordinary activities of $0.861m in the current year.

The Return on assets and Return on equity percentages 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. This is further evident in the 2004-05 year, where the significant write-down of the forest asset, in conjunction with the small operating result after the net market value adjustment, has lead to low returns on assets and equity. If the net market movement was excluded from the calculation, the return on assets would increase from 0.7% to 2.2%, while the return on equity would increase from 0.2% to 1.5%.

Total returns to the State amount to $28.977m over the five years, at an average of $5.795m per annum.

OVERALL COMMENT

There has been much media discussion about revenue decreases and job losses in the forestry sector due to the possible loss of major pulpwood contracts. This was acknowledged in Forestry's annual financial statements, but it was not possible to quantify any effect at the time of finalising our audit.

A significant event for Forestry Tasmania in 2004-05 was the signing of the Tasmanian Community Forestry Agreement immediately prior to 30 June 2005. The only recorded impact on its financial statements was the advance receipt of $12.500m referred to previously. The carrying amount of the native forest asset as at 30 June 2005 was not affected, although Note 11 to the Financial Statements disclosed that Forestry Tasmania's native forest asset was reduced by 49 hectares due principally to the transfer of forest into conservation reserves.

The audit of the financial statements for the 2004-05 year was completed with satisfactory results.

2.2 HYDRO-ELECTRIC CORPORATION

INTRODUCTION

The Hydro-Electric Corporation (Hydro or HEC or the Corporation) 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*.

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

Hydro 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.

Other subsidiary companies, 100% owned by Hydro, include:

- Lofty Ranges Power Pty Ltd - operates joint venture activity in South Australia; and
- Roaring 40s Renewable Energy Pty Ltd – established in 2004 for the purpose of investing in, developing and operating wind farms or wind farm projects. This company owns 100% of Woolnorth Bluff Point Holdings Pty Ltd, Woolnorth Studland Bay Holdings Pty Ltd, Heemskirk Holdings Pty Ltd, Musselroe Holdings Pty Ltd and Waterloo Investment Holdings Pty Ltd. Each of these holding companies own 100% of a subsidiary established to own and operate a wind farm. In addition, the group includes Cathedral Rocks Investments Pty Ltd, which owns a 50% interest in a wind farm. The Overall Comment section of this summary details the introduction of a 50% co-investor to this group in October 2005.

The Auditor-General is the auditor of all wholly-owned subsidiary companies.

A significant change in Hydro's activities in 2004-05 resulted from joining the National Electricity Market (NEM) in late May 2005. Although Hydro is not yet connected to the national electricity grid through Basslink, all generation is sold on the NEM and settled with the National Electricity Market Management Company (NEMMCO).

As at 30 June 2005 the Responsible Minister was the Minister for Infrastructure, Energy and Resources.

AUDIT OF THE 2004-05 FINANCIAL STATEMENTS

Hydro's financial statements were signed by the directors on 15 August 2005 and an unqualified audit report was issued on 30 August 2005.

The audits of the 100% owned subsidiaries were completed at the same time, with the various subsidiary audit opinions all issued by 12 September 2005.

FINANCIAL RESULTS

Hydro 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 Hydro 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, Hydro has a high level of borrowings, which increased in 2004-05 by a further \$131.000m to \$1.212bn. Of this growth, \$100.000m is the result of financial compliance conditions of the Corporation's financial services licence and is matched by a corresponding increase in money market investments.

The capital investment program was continued in 2004-05 to enable Hydro to meet NEM industry standards for generating capacity. The program will improve the reliability and efficiency of generation assets and lead to some increase in generation capacity. While this in turn has impacted on its leverage, Hydro has an acceptable level of liquidity and creditor turnover ratio.

Hydro regularly restructures its debt portfolio to take advantage of lower interest rates.

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

There was a material revaluation decrement of \$523.033m in the fair value of Hydro's generating assets during 2004-05. This adjustment took effect in 2004-05 resulting in a reduced annual depreciation charge and reduced asset revaluation reserve. Further details of the write-down are provided within the commentary below.

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

FINANCIAL PERFORMANCE

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Electricity sales revenue	399 177	378 269	354 091	317 114	298 263
Other operating revenue	62 588	61 548	43 364	53 413	33 483
Total Revenue	**461 765**	**439 817**	**397 455**	**370 527**	**331 746**
Borrowing costs	71 526	72 358	83 587	73 869	87 637
Depreciation	77 835	79 274	80 389	79 495	76 848
Labour	83 642	74 683	63 351	57 972	47 990
Other operating expenses	143 201	140 328	97 264	99 229	72 735
Non-operating expenses	5 165	1 033	4 764	(94)	252
Total Expenses	**381 369**	**367 676**	**329 355**	**310 471**	**285 462**
Result from ordinary activities	**80 396**	**72 141**	**68 100**	**60 056**	**46 284**
Income tax expense	35 986	36 661	34 453	(25 453)	31 060
Result after taxation	**44 410**	**35 480**	**33 647**	**85 509**	**15 224**

Comment

Electricity sales revenue has risen progressively over the period, at an average increase of $25.229m per annum. These revenue increases reflect 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 and 2004-05 were attributable to increased activity by Hydro's consulting division and increased revenues from subsidiaries.

The reduction in borrowing costs in 2001-02 was as a result of lower interest rates and further loan restructures carried out during the previous financial year. The increased borrowing costs in 2002-03 were due to a further debt-restructuring program, and since that time Hydro continued to actively manage its debt portfolio to minimise borrowing costs. This is evident by the fact that total borrowings increased by $44.000m in 2003-04, but borrowing costs decreased by $11.229m to $72.358m.

Depreciation costs reduced to $77.835m in 2004-05, due principally to the revaluation decrement in Hydro's generation assets in 2004-05.

Labour costs increased significantly over the period of analysis, from $47.990m in 2000-01 to $83.642m in 2004-05. This amounts to an average increase of $8.913m per annum and can be attributed to increases in employee numbers across the group from 639 at 30 June 2001 to 829 at 30 June 2005, pay rises averaging 4% per annum in accordance with various wage agreements 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 the cost of increased reliance on gas powered generation from Bell Bay, additional costs of preparation for entry to the NEM and expansion of the consulting division's activities. Operating costs remained at this high level in 2004-05 due to the continuation of each of these activities.

Non-operating expenses increased in 2002-03 due to losses from the sale of non-current assets. This was repeated in 2004-05 with the majority of the loss on sale arising from asset write-offs following an asset stock-take carried out during the year. The loss represented assets that were identified as being obsolete or scrapped following recent major capital works.

In 2001-02 income tax expense was a negative $25.453m comprising $32.247m attributable to operating result offset by $57.700m in future income tax benefits (FITB), resulting from Hydro's entry into the National Taxation Equivalent Regime (NTER). Movements in tax expense since that time reflect the steady improvement in profits.

Over the five years under review, Hydro's profit before tax has almost doubled, increasing by $34.112m to $80.396m.

FINANCIAL POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	10 221	2 120	1 840	1 617	2 035
Receivables	103 392	50 780	50 304	54 700	37 971
Investments	130 277	10 817	37 440	50 357	30 200
Inventories	549	610	547	647	3 323
Prepayments	3 695	2 020	2 055	832	11 928
Future Income Tax Benefit	9 188	8 952	7 583	9 205	0
Other	1 410	1 124	5 111	3 918	5 307
Total Current Assets	**258 732**	**76 423**	**104 880**	**121 276**	**90 764**
Payables	105 110	55 421	73 602	72 926	35 924
Borrowings	32 912	201 038	219 594	189 641	209 763
Provisions	54 522	61 468	49 475	109 949	83 330
Other	1 051	1 740	4 243	841	334
Total Current Liabilities	**193 595**	**319 667**	**346 914**	**373 357**	**329 351**
Working Capital	**65 137**	**(243 244)**	**(242 034)**	**(252 081)**	**(238 587)**
Receivables	2 061	8 161	0	0	0
Property, plant and equipment	2 900 667	3 431 346	3 383 607	3 335 057	3 245 157
Investments	9 767	1 083	19	16	816
Future Income Tax Benefit	58 145	62 102	59 287	57 164	5 220
Unamortised hedging costs	19 028	19 028	19 028	0	0
Other	0	0	1 409	1 505	0
Total Non-Current Assets	**2 989 668**	**3 521 720**	**3 463 350**	**3 393 742**	**3 251 193**
Borrowings	1 178 606	879 516	816 960	846 913	826 791
Provisions	319 563	323 701	322 024	306 834	299 688
Deferred hedging costs	19 028	19 028	19 028	0	0
Other	0	0	0	0	242
Total Non-Current Liabilities	**1 517 197**	**1 222 245**	**1 158 012**	**1 153 747**	**1 126 721**
Net Assets	**1 537 608**	**2 056 231**	**2 063 304**	**1 987 914**	**1 885 885**
Reserves	1 348 133	1 872 166	1 881 066	1 839 322	1 794 882
Retained profits	189 475	184 065	182 238	148 592	91 003
Total Equity	**1 537 608**	**2 056 231**	**2 063 304**	**1 987 914**	**1 885 885**

Comment

The significant increase in investments in 2004-05 was due to the need to satisfy the financial conditions of the financial services licence issued to Hydro on 8 February 2005. A financial condition of the licence based on the surplus of short term assets over short-term liabilities, required Hydro to borrowed $100.000m on a long term basis for investment short term. Subsequent to year-end, Hydro has arranged an alternative un-drawn facility with Tascorp enabling it to repay the $100.000m borrowing from Tascorp.

During 2004-05 external project financing of $92.500m was raised by Roaring 40's Renewable Energy Pty Ltd thereby enabling the repayment of an inter-company loan of $80.000m to Hydro. This project financing also contributed to Hydro's increased consolidated debt during the year.

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 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 that year and reduced wind farm construction activity.

The large increase in both receivables and payables in 2004-05 reflects the new arrangements for transacting with NEMMCO on the sale of electricity to the pool and the settlement of electricity price hedges with Aurora Energy Pty Ltd. Since there is no right of offset the receivables and payables are shown gross with the receivable being $68.200m and the payable being $43.800m at 30 June 2005.

Prepayments in 2000-01 include a major prepayment for the supply of wind farm equipment of $11.100m, and prepayments in 2002-03 includes prepaid insurance premiums of $1.613m. The 2004-05 balance for prepayments includes a payment of $1.250 million to Transend as the first instalment for the Reserved Capacity Deed signed on 18 March 2005. Under the Deed, Transend will hold increased capacity of a new transmission line in reserve for Hydro.

Other current assets mainly consist of unamortised hedging costs.

Property plant and equipment decreased to $2.901b in 2004-05, due principally to the revaluation decrement relating to generation assets of $523.033m. There is also an equivalent decrease in reserves, from $1.872b to $1.348b. The decrease in asset values arose due to a number of factors including:

- Reduced revenue forecasts as a result of lower price volatility in the market;
- Lower renewable energy certificate prices; and
- Lower actual and forecast electricity prices.

It is important to note that generation assets are recorded at fair value, which is based on estimated future net income streams. In projecting future net income streams, deductions include facility fee payments and facility fee swap settlements for Basslink.

Non-current investments of $9.767m at 30 June 2005 represents Hydro's investment in two incorporated joint ventures. They are:

- Cathedral Rocks Holdings Pty Ltd (established to develop, operate and maintain a wind farm at Cathedral Rocks, South Australia); and
- Cathedral Rocks Construction and Management Pty Ltd (established to project manage the construction of the wind farm at the above site).

Net hedging gains of $19.028m were recognised as a deferred gain in 2002-03 for amortisation over the term of the Basslink project. These arose from the finalisation of the Basslink Service Agreement, signed on 29 November 2002 and are effectively offset by an equivalent asset termed "Deferred hedging settlement".

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 at that time. Current provisions decreased from 2002-03 due to a change in accounting standards, which stipulated that dividends could no longer be provided for if declared after the end of a financial year.

Provisions totalled $374.085m at 30 June 2005 and primarily comprised:

- Income Tax Equivalent Payable, $3.911m;
- Deferred Income Tax Equivalent, $149.338m;
- Unfunded superannuation (defined benefit scheme), $203.051m; and
- Other Employee Entitlements, $17.785m.

CASH POSITION

	2004-05	**2003-04**	**2002-03**	**2001-02**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	455 731	435 416	403 775	352 340	353 433
Payments to suppliers and employees	(232 891)	(227 074)	(161 358)	(118 977)	(163 980)
Interest received	2 654	162	671	429	300
Contributions to Consolidated Fund	0	0	0	(11)	(101)
Borrowing costs	(71 284)	(70 779)	(80 442)	(72 133)	(86 048)
Income Tax Equivalent Paid	(29 955)	(32 864)	(19 641)	(35 578)	(21 328)
Cash from operations	**124 255**	**104 861**	**143 005**	**126 070**	**82 276**
Proceeds from investments	0	9	9	0	0
Proceeds from sale of business	0	1 177	0	0	0
Payments for investments	(9 000)	(100)	0	(1 943)	0
Payments for property, plant and equipment	(79 759)	(134 097)	(95 905)	(55 577)	(26 503)
Proceeds from sale of property, plant and equipment	1 096	1 360	1 487	577	2 634
Cash used in investing activities	**(87 663)**	**(131 651)**	**(94 409)**	**(56 943)**	**(23 869)**
Proceeds from borrowings	1 382 605	1 233 800	654 437	534 380	572 127
Repayment of borrowings	(1 247 645)	(1 180 431)	(640 231)	(525 655)	(558 944)
Repayment of Treasury Loans	(3 991)	(9 369)	(14 993)	(9 021)	(14 531)
Dividend Paid	(40 000)	(43 553)	(60 503)	(49 230)	(45 062)
Cash from financing activities	**90 969**	**447**	**(61 290)**	**(49 526)**	**(46 410)**
Net increase in cash	**127 561**	**(26 343)**	**(12 694)**	**19 601**	**11 997**
Cash at the beginning of the period	12 937	39 280	51 974	32 373	20 238
Cash at end of the period	**140 498**	**12 937**	**39 280**	**51 974**	**32 235**

Comment

Receipts from customers increased over the years due mainly to higher electricity sales revenues.

Payments to suppliers were abnormally high in 2000-01 due mainly to a significant increase in prepayments of $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 and 2004-05 reflect the cost of generation from Bell Bay, higher employee numbers and NEM readiness.

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 debt-restructuring.

Increased payments for property, plant and equipment in recent years reflect wind farm development and capital upgrade programs.

The larger than normal repayments and proceeds from borrowings in recent years reflects the increased activity in managing debt.

With the phasing out of Special Dividends from 2005-06, dividend payments are gradually reducing compared to previous years. Under current arrangements, a dividend of 50% of profit after tax will be declared in relation to 2004-05.

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.

The significant increase in cash holdings at 30 June 2005 is primarily due to Hydro being awarded an Australian Financial Services Licence a requirement of which was for Hydro to borrow $100.000m on a long term basis for investment short term. This matter has been explained previously.

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations ($'000s)		85 561	73 174	72 864	59 962	46 536
EBIT ($'000s)		151 922	144 499	151 687	133 925	133 921
EBITDA ($'000s)		229 757	223 773	232 076	213 420	210 769
Operating margin	>1.0	1.23	1.20	1.22	1.19	1.16
Return on assets		4.4%	4.0%	4.3%	3.9%	4.1%
Return on equity		2.5%	1.7%	1.7%	4.4%	0.8%
Financial Management						
Debt to equity		78.8%	52.6%	50.2%	52.1%	55.0%
Debt to total assets		37.3%	30.0%	29.0%	29.5%	31.0%
Interest cover - EBIT	>3	2.12	2.00	1.81	1.81	1.53
Interest cover - Funds from Operations	>3	2.91	2.62	2.89	2.88	2.02
Current ratio	>1	1.34	0.24	0.30	0.32	0.28
Leverage ratio		211.3%	175.0%	172.9%	176.8%	177.2%
Cost of debt	7.5%	6.2%	6.1%	6.3%	7.1%	7.1%
Debt collection	30 days	51	40	38	35	43
Creditor turnover	30 days	70	51	102	101	43
Capex/Depreciation		1.02	1.69	1.19	0.70	0.34
Returns to and from Government						
Dividends payable ($'000s)		40 000	43 553	60 503	49 230	45 062
Dividend payout ratio	50%	90.1%	122.8%	179.8%	57.6%	296.0%
Dividend to equity ratio		2.2%	2.1%	3.0%	2.5%	2.4%
Income tax payable ($'000s)		25 959	32 793	27 476	33 468	23 550
Effective tax rate	30%	32.3%	45.5%	40.3%	55.7%	50.9%
Government guarantee fees		4 020	3 795	3 241	3 242	2 879
Total return to the State ($'000s)		69 979	80 141	91 220	85 940	71 491
Total return to equity ratio		3.9%	3.9%	4.5%	4.4%	3.9%
CSO funding		6 030	4 748	5 238	5 356	4 912
Other information						
Staff numbers FTEs		829	800	763	722	639
Average staff costs ($'000s)		101	93	83	80	75

Comment

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

Hydro's overall return on equity continues to improve although it 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.

The improvement in return on equity to 2.9% for the 2004-05 financial year was due to the higher profit result and the reduction in equity resulting from the devaluation of generation assets referred to earlier.

The debt to equity and debt to total assets ratios increased in 2004-05 due to the increases in borrowings referred to earlier and also due to the lower total asset base and total equity due to the downward revaluation of the generation assets also referred to earlier.

The EBIT interest cover ratio of between 1.53 and 2.12 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. However, the interest cover ratio, when based on funds from operations, is closer to the benchmark, especially in 2004-05.

Over the four years to 30 June 2004 current liabilities consistently exceeded current assets resulting in a current ratio of substantially less than one. A key factor influencing this was the amount of short-term debt at balance date, which reflected the annual restructuring of debt to take advantage of lower interest rates. However, this ratio improved dramatically in 2004-05 due to the significant increase in cash and investments and the restructuring of the debt portfolio, where short-term borrowings were replaced with long-term instruments.

The increases in cash and investments, as well as the increase in receivables, had a significant impact on the leverage ratio, which compares total assets to total equity. The ratio increased to 211.3% in 2004-05, an improvement mainly attributed to the lower equity at 30 June 2005 and the higher cash holdings.

The debt collection ratio increased to 40 days in 2003-04 due to increased activity within the consulting unit. The ratio reached 51 days at the end of 2004-05 due to the impact of transacting with NEMMCO.

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. The creditors turnover is also impacted in 2004-05 by the amounts owing to Aurora under electricity price hedges.

In accordance with a change in accounting standards, no provision for dividend was made in 2002-03 and subsequent years. Instead, the amount for dividends payable included in the table refers to dividends proposed as disclosed in notes to the 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.

Returns to the State were boosted by the special dividend of $40.000m in the first two years of the analysis. The special dividend relating to 2002-03 reduced to $26.500m and was paid in 2003-04. The special dividend paid in 2004-05, and expected for 2005-06, continue to decrease with the 2005-06 being the final payment.

Average staff costs include redundancy payments. The increase in staff numbers occurred across all divisions of Hydro and includes increased activities associated with the entry into the NEM. The expansion of the consulting division has also resulted in extra staff being hired.

BASSLINK PROJECT

Background

In February 1998 the Tasmanian Government established the Basslink Development Board to facilitate Basslink as a commercial opportunity to build, own and operate an electricity inter-connector between Victoria and Tasmania. In February 2000 National Grid Australia Pty Ltd (formerly Basslink Pty Ltd) (NGA), a wholly owned subsidiary of National Grid, a large United Kingdom transmission company, was selected to build, own and operate the link that could import or export power between Tasmania and Victoria. Following extensive environmental approval processes the financial arrangements between Hydro and NGA, initially expected to occur by 31 March 2001, finally became unconditional on 22 November 2002, (known as financial close), allowing construction to proceed.

The Basslink inter-connector is a 290 kilometre under-sea cable that runs from Loy Yang in Victoria, across Bass Strait to Bell Bay in Northern Tasmania. The Vic-Tas Consortium comprising Pirelli Cables, who manufactured the 600 MW HVDC cable in Italy, and Siemens Limited, who supplied eight transformers for the AC/DC converter stations, is constructing Basslink. Due to a setback resulting from damage to six of the converter transformers on the delivery voyage, completion of the project is not expected until April 2006.

Financial arrangements

NGA owns the project and bears the capital costs of building the link. When operations commence, Hydro will pay a facility fee that allows it to access the Victorian market and receive the Inter-Regional Settlement Residues (IRRs), regardless of the direction in which the power is flowing. IRRs essentially represent the difference between the Victorian and Tasmanian pool prices. To facilitate competition in the Tasmanian wholesale electricity market, Hydro is required to auction off southbound IRRs.

While the capital cost of the project and the facility fee were linked, the contract between NGA and Hydro contained a series of clauses whereby, up until financial close, changes in currency rates, interest rates and costs resulting from delays and changes in specifications could be passed on to Hydro, subject to its agreement. Following financial close NGA assumed all construction risks for the project. The Basslink Services Agreement (BSA) arrangements only commence following satisfactory commissioning of the Basslink project.

Financial exposure hedging

Prior to financial close of the project, the facility fee was subject to change based on currency and interest rate movements. Consequently, Hydro took measures to hedge these exposures. Due to a number of delays in the environmental approval process, these hedges were extended through to the eventual financial close date.

At financial close on 22 November 2002 the currency and short term interest rate hedges were closed out and brought onto the Hydro balance sheet. The long-term interest rate exposure was assumed by NGA via a floating facility fee instrument. Hydro transacted a facility fee swap with Macquarie Bank Limited to fix its interest rate exposure associated with the project. These instruments result in a fixed interest rate exposure at an inherent rate of 7.41% over the life of the project.

Financial statement disclosures

Forecast Basslink facility fee payments totalling $2.300b over the 25-year life of the agreement are disclosed as a commitment by way of note to the financial statements. In addition, the net fair value of the BSA has also been disclosed by note to the financial statements as a financial liability of $436.800m. This represents a net present value calculation of projected facility fee payments and IRR receipts.

The net fair value of the Basslink Floating Facility Fee Instrument and Facility Fee Swap has been disclosed by way of note to the financial statements as a financial liability of $273.100m. The notional principal amount for these instruments at balance date is $599.810m amortising over 25 years to $306.200m.

The earlier foreign exchange hedge was brought to account at financial close and resulted in a gain that has been treated as a deferred settlement asset and deferred settlement gain of $27.700m. The short–term construction interest rate hedge was also closed at a loss of $8.700m, which is disclosed as a deferred cost and a deferred settlement liability. The net hedge gain of $19.028m will be amortised over the 25-year life of the BSA.

The liabilities associated with the BSA, Basslink Floating Facility Fee Instrument and Facility Fee Swap have been disclosed by way of notes to the financial statements as required by current Australian Accounting Standards. Hydro was not required to implement Australian Accounting Standards AASB 132 "Financial Instruments: Disclosures and Presentation" and AASB 139 "Financial Instruments: Recognition and Measurement" relating to the recognition and measurement of financial instruments until 1 July 2005. Any adjustments arising from the initial recognition of those financial instruments on the transition date of 1 July 2005 will be against retained earnings.

OVERALL COMMENT

Hydro's non-current assets and equity increased each year until 30 June 2003 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. This trend reversed in 2003-04, with a significant revaluation decrement in the carrying value of generation assets by $523.033m in 2004-05.

Since the signing of the audit report on 30 August 2005, Hydro has identified a joint venture partner for Roaring 40's Renewable Energy Pty Ltd. China Light and Power Asia Limited will become a 50% joint venture partner in wind farm development carried out by the Hydro subsidiary. Its capital injection is intended to allow the expansion of wind farm development in Australia and overseas.

The 2004-05 audits were completed with satisfactory results.

2.3 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 eight 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 2004-05 FINANCIAL STATEMENTS

Financial statements, signed by the Directors on 11 August 2005, were received on 22 August 2005 and an unqualified audit report was issued on 26 August 2005.

FINANCIAL RESULTS

The MAIB recorded a $81.794m operating profit before tax ($58.425m after tax) for the 2004-05 financial year, a particularly strong result due to a number of factors including:

- Earned premiums of $111.412m (2003-04: $103.395m). The increase of 7.8% is attributed mostly to increases in premiums charged and a 3.4% increase in the number of currently registered vehicles since June 2004; and
- Investment revenue of $91.840m (2003-04: $77.926m), offset partly by:
- A claims expense of $108.215m (2003-04: $96.911m).

This result has strengthened the MAIB's financial position, increasing equity by $51.156m.

FINANCIAL PERFORMANCE

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Premium Revenue	111 412	103 395	90 266	84 874	79 500
Outwards Reinsurance Expense	(4 159)	(4 627)	(4 155)	(3 527)	(3 603)
Claims Expense	(108 215)	(96 911)	(102 396)	(82 006)	(101 332)
Other Underwriting Expenses	(2 236)	(2 284)	(2 130)	(1 935)	(1 733)
Underwriting Result	**(3 198)**	**(427)**	**(18 415)**	**(2 594)**	**(27 168)**
Investment Revenue on Insurance Funds	73 095	67 619	27 950	7 191	34 505
General & Administration Expenses	(3 815)	(4 250)	(4 030)	(3 791)	(4 222)
Road Safety Initiative	(2 285)	(2 250)	(2 125)	(2 000)	(2 000)
Injury Prevention and Management Foundation	(748)	(696)	(500)	(455)	(347)
Insurance Result	**63 049**	**59 996**	**2 880**	**(1 649)**	**768**
Investment Revenue on Retained Earnings	18 745	10 307	2 631	695	3 554
Operating result before tax	**81 794**	**70 303**	**5 511**	**(954)**	**4 322**
Income tax expense	(23 369)	(19 190)	5 186	5 149	(704)
Result after taxation	**58 425**	**51 113**	**10 697**	**4 195**	**3 618**

Comment

The nature of the Board’s insurance business is 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 2004-05 was $8.017m or 7.8%, which was primarily attributable to a 2.5% weighted average premium increase applicable from 1 December 2004 and a 3.4% 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 2004-05 is mainly due to the strength of the equities markets at 30 June 2005 compared to the position a year earlier resulting in the recognition of market value gains of $48.428m, of which $42.079m was unrealised.

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

Type of Expense	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Claims paid	64 488	69 466	65 285	71 119	67 570
Movement in the provision for outstanding and unreported claims	44 200	27 900	38 500	11 761	34 017
Re-insurance and other recoveries	(822)	(727)	(1695)	(1159)	(687)
Other claims paid	349	272	306	285	432
Total claims expenses	**108 215**	**96 911**	**102 396**	**82 006**	**101 332**

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.

An actuarial review of the economic assumptions underlying the claims liability valuation was undertaken during 2004-05. As a result of the review, changes were made to the discount and superimposed inflation rates used in the calculation of the claims liability.

Since 2001-02 the Board valued its claims liabilities under a Market Linked Fixed Gap Model, where the discount rate was based on a risk-free rate plus a margin for higher returns expected on investments. At 30 June 2005, the claims liability was calculated using a risk-free discount rate. This lowered the discount rate applied, which had the effect of increasing the claims liability at 30 June 2005 by $131.400m.

In prior years, superimposed inflation was applied at a flat rate across all expected future claim payments. The actuarial review identified that different benefit types had experienced different rates of superimposed inflation and that this should be reflected in the calculation of future claims liabilities. The 30 June 2005 valuation therefore included an allowance for superimposed inflation of 1.5% for scheduled benefits claims and 0.75% for common law claims. Superimposed inflation was removed for future care claim payments as it was observed that this factor was negligible in relation to these payments. This had the effect of reducing the claims liability by $119.900m.

The net effect of the changes to these two economic assumptions was to increase the claims liability at 30 June 2005 by $11.500m.

The forecast 2004-05 claims expense included in the Board's Corporate Plan was $129.000m, which was reduced to $124.800m after the December 2004 actuarial review. The actual 2004-05 claims expense of $107.866m (before other claim payments) represents a further reduction due to:

- Lower than expected payments during the year (actual gross payments of $68.100m were $11.800m lower than the $79.900m forecast from the June 2004 actuarial review); and
- A reduction in claims central estimates.

The gross central estimate of liabilities as at 30 June 2005 was $20.200m less than the forecast from the June 2004 actuarial review. The reduction was mainly due to a:

- Reduction of $19.300m caused by higher numbers of damages settlements at nil cost;
- Net reduction of $18.000m arising from future care changes, including reduced life expectancies, the death of one claimant and updated estimates of care costs; and
- Net increase of $14.600m relating to the revision of economic assumptions already referred to.

The reinsurance expense of $4.159m represents a reduction of $0.468m from 2003-04. The decrease of 10.1% is attributable to a reduction in premium rates of 13% offset by the increase in the number of registered motor vehicles of 3.4%.

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 and 2004-05 but a credit was available for any foreign tax paid.

FINANCIAL POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	351	1 984	2 586	1 759	1 165
Receivables	1 743	24	179	98	215
Investments	749 183	635 233	538 358	495 166	275 932
Other	39	47	418	360	332
Total Current Assets	**751 316**	**637 288**	**541 541**	**497 383**	**277 644**
Plant and equipment	535	612	753	1 137	1 507
Property and investments	100 343	94 997	90 788	86 135	296 317
Other	0	0	18 632	13 902	9 045
Total Non-Current Assets	**100 878**	**95 609**	**110 173**	**101 174**	**306 869**
Payables	1 693	1 825	2 336	2 101	2 029
Employees and other provisions	6 031	1 413	1 421	1 852	2 940
Provision for unearned income	49 978	48 282	45 768	41 598	41 657
Provisions for reported/unreported claims	73 300	76 600	86 900	86 100	79 612
Total Current Liabilities	**131 002**	**128 120**	**136 425**	**131 651**	**126 238**
Employees and other provisions	20 680	2 921	1 146	1 136	1 064
Provisions for reported/unreported claims	527 500	480 000	441 800	404 100	398 826
Total Non-Current Liabilities	**548 180**	**482 921**	**442 946**	**405 236**	**399 890**
Net Assets	**173 012**	**121 856**	**72 343**	**61 670**	**58 385**
Retained profits	173 012	121 856	72 343	61 670	58 385
Total Equity	**173 012**	**121 856**	**72 343**	**61 670**	**58 385**

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 2005, $42.079m of which was unrealised at year-end.

The provision for reported and unreported claims has increased by $122.362m from $478.438m at 30 June 2001 to $600.800m 30 June 2005. 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 of not less than 75% that the claims provision is sufficient to meet the cost of claims incurred.

As noted under the section on Financial Performance, the Board reviewed and revised the economic assumptions underlying the calculation of the provision for outstanding and unreported claims in 2004-05. The move to a risk free discount rate at 30 June 2005 resulted in an increase in the claims liability of $131.400m. The changes made to superimposed inflation had the effect of decreasing the claims liability valuation by $119.900m. The net effect of the above changes to economic assumptions was an increase of $11.500m.

The increase in the claims liability over the five-year period 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 $201.781m, at 30 June 2001 to $356.600m at 30 June 2005.

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

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from premiums	122 932	116 346	103 880	93 295	89 868
Payments for claims	(68 021)	(73 202)	(68 235)	(73 308)	(68 884)
Other payments	(23 094)	(21 971)	(19 879)	(18 596)	(22 958)
Other receipts	1 857	4 486	5 514	4 606	4 782
Tax paid	(939)	0	0	0	0
Dividends received	32 499	11 573	13 465	5 866	4 570
Interest received	11 349	8 458	22 602	19 012	24 884
Cash generated from operations	**76 583**	**45 690**	**57 347**	**30 875**	**32 262**
Payments for investments	(70 816)	(71 816)	(55 387)	(29 465)	(31 867)
Payments for property, plant and equipment	(212)	(497)	(270)	(262)	(292)
Proceeds from sale of property, plant and equipment	81	27 622	47	1 255	1 038
Cash used in investing activities	**(70 947)**	**(44 691)**	**(55 610)**	**(28 472)**	**(31 121)**
Dividends paid	(7 269)	(1 601)	(910)	(1 809)	(1 533)
Net increase in cash	**(1 633)**	**(602)**	**827**	**594**	**(392)**
Cash at the beginning of the period	1 984	2 586	1 759	1 165	1 557
Cash at end of the period	**351**	**1 984**	**2 586**	**1 759**	**1 165**

Comment

Receipts from premiums increased by $33.064m from $89.868m in 2000-01 to $122.932m in 2004-05. 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 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	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
EBIT ($'000s)		81 794	70 303	5 511	(954)	4 322
Operating margin	>1.0	1.67	1.63	1.05	0.99	1.04
Return on assets		10.3%	10.2%	0.9%	-0.2%	0.8%
Return on equity		39.6%	52.6%	16.0%	7.0%	6.3%
Financial Management						
Current ratio	>1	5.74	4.97	3.97	3.78	2.18
Solvency ratio		19.8%	16.1%	8.9%	9.3%	10.3%
Returns to Government						
Dividends paid or payable ($'000s)		12 805	7 269	1 601	910	1 809
Dividend payout ratio	50%	21.9%	14.2%	15.0%	21.7%	50.0%
Dividend to equity ratio	6%	8.7%	7.5%	2.4%	1.5%	3.1%
Income tax paid or payable ($'000s)		5 619	0	0	0	0
Effective tax rate	30%	6.9%	-	-	-	-
Total return to the State ($'000s)		18 424	7 269	1 601	910	1 809
Total return to equity ratio		12.5%	7.5%	2.4%	1.5%	3.1%
Other information						
Staff numbers FTEs		39	38	36	36	37
Average staff costs ($'000s)		56	58	55	50	51

Comment

Dividends totalling $24.394m have been paid or are payable to the State Government relating to the 2000-01 to 2004-05 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 was payable due to tax losses carried forward from prior years and the reversal of future income tax benefits relating to investment income. At 30 June 2005, the Board had a tax equivalent payable of $4.680m, which comprised total tax payable for the year of $5.619m less tax instalments paid of $0.939m.

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 8.9% in 2002-03 to 19.8% in 2004-05.

OVERALL COMMENT

MAIB returned a profit before tax of $160.976m (after tax $128.048m) for the five years to 2004-05. During this same period $24.394m in dividends and $5.619m in tax equivalent payments have been paid or are payable to the Tasmanian Government.

The 2004-05 audit was completed with satisfactory results.

2.4 PORT ARTHUR HISTORIC SITE MANAGEMENT AUTHORITY

INTRODUCTION

The *Port Arthur Historic Site Management Authority Act 1987* defines the functions of the Authority as:

- Ensuring the preservation and maintenance of the Historic Site as an example of a major convict settlement and penal institution of the 19th Century;
- Coordinating archaeological activities on the Historic Site;
- Promoting an understanding of the historical and archaeological importance of the Historic Site;
- Promoting the Historic Site as a tourist destination;
- Providing adequate facilities for the use of visitors; and
- Using its best endeavours to secure financial assistance by way of grants, sponsorship and other means.

The Board of the Authority consisted of six members as at 30 June 2005.

The Responsible Minister is the Minister for Parks and Heritage.

AUDIT OF THE 2004-05 FINANCIAL STATEMENTS

Draft financial statements were received on 12 September 2005 and signed financial statements were received on 19 September 2005. Re-signed financial statements were received on 4 October 2005 and an unqualified audit report was issued on 6 October 2005.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000	$'000	$'000	$'000	$'000
Entrance Fees	4 232	4 007	3 510	2 868	2 903
Ghost tours	684	622	595	502	467
Food and Merchandise Sales	3 516	3 463	3 056	2 653	2 506
Interest	190	158	137	134	152
Other income	278	175	120	229	182
Conservation Funding	2 000	2 000	2 000	2 000	862
Other non-operating revenue	250	6	67	25	148
Total Revenue	**11 150**	**10 431**	**9 485**	**8 411**	**7 220**
Visitor Services expenses	2 228	2 115	1 850	1 586	1 430
Ghost tour expenses	396	347	380	299	312
Food and Merchandise Expenses	3 436	3 295	2 941	2 693	2 568
Conservation expenses	2 368	2 142	2 255	2 298	2 137
Depreciation	528	583	569	540	517
Other operating expenses	1 451	1 609	994	1 890	1 748
Non-operating expenses	0	0	0	0	9
Total Expenses	**10 407**	**10 091**	**8 989**	**9 306**	**8 721**
Result from ordinary activities	**743**	**340**	**496**	**(895)**	**(1501)**

Comment

Operating revenue has continued to increase and generally reflects an increasing trend in visitor numbers. The movement in the expenses is generally related to the increases in revenue.

Commencing from 2000-01, the Authority received $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 corresponding expenditure on conservation.

These funds are to be expended 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 are not recognised as assets of the Authority due to the difficulty in identifying an appropriate value. As a result, all conservation works are shown as an operating expense and not capitalised.

This arrangement was renewed for a further five years commencing 1 July 2005. Without this funding the Authority would have to curtail conservation work. Tourism activities do not generate sufficient income to cover conservation.

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 and from making dividend payments.

The table below summarises the segmented revenue for the past two years.

REVENUE BY SEGMENT

2004-05			
Segment	**Conservation**	**Tourism**	**Consolidated**
	$'000	$'000	$'000
Funding	2 000	-	2 000
External sales	45	8 811	8 856
Internal sales	21	23	44
	2 066	**8 834**	**10 900**
2003-04			
Segment	**Conservation**	**Tourism**	**Consolidated**
	$'000	$'000	$'000
Funding	2 000	-	2 000
External sales	52	8 294	8 346
Internal sales	24	55	79
	2 076	**8 349**	**10 425**

FINANCIAL POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000	$'000	$'000	$'000	$'000
Cash	2 911	2 709	2 393	1 935	2 214
Receivables	136	177	122	118	76
Inventories	441	394	347	316	248
Other	13	13	27	43	117
Total Current Assets	**3 501**	**3 293**	**2 889**	**2 412**	**2 655**
Payables	503	410	163	231	136
Provisions	1 433	1 345	1 536	1 449	933
Other	0	238	495	466	473
Total Current Liabilities	**1 936**	**1 993**	**2 194**	**2 146**	**1 542**
Working Capital	**1 565**	**1 300**	**695**	**266**	**1 113**
Property, plant and equipment	13 176	10 753	9 389	9 216	9 022
Total Non-Current Assets	**13 176**	**10 753**	**9 389**	**9 216**	**9 022**
Provisions	2 615	2 507	1 859	1 733	1 491
Total Non-Current Liabilities	**2 615**	**2 507**	**1 859**	**1 733**	**1 491**
Net Assets	**12 126**	**9 546**	**8 225**	**7 749**	**8 644**
Retained profits	9 967	8 565	8 225	7 749	8 644
Reserves	2 159	981	0	0	0
Total Equity	**12 126**	**9 546**	**8 225**	**7 749**	**8 644**

Comment

As noted previously, due to the difficulty associated with arriving at fair values for the Authority’s heritage and ruin assets, property, plant and equipment does not include any value attributed to these heritage assets. As a result, all conservation expenditure on these items is expensed.

The Authority does, however, control other land and buildings and during 2003-04 and 2004-05 land and buildings were revalued, which lead to increases in property, plant and equipment, particularly in 2004-05. The resultant increase is also reflected in the revaluation reserves.

Non-current provisions were increased in 2003-04 and 2004-05 to ensure that the employee leave balances comply with AASB 1028 ‘Employee Benefits,’ mainly for unfunded superannuation relating to staff who are members of the defined benefits scheme. The liability therefore includes the shortfall between the actuarially assessed accrual value of the defined benefits and the market value of scheme assets for members of the Retirement Benefits Fund Contributory Scheme.

CASH POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000	$'000	$'000	$'000	$'000
Receipts from customers	8 763	8 179	7 881	6 595	6 722
Payments to suppliers and employees	(9 920)	(9 104)	(8 885)	(8 315)	(8 022)
Interest received	190	168	134	145	163
Cash from operations	**(967)**	**(757)**	**(870)**	**(1575)**	**(1137)**
Cash Flow from Government					
Tasmanian Government	2 000	2 000	2 067	2 019	958
Cash from operations and Government	**1 033**	**1 243**	**1 197**	**444**	**(179)**
Payments for property, plant and equipment	(909)	(1 011)	(753)	(747)	(242)
Proceeds from sale of property, plant and equipment	79	84	14	24	0
Cash used in investing activities	**(830)**	**(927)**	**(739)**	**(723)**	**(242)**
Net increase in cash	**203**	**316**	**458**	**(279)**	**(421)**
Cash at the beginning of the period	2 709	2 393	1 935	2 214	2 635
Cash at end of the period	**2 912**	**2 709**	**2 393**	**1 935**	**2 214**

Comment

The Authority is in a healthy cash position primarily as a result of the decision to provide it with support for conservation expenditure referred to previously.

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations ($'000s)		493	334	429	(920)	(1 640)
EBIT ($'000s)		743	340	496	(895)	(1 501)
Operating margin	>1.0	1.05	1.03	1.05	0.90	0.81
Return on assets		4.8%	2.6%	4.1%	-7.7%	-12.4%
Return on equity		6.9%	3.8%	6.2%	-10.9%	-16.0%
Financial Management						
Current ratio	>1	1.81	1.65	1.32	1.12	1.72
Debt collection	30 days	10	14	11	12	8
Creditor turnover	30 days	14	23	12	14	13
Returns to Government						
Dividends paid ($'000s)		0	0	0	0	0
Other information						
Staff numbers FTEs		88	89	80	80	82
Average staff costs ($'000s)		51	47	45	46	47
Daytime Visitors		253 362	253 122	226 000	201 099	203 600
Ghost Tour Visitors		56 542	58 951	54 800	48 975	46 824

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 2004-05 audit was completed with satisfactory results.

2.5 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 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 2004-05 FINANCIAL STATEMENTS

Draft financial statements were received on 15 July 2005. Signed financial statements were received on 15 August 2005 and an unqualified audit report was issued on 19 August 2005.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	2004-05	**2003-04**	**2002-03**	**2001-02**	**2000-01**
	$'000	$'000	$'000	$'000	$'000
Operating revenue	8 519	8 806	8 489	8 436	8 747
Total Revenue	**8 519**	**8 806**	**8 489**	**8 436**	**8 747**
Raw material and consumables	3 527	3 706	3 151	3 262	3 499
Employee expenses	3 020	3 092	3 087	2 981	2 941
Depreciation charges	428	401	460	415	444
Other expenses	1 640	1 572	1 613	1 541	1 637
Total Expenses	**8 615**	**8 771**	**8 311**	**8 199**	**8 521**
Result from ordinary activities	**(96)**	**35**	**178**	**237**	**226**
Income tax expense/(benefit)	25	43	(240)	0	0
Result after taxation	**(121)**	**(8)**	**418**	**237**	**226**

Comment

Operating revenue and expenses have remained fairly constant over the past five years.

With the generation of taxable income 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.

The result in 2004-05 was a small loss of $0.096m before income tax expenses, mainly due to lower sales revenue and severance payments.

FINANCIAL POSITION

	2004-05	**2003-04**	**2002-03**	**2001-02**	**2000-01**
	$'000	$'000	$'000	$'000	$'000
Cash	206	873	1 032	890	607
Receivables	583	425	430	531	703
Investments	1 242	1 603	1 523	1 067	1 019
Inventories	407	467	524	411	480
Other	57	69	65	56	28
Total Current Assets	**2 495**	**3 437**	**3 574**	**2 955**	**2 837**
Payables	823	834	820	754	1 026
Provisions	780	701	790	887	838
Other	377	375	424	398	506
Total Current Liabilities	**1 980**	**1 910**	**2 034**	**2 039**	**2 370**
Working Capital	**515**	**1 527**	**1 540**	**916**	**467**
Deferred tax asset	319	289	257	0	0
Property, plant and equipment	2 003	1 145	591	1 041	1 384
Total Non-Current Assets	**2 322**	**1 434**	**848**	**1 041**	**1 384**
Provisions	84	87	51	38	51
Total Non-Current Liabilities	**84**	**87**	**51**	**38**	**51**
Net Assets	**2 753**	**2 874**	**2 337**	**1 919**	**1 800**
Reserves	1 145	1 145	508	508	508
Retained profits	1 608	1 729	1 829	1 411	1 292
Total Equity	**2 753**	**2 874**	**2 337**	**1 919**	**1 800**

Comment

The lower amounts of Cash and Investments in 2004-05 reflect payments for new printing equipment.

Due to the recoupment of all prior year tax losses, the Authority brought to account deferred tax assets from 2002-03.

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

The decline in working capital in 2004-05 was due to purchase of capital equipment costing $1.289m.

Plant and equipment decreased in 2001-02 and 2002-03 due to depreciation. The increase in 2003-04 was a result of a triennial revaluation of manufacturing plant. The increase in 2004-05 resulted from the purchase of printing equipment.

The Authority is debt-free.

CASH POSITION

	2004-05	**2003-04**	**2002-03**	**2001-02**	**2000-01**
	$'000	$'000	$'000	$'000	$'000
Receipts from customers	9 094	9 479	9 375	9 153	9 414
Interest received	107	120	93	91	83
Payments to suppliers and employees	(8 900)	(9 163)	(8 742)	(8 728)	(8 618)
Income tax equivalent paid	(40)	(105)	0	0	0
Cash from operations	**261**	**331**	**726**	**516**	**879**
Net decrease/(increase) in investments	361	(80)	(456)	(48)	(450)
Payments for property, plant and equipment	(1 289)	(318)	(10)	(72)	(203)
Cash used in investing activities	**(928)**	**(398)**	**(466)**	**(120)**	**(653)**
Dividends paid	0	(92)	(118)	(113)	(125)
Cash from financing activities	**0**	**(92)**	**(118)**	**(113)**	**(125)**
Net increase/decrease in cash	**(667)**	**(159)**	**142**	**283**	**101**
Cash at the beginning of the period	873	1 032	890	607	506
Cash at end of the period *	**206**	**873**	**1 032**	**890**	**607**

* Note: Cash does not include current Investments (2004-05, $1.242m).

Comment

Cash from operations has remained positive throughout the period under review. The decrease in cash on hand at 30 June 2005 was primarily due to the high investment in new printing equipment in that financial year.

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations ($'000s)		(96)	35	178	237	226
Operating margin	>1.0	0.99	1.00	1.02	1.03	1.03
Return on assets		-2.0%	0.8%	4.2%	5.8%	6.0%
Return on equity	12.00%	-4.3%	-0.3%	19.6%	12.7%	15.2%
Financial Management						
Current ratio	>1	1.26	1.80	1.76	1.45	1.20
Debt collection	30 days	26	18	19	23	30
Creditor turnover	30 days	31	28	25	25	36
Returns to Government						
Dividends payable ($'000s)		0	0	92	118	113
Dividend payout ratio	50%	-	-	22.0%	49.8%	50.0%
Dividend to equity ratio		-	-	3.9%	6.1%	6.3%
Income tax paid ($'000s)		40	105	0	0	0
Total return to the State ($'000s)		40	105	92	118	113
Total return to equity ratio		1.4%	4.0%	4.3%	6.3%	7.6%
Other information						
Staff numbers FTEs		57	55	56	58	59
Average staff costs ($'000s)		53	56	55	51	50

Note: The Authority pays no guarantee fees.

Comment

The lower Financial Performance and Returns to Government indicators in 2003-04 and 2004-05 reflect the small losses after taxation.

Average staff costs reduced in 2004-05 because of less overtime payments.

OVERALL COMMENT

Due to the loss incurred, the Board has not recommended a dividend.

The audit was completed with satisfactory results.

2.6 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 undertakes a number of activities and functions. These include:

- The administration of water districts in accordance with Section 5(2) of the *Rivers and Water Supply Commission Act 1999;*
- The management of property of the Crown or the Commission and other property related to the administration of such districts; and
- The provision of project management and development services in the commercial water industry and related industries.

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 came into operation in the 2004-05 financial year. The Commission will take over financial responsibility for it from 1 July 2005.

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.

The Commission ceased to administer the Meander Valley Irrigation Scheme during the 2004-05 financial year. At 30 June 2005 the Commission sold its properties to the Department of Primary Industries, Water and Environment (DPIWE) to facilitate the private consortium development of the proposed Meander Dam.

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 2004-05 FINANCIAL STATEMENTS

Signed initial statements were received on 15 August 2005. Final amended statements were received on 11 October 2005 and an unqualified audit opinion was issued on 14 October 2005.

FINANCIAL RESULTS

The Commission has made losses in each of the five years under review.

As designated by the Department of Treasury and Finance the annual contribution from Government is treated 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.

FINANCIAL PERFORMANCE

	2004-05	**2003-04**	**2002-03**	**2001-02**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Water rates and charges	922	1 030	1 184	1 345	1 415
Operating revenue	631	864	116	44	158
Non-operating revenue	679	205	626	300	700
Total Revenue	**2 232**	**2 099**	**1 926**	**1 689**	**2 272**
Empoyee expenses	287	287	268	348	362
Borrowing costs	685	800	966	1 130	1 197
Depreciation	684	624	544	544	545
Other operating expenses	719	838	1 042	1 042	956
Non-operating expenses	855	231	231	121	149
Total Expenses	**3 230**	**2 780**	**3 051**	**3 185**	**3 208**
Result from ordinary activities	**(998)**	**(681)**	**(1 125)**	**(1 496)**	**(936)**
Income tax expense/ (benefit)	(242)	(200)	(73)	(240)	46
Result after taxation	**(756)**	**(481)**	**(1 052)**	**(1 256)**	**(982)**

Comment

As discussed previously, amounts received from Government, over the years, have been recorded as equity contributions rather than revenue. As a result of a change in Government policy in 2003-04, the contribution was split between principal and interest with the interest component being shown as operating revenue. This contributed to the higher operating revenue in 2003-04 ($0.709m) and 2004/05 ($0.567m).

There were a number of movements in revenue in 2004-05:

- Water rates and charges decreased because of a reduction in the demand for water due to weather conditions favouring farmers;
- Operating revenue decreased because the State Government contribution toward interest costs fell. This was due to interest expense falling as loans are being repaid over time; and
- Non-operating revenue increased substantially due to the sale of $655 000 of Meander Valley land to DPIWE.

In addition to the change in contribution received a number of changes in revenue occurred in 2003-04:

- Water rates and charges decreased as a result of transfer of operations of the Winnaleah Irrigation Scheme to irrigators; and
- As part of the transfer of the Winnaleah operations, a number of assets were disposed of.

In 2000-01 operating revenue was high 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 $0.509m 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 continuation of the Commission’s debt reduction program has again, in 2004-05, resulted in the reduction in borrowing costs. Other factors relating to the decrease include the waiving, by Treasury, of the Government’s Administration charge.

A large non-operating expense of $0.844m was recognised in 2004-05 due to the sale of land. The overall loss on sale was $0.189m. This was due to the Treasury approved value of the land being less than the book value reported by the Commission, which recognised improvements made to the land over time.

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

	2004-05	**2003-04**	**2002-03**	**2001-02**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	210	83	71	76	217
Receivables	181	294	379	430	812
Investments	454	442	502	759	703
Water Stock	171	171	171	186	0
Other	0	0	0	33	0
Total Current Assets	**1 016**	**990**	**1 123**	**1 484**	**1 731**
Property, plant and equipment	47 664	43 661	44 426	35 756	35 803
Other	1 690	1 448	1 015	936	628
Total Non-Current Assets	**49 354**	**45 109**	**45 441**	**36 692**	**36 431**
Payables	121	130	279	238	176
Borrowings	2 440	4 906	2 633	2 307	1 790
Provisions	144	141	212	339	336
Total Current Liabilities	**2 705**	**5 177**	**3 124**	**2 884**	**2 302**
Borrowings	4 305	4 484	8 594	11 081	13 284
Provisions	273	244	238	441	407
Total Non-Current Liabilities	**4 578**	**4 728**	**8 832**	**11 522**	**13 691**
Net Assets	**43 087**	**36 194**	**34 608**	**23 770**	**22 169**
Reserves	32 140	26 687	26 676	17 548	17 548
Accumulated Funds	(13 034)	(12 278)	(11 798)	(10 746)	(9 489)
Accumulated Government Contributions	23 981	21 785	19 730	16 968	14 110
Total Equity	**43 087**	**36 194**	**34 608**	**23 770**	**22 169**

Comment

Cash was higher in 2004-05 due to additional loans, to fund on-going operations, being taken out with Tascorp late in the financial year.

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.

A decrease in receivables in 2004-05 is attributed to a reduction in water use.

The Commission continues to have a reasonable level of current investment with Tascorp whilst having a high level of borrowings. This is due to an agreement with Treasury where the interest earned on investments is passed to Treasury to reduce the debt.

Non-current assets were revalued in 2004-05. Infrastructure assets were revalued using the Australian Bureau of Census and Statistics Materials and Wages indices. This is a generally accepted revaluation method within the water industry. Land was revalued using the 2004-05 indices of the Valuer General. The revaluations resulted in an increase in asset values and reserves of $5.454m. The previous revaluation of non-current assets, in 2002-03, resulted in an increase in asset values and reserves of $9.102m.

Borrowings are continuing to reduce as a result of the Commission's continued debt reduction program. This has been made possible by the Equity contribution from Government.

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.

Operating losses are continuing, however equity is increasing due to the treatment of the annual Government contribution ($14.031m over the five years under review) and the ongoing revaluation of non-current assets.

CASH POSITION

	2004-05	**2003-04**	**2002-03**	**2001-02**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	1 035	1 005	1 060	1 727	1 268
Payments to suppliers and employees	(1 120)	(1 502)	(1 264)	(1 360)	(1 445)
Rent received	2	7	25	34	41
Borrowing costs	(648)	(793)	(932)	(1 063)	(1 195)
Taxation expense	0	0	0	0	0
Other	176	170	118	(125)	0
Cash from operations	**(556)**	**(1 113)**	**(993)**	**(787)**	**(1 330)**
Payments for property, plant and equipment	(77)	(80)	(142)	(500)	(961)
Proceeds from sale of property, plant and equipment	655	219	26	33	658
Cash used in investing activities	**578**	**139**	**(116)**	**(467)**	**(303)**
Capital contribution from Government	2 763	2 763	2 763	2 856	2 886
Proceeds from borrowings	206	0	494	300	2 866
Repayment of borrowings	(2 851)	(1 837)	(2 412)	(1 985)	(4 651)
Cash from financing activities	**118**	**926**	**845**	**1 171**	**1 101**
Net increase in cash	**140**	**(48)**	**(264)**	**(83)**	**(532)**
Cash at the beginning of the period	524	572	836	919	1 451
Cash at end of the period	**664**	**524**	**572**	**836**	**919**

Comment

Reasons for variations in cash flow amounts and cash balances reflect the comments made previously in the Statement of Financial Performance and movements in the cash amount in the Statement of Financial Position.

Impact of Equity Funding

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

	2000-2005 $'000s
Nett Cash Outflows from Operations before Borrowing Costs	(148)
Borrowing Costs	(4 631)
Net Outflows from Operations	(4 779)
Net Asset Replacements Funded by Equity Contributions	(169)
	(4 948)
Net Debt Repayments Funded by Equity Contributions	(9 870)
Net Outflows for the 5 Years	(14 818)
State Government Equity Contributions	14 031
Net Decrease in Cash Holdings for the 5 Year Period	**(787)**

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations ($'000s)		(535)	(368)	(1 252)	(1 327)	(1 125)
EBIT ($'000s)		(313)	119	(159)	(366)	261
Operating margin	>1.0	0.74	0.84	0.51	0.51	0.58
Return on assets		-0.6%	0.3%	-0.4%	-1.0%	0.7%
Return on equity	12%	-1.9%	-1.4%	-3.6%	-5.5%	-4.6%
Financial Management						
Debt to equity		15.7%	25.9%	32.4%	56.3%	68.0%
Debt to total assets		13.4%	20.4%	24.1%	35.1%	39.5%
Interest cover	>3	(0.5)	0.1	(0.2)	(0.3)	0.2
Current ratio	>1	0.38	0.19	0.36	0.51	0.75
Cost of debt	7.5%	8.5%	7.8%	7.8%	7.9%	7.5%
Debt collection	30 days	66	93	109	113	100
Creditor turnover	30 days	55	50	84	69	57
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 ($'000s)		0	0	0	0	0
Total return to equity ratio	7.5%	-	-	-	-	-
Other information						
Staff numbers FTEs		4	5	4	7	7
Average staff costs ($'000s)		71	54	67	50	55

Comment

In 2002-03 average staff costs increased significantly. Whilst the number of FTE's had decreased by 30 June, employee costs for the year included salary payments to a number of staff who ceased employment during that year. A salary accrual in the 2003-04 year was underestimated. The effect was the reporting of a lower average staff cost in 2003-04 and a higher average staff cost in 2004-05.

Results from operations and EBIT in 2004-05 were influenced by the reduction in demand for water and the reduced contribution from State Government. This resulted in an increase in loss from operations and a decrease in EBIT. In 2003-04 the increase in EBIT and reduction in loss from operations was largely due to the change in treatment of the Government contribution, as discussed earlier under Financial Performance.

Debt collection days have reduced significantly due to the continuing efforts of the Commission to recover debts.

The current ratio has increased as a result of a reduction in current borrowings. This result is also reflected in the debt to assets ratio, which has reduced significantly as the Commission has repaid debt.

In 2004-05 the increase in creditor turnover was mainly due to the timing of the final payment run for the financial year. In 2002-03 the increase was mainly attributable to a one-off liability to DPIWE 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 earlier, the Commission has continued to make losses. However with the debt reduction program in place and the continuation of the present funding arrangements from Treasury, the Commission anticipates it can achieve a break-even position in the foreseeable future.

The 2004-05 audit was completed with satisfactory results.

2.7 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 enacted 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 with members from the broad community with an independent chair. The appointment of new Trustees took effect from 1 July 2002.

As at 30 June 2005 the Responsible Minister was the Minister Assisting the Premier on Local Government.

AUDIT OF THE 2004-05 FINANCIAL STATEMENTS

Signed financial statements were received on 16 August 2005 and an unqualified audit report was issued on 19 October 2005.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Operating revenue	1 581	1 515	1 775	1 621	1 764
Total Revenue	**1 581**	**1 515**	**1 775**	**1 621**	**1 764**
Depreciation	173	306	407	374	343
Salaries	650	666	702	697	697
Other operating expenses	820	739	757	721	764
Total Expenses	**1 643**	**1 711**	**1 866**	**1 792**	**1 804**
Result from ordinary activities	**(62)**	**(196)**	**(91)**	**(171)**	**(40)**
Income tax (benefit)/expense	0	346	1	(386)	5
Result after taxation	**(62)**	**(542)**	**(92)**	**215**	**(45)**

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 with a small increase in 2004-05 attributable to normal price movements.

Depreciation decreased in 2004-05 due to a decrease in the number of crypts sold for that year. Other operating expenses remained relatively consistent throughout the period with administrative and maintenance expenses contributing to the increase in 2002-03 while in 2004-05 the increase of $0.081m was due to loss on disposal of an asset and higher fuel costs.

Although the Trust falls within the National Taxation Equivalent Regime (NTER), 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 NTER. There was a negligible income tax expense in 2002-03 mainly due to the operating loss for that year. As it was determined in 2003-04 that the Trust could not meet the virtual certainty test needed to carry forward tax losses, a Future Income Tax Benefit of $0.346m was written back.

FINANCIAL POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	109	0	136	144	36
Receivables	294	417	496	305	463
Investments	2 367	2 391	2 290	2 470	2 420
Other	25	5	14	16	3
Total Current Assets	**2 795**	**2 813**	**2 936**	**2 935**	**2 922**
Payables	52	27	166	57	69
Bank Overdraft	0	74	0	0	0
Provisions	251	280	265	190	189
Other	303	251	184	124	70
Total Current Liabilities	**606**	**632**	**615**	**371**	**328**
Working Capital	**2 189**	**2 181**	**2 321**	**2 564**	**2 594**
Property, plant and equipment	5 410	5 377	5 473	5 294	5 379
Other	0	0	341	343	0
Total Non-Current Assets	**5 410**	**5 377**	**5 814**	**5 637**	**5 379**
Provisions	1 204	1 100	1 135	1 110	1 097
Total Non-Current Liabilities	**1 204**	**1 100**	**1 135**	**1 110**	**1 097**
Net Assets	**6 395**	**6 458**	**7 000**	**7 091**	**6 876**
Capital	1 002	1 002	1 002	1 002	1 002
Reserves	6 012	6 012	6 012	6 012	6 012
Retained profits/(Accumulated losses)	(619)	(556)	(14)	77	(138)
Total Equity	**6 395**	**6 458**	**7 000**	**7 091**	**6 876**

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. While there was an overdraft as at 30 June 2004, at 30 June 2005 a positive cash balance of $0.109m resulted from improvement in Receivables which decreased from $0.417m for 2003-04 to $0.294m for 2004-05. The decrease in Receivables is due to greater debt collection effort and a reduction in number of outstanding crypt debts as they are finalised in accordance with the terms of payment.

Receivables were higher in 2002-03 due to longer negotiated terms of payment in relation to sale of crypts constructed in the new development. During 2004-05 the Eastern Shore Cemetery was transferred to the Trust for no consideration. In accordance with the Trust’s policy, this asset was brought to account at its nominal value, being nil. This acquisition provides the Trust with a presence on the Eastern shore improving its marketing potential.

In my November 2004 Report I noted that the Trust last valued non-current assets in 1998 on a fair value basis and that, as these assets had not been revalued since then, an emphasis of matter was included in the audit report for 2003-04 referring to the out-of-date valuation. The Trust was urged to obtain an updated revaluation during the 2004-05 year.

During 2004-05, based on independent advice, which was not from a property valuer, the Trust decided that, in view of the unique nature of its operations and assets, revaluations of its property assets are inappropriate and, as a result, it ceased applying a revaluation policy in accounting for these assets. In addition, it introduced a policy of valuing new cemetery assets acquired for no consideration at cost. I am sympathetic with this course of action particularly as it relates to the Trust's land assets. However, consideration should be given by the Trust to revaluing its buildings and other infrastructure at depreciated replacement cost. I have recommended to the Trust that it obtains an independent valuation from a property valuer.

Property, plant and equipment increased in 2002-03 due to capital works relating to 32 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 and for 2004-05 this accounted for the increase in non-current provisions.

Other Non-Current Assets in 2001-02 and 2002-03 consisted of FITB.

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

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	1571	1440	1855	1708	1490
Payments to suppliers and employees	(1 311)	(1 443)	(1 532)	(1 361)	(1 441)
Interest received	126	111	121	112	169
Taxation refunded/(paid)	0	0	1	(5)	0
Cash from operations	**386**	**108**	**445**	**454**	**218**
Proceeds from investments	24	0	180	0	380
Payments for investments	0	(102)	0	(50)	0
Payments for property, plant and equipment	(268)	(233)	(651)	(338)	(342)
Proceeds from sale of property, plant and equipment	41	17	17	43	17
Cash used in investing activities	**(203)**	**(318)**	**(454)**	**(345)**	**55**
Repayment of capital	0	0	0	0	(250)
Dividends paid	0	0	0	0	(80)
Cash from financing activities	**0**	**0**	**0**	**0**	**(330)**
Net increase in cash	**183**	**(210)**	**(9)**	**109**	**(57)**
Cash at the beginning of the period	(74)	136	145	36	93
Cash at end of the period	**109**	**(74)**	**136**	**145**	**36**

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

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations ($'000s)		(62)	(196)	(91)	(171)	(40)
EBIT ($'000s)		(62)	(196)	(91)	(171)	(40)
Operating margin	>1.0	0.96	0.89	0.95	0.90	0.98
Return on assets		-0.8%	-2.3%	-1.1%	-2.0%	-0.5%
Return on equity		-1.0%	-8.1%	-1.3%	3.1%	-0.6%
Financial Management						
Current ratio	>1	4.61	4.45	4.77	7.91	8.91
Debt collection	60 days	72	105	102	73	108
Creditor turnover	30 days	10	13	73	26	32
Repayment of capital		0	0	0	0	330
Dividend payout ratio	50%	-	-	-	-	-733.3%
Dividend to equity ratio	6%	-	-	-	-	4.7%
Income tax paid ($'000s)		0	0	1	(5)	0
Effective tax rate	30%	-	-	-1.1%	2.9%	-
Total return to the State ($'000s)		0	0	1	(5)	330
Total return to equity ratio		-	-	0.0%	-0.1%	4.7%
Other information						
Staff numbers FTEs		13	14	14	14	16
Average staff costs ($'000s)		46	48	50	50	44

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. In 2004-05 debt collection dropped to 72 days in line with reduction in receivables as explained earlier.

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%.

Other than repayment of capital of $0.330m in 2000-01 there has been no return to the State due to the ongoing operating losses incurred by the Trust.

OVERALL COMMENT

The Trust's assets mainly consist of its three properties and associated buildings and equipment and $2.367m 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. The transfer of the Eastern Shore Cemetery may improve its income earning capacity.

2.8 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 Industries, Water and Environment (DPIWE).

The Authority is economically dependent on the State Government to enable it to continue as a going concern.

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

The Responsible Minister was the Minister for Sport and Recreation.

AUDIT OF THE 2004-05 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2005, with amended financial statements received on 24 October 2005, and an unqualified audit report was issued on 26 October 2005.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Sporting Operations	51	53	36	37	33
Non Sporting Operations	61	76	70	76	47
Other Revenue	243	267	190	163	202
Government Deficit Contribution	285	275	269	275	275
Non-operating revenue	0	0	0	0	0
Total Revenue	**640**	**671**	**565**	**551**	**557**
Employee Expenses	282	261	257	249	264
Depreciation	71	68	19	29	42
Other operating expenses	385	358	308	255	326
Non-operating expenses	0	0	0	0	0
Total Expenses	**738**	**687**	**584**	**533**	**632**
Result from ordinary activities	**(98)**	**(16)**	**(19)**	**18**	**(75)**
Income tax expense	0	0	0	0	0
Result after taxation	**(98)**	**(16)**	**(19)**	**18**	**(75)**

Comment

Total revenue has remained relatively stable over the five-year period under review and the Authority 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 all of the five years under review the Authority 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 DPIWE for the rental of its premises.

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.

Other operating expenses increased during 2004-05 due to the impact of the *State and Local Government Financial Reform Act 2003* which increased the rates payable by the Authority from service rates to full rates, an increase of $0.041m.

FINANCIAL POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	150	159	31	71	65
Receivables	25	10	18	12	8
Other	4	35	30	30	18
Total Current Assets	**179**	**204**	**79**	**113**	**91**
Payables	60	66	43	28	28
Provisions	95	83	79	66	64
Other	120	75	10	34	57
Total Current Liabilities	**275**	**224**	**132**	**128**	**149**
Working Capital	**(96)**	**(20)**	**(53)**	**(15)**	**(58)**
Plant, equipment and leasehold improvements	383	405	453	202	227
Total Non-Current Assets	**383**	**405**	**453**	**202**	**227**
Net Assets	**287**	**385**	**400**	**187**	**169**
Accumulated Losses	(566)	(468)	(453)	(428)	(446)
Reserves	853	853	853	615	615
Total Equity	**287**	**385**	**400**	**187**	**169**

Comment

Cash held by the Authority at both 30 June 2004 and 2005 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.

Provisions comprises Employee benefits, which 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 some of its 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.

In the main, other current liabilities comprised prepaid receipts for events to be held post financial year end. The balances were high in 2004-05 (Alice Cooper show held in July) and in 2003-04 (Disney Stage Show also held shortly after year end).

CASH POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	458	537	403	303	387
Receipts from deficit funding	285	275	269	275	275
Payments to suppliers and employees	(710)	(683)	(682)	(570)	(627)
Interest received	6	8	4	3	5
Cash from operations	**39**	**137**	**(6)**	**11**	**40**
Payments for plant and equipment	(48)	(9)	(47)	(5)	(41)
Proceeds from sale of plant and equipment	0	0	13	0	7
Cash used in investing activities	**(48)**	**(9)**	**(34)**	**(5)**	**(34)**
Net increase in cash	**(9)**	**128**	**(40)**	**6**	**6**
Cash at the beginning of the period	159	31	71	65	59
Cash at end of the period	**150**	**159**	**31**	**71**	**65**

Comment

Receipts from customers included sporting, non-sporting and other income. The introduction of the GST caused Receipts from customers and payments to suppliers to increase significantly during 2000-01 and subsequent years.

Payments for plant and equipment during 2002-03 included the purchase of safety lines, stage drapes, meeting room tables and a vehicle. Payments during 2004-05 included purchases of computer equipment and the upgrading of a stage, to comply with legislation.

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations ($'000s)		(383)	(291)	(288)	(257)	(350)
EBIT ($'000s)		(98)	(16)	(19)	18	(75)
Operating margin	>1.0	0.48	0.58	0.51	0.52	0.45
Return on assets		-16.7%	-2.8%	-4.5%	5.7%	-23.0%
Return on equity		-29.2%	-4.1%	-6.5%	10.1%	-36.3%
Financial Management						
Current ratio	>1	0.65	0.91	0.60	0.88	0.61
Debt collection	30 days	26	9	23	16	11
Creditor turnover	30 days	40	30	26	24	22
Other information						
Staff numbers FTEs		7	7	7	7	7
Average staff costs ($'000s)		42	40	39	38	38

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 is less than one primarily due to the high levels of employee provisions and ongoing operating losses.

The creditor turnover increased to 40 days at 30 June 2005 due to capital creditors included in the payables balance of $0.020m.

OVERALL COMMENT

The Authority incurred operating losses over the period of this review. In past years the Silverdome had been the subject of several reviews, discussions, and reports dealing with options for its future operations.

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. This was followed by a series of negotiations with the Launceston City Council (Council) in 2005 with a view to the Velodrome being taken over by Council.

Following the rejection in October 2005 by the Council of this option, the Government has announced that it will retain ownership and has commenced the process of working towards implementing a schedule of works for the Silverdome.

The 2004-05 audit was completed with satisfactory results.

2.9 TASMANIAN PUBLIC FINANCE CORPORATION

INTRODUCTION

The Corporation (Tascorp) was established by the *Tasmanian Public Finance Corporation Act 1985.* Tascorp is comprised of five members appointed by the Governor. The functions of Tascorp include the development and implementation of borrowing and investment programs for participating authorities, including Local Government, State Authorities, State Owned Companies and inner budget agencies.

The Responsible Minister is the Treasurer.

AUDIT OF THE 2004-05 FINANCIAL STATEMENTS

Financial statements were received on 12 August 2005 and an unqualified audit report was issued on 16 August 2005.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	2004-05	**2003-04**	**2002-03**	**2001-02**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Interest Revenue	422 642	398 086	401 558	389 821	448 745
Other operating revenue	4 334	3 644	4 889	4 540	4 025
Non-operating revenue	9 686	28	28	21	25
Total Revenue	**436 662**	**401 758**	**406 475**	**394 382**	**452 795**
Interest Expense	413 355	388 104	392 217	380 715	437 002
Other operating expenses	4 816	4 644	5 410	5 249	10 023
Non-operating expenses	0	26	26	22	29
Total Expenses	**418 171**	**392 774**	**397 653**	**385 986**	**447 054**
Profit from ordinary activities	**18 491**	**8 984**	**8 822**	**8 396**	**5 741**
Income tax expense	2 641	2 695	2 647	2 425	2 721
Net Profit	**15 850**	**6 289**	**6 175**	**5 971**	**3 020**

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 high level of interest revenue in the 2000-01 year was 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 peak of $10.023m noted in other operating expenses was 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.

On a gross basis the higher interest revenue and interest expense in 2004-05 resulted primarily from an increase in the underlying liabilities and assets (see commentary on the Financial Position later in this Report) with the net interest margin being down compared to 2003-04 - $9.287m in 2004-05 and $9.982m in 2003-04.

During the current year a profit on the sale of the Police Services Building (PSB) has been recognised. Tascorp exchanged its investment in the PSB for financial assets, which provides a better hedge for the financial liabilities that were used to fund the PSB. This profit will be offset by a revaluation loss on the liabilities issued to fund the PSB on 1 July 2005 following the introduction of the Australian Equivalents of International Financial Reporting Standards (AIFRS) and Tascorp's resultant transition to market value accounting.

FINANCIAL POSITION

	2004-05	**2003-04**	**2002-03**	**2001-02**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	4 836	749	103	77	(671)
Receivables	0	222	305	4 273	89 429
Investments	3 910 187	2 650 433	2 184 317	1 835 765	1 489 684
Advances	2 659 654	2 822 778	2 831 341	3 559 568	3 203 719
Derivative Instrument Receivable	73 251	69 923	21 832	49 327	251 918
Property, plant and equipment	634	18 232	18 287	17 860	17 647
Other	27 829	35 855	15 935	16 526	2 344
Total Assets	**6 676 391**	**5 598 192**	**5 072 120**	**5 483 396**	**5 054 070**
Payables	147 400	160 000	185 581	4 383	86 865
Deposits	1 468 486	1 274 824	1 180 073	1 480 760	1 116 965
Borrowings	5 019 434	4 119 017	3 673 467	3 942 701	3 771 404
Derivative Instrument Payable	13 904	26 737	15 124	34 735	10 177
Other	7 481	7 614	7 875	8 485	54 221
Provisions	0	0	0	2 332	4 438
Total Liabilities	**6 656 705**	**5 588 192**	**5 062 120**	**5 473 396**	**5 044 070**
Net Assets	**19 686**	**10 000**	**10 000**	**10 000**	**10 000**
Reserves	10 000	10 000	10 000	10 000	10 000
Retained Earnings	9 686	0	0	0	0
Total Equity	**19 686**	**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 Spirits of Tasmania I and II. Since that time client advances have decreased in accordance with the Government's policy of reducing net debt.

During the current year, there has been an increase in borrowings and deposits, with investment assets increasing correspondingly in order to capitalise on margin opportunities, and to provide depositing clients with an adequate return.

2004-05 is the first time that Tascorp reported retained earnings which resulted from the profit on the sale of the PSB. A Treasurer's Instruction has been issued in accordance with the *Government Business Enterprises Act 1995*, which has exempted the profit on the sale of the property from tax equivalent calculations and dividends. As noted previously, these retained earnings will be eliminated by a revaluation loss to be recorded on 1 July 2005 upon the application of AIFRS.

CASH POSITION

	2004-05	**2003-04**	**2002-03**	**2001-02**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Interest Receipts	417 128	388 591	496 292	512 267	435 245
Interest Payments	(421 400)	(396 846)	(428 859)	(470 257)	(499 339)
Other Receipts from customers	2 469	3 118	5 010	4 608	6 012
Payments to suppliers and employees	(2 190)	(3 724)	(4 519)	(4 352)	(3 236)
Taxation expense	(2 960)	(3 018)	(4 061)	(7 114)	(991)
Cash from operations	**(6 953)**	**(11 879)**	**63 863**	**35 152**	**(62 309)**
Net (Increase)/Decrease in Advances & others	308 123	(8 804)	160 778	(219 263)	(326 251)
Net (Increase)/Decrease in Investments	(273 449)	(226 280)	(18 653)	(211 634)	261 376
Payments for property, plant and equip.	(82)	(192)	(561)	(342)	(112)
Proceeds from sale of property, plant and equip.	27 156	28	28	21	25
Cash used in investing activities	**61 748**	**(235 248)**	**141 592**	**(431 218)**	**(64 962)**
Net Increase/(Decrease) in Deposits & others	(325 152)	(88 184)	192 271	117 192	26 131
Net Increase/(Decrease) in Borrowings	934 121	437 891	(268 441)	137 414	(131 572)
Dividends paid	(6 289)	(6 175)	(5 971)	(4 976)	(4 223)
Cash from financing activities	**602 680**	**343 532**	**(82 141)**	**249 630**	**(109 664)**
Net increase in cash	**657 475**	**96 405**	**123 314**	**(146 436)**	**(236 935)**
Cash at the beginning of the period	198 322	101 917	(21 397)	125 039	361 974
Cash at end of the period	**855 797**	**198 322**	**101 917**	**(21 397)**	**125 039**

Comment

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

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

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations ($'000s)		8 805	8 984	8 822	8 396	5 741
Operating margin	>1.0	1.02	1.02	1.02	1.02	1.01
Return on equity		61.6%	62.9%	61.8%	59.7%	30.2%
Financial Management						
Cost of debt	7.5%	5.6%	5.8%	5.5%	5.5%	6.0%
Returns to Government						
Dividends paid or payable ($'000s)		6 164	6 289	6 175	5 971	4 976
Dividend payout ratio	50%	100.0%	100.0%	100.0%	100.0%	164.8%
Dividend to equity ratio		61.6%	62.9%	61.8%	59.7%	49.8%
Income tax paid or payable ($'000s)		2 641	2 695	2 647	4 159	5 676
Effective tax rate	30%	30.0%	30.0%	30.0%	49.5%	98.9%
Total return to the State ($'000s)		8 805	8 984	8 822	10 130	10 652
Total return to equity ratio		88.1%	89.8%	88.2%	101.3%	106.5%
Other information						
Staff numbers FTEs		13	14	13	14	14
Average staff costs ($'000s)		106	86	104	77	88

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. The impact of the sale of the PSB has been excluded from the analysis, due to the abnormal nature of the transaction. Overall, in tax and dividends, Tascorp returned $47.393m to the State over the past five years, at an average of $9.478m per annum.

Average staff costs in 2002-03 were high due to a number of redundancies paid during that year. Staff costs for 2005 were above those of the previous year due to an increase in employee provisions and the need to replace staff who had left the organisation.

OVERALL COMMENT

The audit of the financial statements for the 2004-05 year was completed with satisfactory results.

2.10 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 five members, including the Chief Executive Officer. All members of the Board are appointed by the Governor on the recommendation of the Minister.

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

AUDIT OF THE 2004-05 FINANCIAL STATEMENTS

Financial statements were signed by the Chairperson and the Chief Executive Officer on 1 September 2005 and an unqualified audit report was issued on 25 October 2005.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Operating revenue	5 767	4 749	4 390	4 245	3 885
Non-operating revenue	2	32	483	0	17
Total Revenue	**5 769**	**4 781**	**4 873**	**4 245**	**3 902**
Employee costs	3 079	3 198	2 827	2 491	2 485
Depreciation	71	79	82	87	92
Other operating expenses	1 334	1 388	1 213	1 683	1 081
Non-operating expenses	0	0	0	0	0
Total Expenses	**4 484**	**4 665**	**4 122**	**4 261**	**3 658**
Result from ordinary activities	**1 285**	**116**	**751**	**(16)**	**244**
Income tax expense	363	12	58	(1 488)	0
Result after taxation	**922**	**104**	**693**	**1 472**	**244**

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 CSO funding) approximated 76% of total Operating revenue (excluding revaluation write backs). Operating revenue increased in 2004-05 mainly because of an increase in income from commission and fees of $0.925m due to a general increase in the level of funds held on behalf of clients attributable to greater wealth in the community together with a one off commission due to a special distribution associated with a large estate. Employee costs were lower in 2004-05 due to higher staff turnover and the time taken to fill vacancies. These factors contributed to the increase of $1.169m in the before tax result from operations for 2004-05.

The amount received by way of CSO funding was $0.793m in 2004-05, $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 15% of total Operating revenue excluding revaluation write backs.

Non-operating revenue for 2002-03 included 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.

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). The high income tax expense in 2004-05 is a result of the improved result from operations.

FINANCIAL POSITION

	2004-05	**2003-04**	**2002-03**	**2001-02**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	1	1	1	1	1
Receivables	419	309	279	248	252
Investments	5 431	4 102	3 610	2 849	2 350
Other	66	87	78	166	31
Total Current Assets	**5 917**	**4 499**	**3 968**	**3 264**	**2 634**
Payables	537	393	440	381	343
Provisions	1 643	1 903	1 789	1 377	937
Other	265	96	95	21	0
Total Current Liabilities	**2 445**	**2 392**	**2 324**	**1 779**	**1 280**
Working Capital	**3 472**	**2 107**	**1 644**	**1 485**	**1 354**
Property, plant and equipment	3 315	3 363	3 732	3 311	3 327
Other	1 926	1 867	1 660	1 551	0
Total Non-Current Assets	**5 241**	**5 230**	**5 392**	**4 862**	**3 327**
Provisions	4 792	4 350	3 806	3 768	3 616
Other	12	0	0	43	0
Total Non-Current Liabilities	**4 804**	**4 350**	**3 806**	**3 811**	**3 616**
Net Assets	**3 909**	**2 987**	**3 230**	**2 536**	**1 065**
Retained profits	3 909	2 987	3 230	2 536	1 065
Total Equity	**3 909**	**2 987**	**3 230**	**2 536**	**1 065**

Comment

From 2000-01 the timing of CSO receipts changed to being received in arrears, previously they were received in advance. The final CSO receivable in relation to 2004-05 was $0.198m (2004: $0.257m). This amount is lower in 2004-05 as a result of the contribution no longer having a performance component, which was previously withheld until the final payment. Overall Receivables increased by $0.110m due to timing of some rental payments and investment management fees together with increased commission and fees as noted earlier in this report.

Investments were The Public Trustee's funds invested in the Common Fund, which have more than doubled since 2000-01 as The Public Trustee invested surplus cash generated from operations.

The increase in Current provisions up to 2003-04 was due principally to an actuarial adjustment to the retirement benefit entitlements together with the normal movement in expected future payments. In 2004-05 Current provisions dropped due to a change in the split between current and non-current. Overall provisions for 2004-05 amounted to $6.435m as compared to $6.253m for 2003-04 with the increase of $0.182m in line with normal movements.

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. For 2004-05 equity increased by $0.922m due to the improved result from operations.

CASH POSITION

	2004-05	**2003-04**	**2002-03**	**2001-02**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	5 680	4 711	4 449	4 115	3 662
Payments to suppliers and employees	(4 087)	(3 976)	(3 531)	(3 422)	(3 310)
Taxation expense	(241)	(219)	(134)	0	0
Cash from operations	**1 352**	**516**	**784**	**693**	**352**
Proceeds from investments	0	0	0	0	0
Payments for investments	(1 350)	(500)	(750)	(500)	(300)
Payments for property, plant and equipment	(22)	(97)	(23)	(72)	(51)
Proceeds from sale of property, plant and equipment	0	420	0	0	57
Cash used in investing activities	**(1 372)**	**(177)**	**(773)**	**(572)**	**(294)**
Dividends paid	0	(347)	0	(122)	0
Cash from financing activities	**0**	**(347)**	**0**	**(122)**	**0**
Net increase in cash	**(20)**	**(8)**	**11**	**(1)**	**58**
Cash at the beginning of the period	253	261	250	251	193
Cash at end of the period	**233**	**253**	**261**	**250**	**251**

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 in excess of $0.230m.

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations ($'000s)		1 283	84	268	(16)	227
EBIT ($'000s)		1 285	116	751	(16)	244
Operating margin	>1.0	1.29	1.02	1.07	1.00	1.06
Return on assets		12.3%	1.2%	8.6%	-0.2%	4.3%
Return on equity		26.7%	3.3%	24.0%	81.8%	24.3%
Financial Management						
Current ratio	>1	2.42	1.88	1.71	1.83	2.06
Creditor turnover	30 days	71	35	50	28	29
Returns to Government						
Dividends paid or payable ($'000s)		0	347	0	122	0
Dividend payout ratio	50%	-	333.7%	-	8.3%	-
Dividend to equity ratio		-	11.2%	-	6.8%	-
Income tax paid or payable ($'000s)		241	218	134	0	0
Effective tax rate	30%	18.8%	187.9%	17.8%	-	-
Total return to the State ($'000s)		241	565	134	122	0
Total return to equity ratio		7.0%	18.2%	4.6%	6.8%	-
Other information						
Staff numbers FTEs		50	49	46	49	49
Average staff costs ($'000s)		62	65	61	61	51

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. For 2004-05 this ratio increased due to stronger performance causing GST payable at year-end to be higher.

The effective income tax rate for 2003-04 was skewed by the higher level of profit earned in the prior year. No dividend was paid in 2004-05 due to low operating result in 2003-04. At the time of writing this report, a decision as to a dividend for 2004-05 had yet to be made.

Average staff costs have increased in recent years in line with changes in award rates. The decrease in average staff costs in 2004-05 is attributable to lower staff costs arising from high number of vacancies as noted earlier in this report.

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 14% of its Operating revenue. For the past three years, employee-related costs (which included adjustments to retirement benefit provisions) accounted for approximately 69% of its Operating Expenditure. Up to 2003-04 the financial performance of The Public Trustee was 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. The strong result in 2004-05 should lead to improved sustainability though future results will be subject to some volatility arising from movements in the retirement benefit provision.

The 2004-05 audit was completed with satisfactory results.

3 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 $1.250b, employ 1 969 people, and reported a loss of $5.187m after taxation in 2004-05, (TT-Line reported a loss of $79.279m after tax), 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 2005 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.

3.1 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.

In May 2005 Aurora joined the National Electricity Market (NEM) and now purchases wholesale electricity from the National Electricity Market Management Company Limited (NEMMCO). Aurora pays for energy at the market spot price and enters into hedge contracts with counterparties to manage the risks associated with fluctuations in the market spot price.

The board comprises seven directors, including the Chief Executive Officer.

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

AUDIT OF THE 2004-05 FINANCIAL STATEMENTS

Signed financial statements were received on 23 September 2005 and an unqualified audit report was issued on 27 September 2005.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Business customer sales	439 561	407 590	392 291	363 695	349 242
General sales	247 780	232 518	214 859	202 768	192 051
Other operating revenue	27 651	22 632	23 319	20 510	31 714
Non-operating revenue	19	0	205	0	0
Total Revenue	**715 011**	**662 740**	**630 674**	**586 973**	**573 007**
Energy and transmission purchases	477 422	440 357	411 881	384 201	362 867
Renewable energy credit purchases	5 573	4 049	2 663	2	0
Employee expenses	57 565	53 980	48 668	42 440	41 051
Borrowing costs	27 110	26 594	28 799	28 432	34 307
Depreciation	52 871	51 221	46 203	44 783	40 673
Other operating expenses	44 658	40 790	45 699	46 585	56 599
Non-operating expenses	406	46	0	393	508
Total Expenses	**665 605**	**617 037**	**583 913**	**546 836**	**536 005**
Result from ordinary activities	**49 406**	**45 703**	**46 761**	**40 137**	**37 002**
Income tax expense	19 225	18 225	17 995	9 082	16 856
Result after taxation	**30 181**	**27 478**	**28 766**	**31 055**	**20 146**

Comment

Operating revenue has continued to increase steadily with sales revenue for both business customers and general sales increasing by 25% and 29% respectively over this five-year period. During the same period energy and transmission costs increased by 31%.

During 2004-05 the Company changed its approach to estimating the amount of unbilled electricity sales as at year-end. This had the effect of increasing the current year's sales by $5.303m and prior years' sales by $3.874m.

Other operating revenue decreased to $20.510m in 2001-02 because the previous year included $14.009m in receipts for contributions to the consolidated fund. This legislative requirement 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 increasing costs that Aurora incurred in the last three years.

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

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

Other operating expenses increased in 2004-05 due to increases in NEM related projects and the level of external contracting.

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 Aurora 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

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	2 437	1 852	854	235	8
Receivables	59 143	49 402	48 974	46 107	43 603
Unbilled Energy	37 882	27 889	36 639	43 478	42 946
Investments	54 197	17 490	20 898	14 389	0
Inventories	6 579	4 752	3 288	3 414	3 559
Energy contracts accrued	43 994	0	0	0	0
Other	1 594	898	2 581	1 059	2 594
Total Current Assets	**205 826**	**102 283**	**113 234**	**108 682**	**92 710**
Payables	130 009	68 643	63 016	59 265	55 734
Borrowings	19	30 106	23 663	29 448	72 198
Provisions	19 069	32 558	32 678	40 878	36 434
Other	10 601	9 473	8 481	5 801	3 590
Total Current Liabilities	**159 698**	**140 780**	**127 838**	**135 392**	**167 956**
Working Capital	**46 128**	**(38 497)**	**(14 604)**	**(26 710)**	**(75 246)**
Property, plant and equipment	849 133	789 170	735 860	714 800	693 919
Investments	318	514	680	202	564
Future Income Tax Benefit	16 913	15 020	13 905	12 437	4 902
Other	55	81	107	0	0
Total Non-Current Assets	**866 419**	**804 785**	**750 552**	**727 439**	**699 385**
Borrowings	436 856	335 901	342 337	348 554	306 392
Provisions	39 759	24 424	20 521	18 883	18 922
Deferred Income Tax	31 646	30 185	33 969	35 573	35 656
Total Non-Current Liabilities	**508 261**	**390 510**	**396 827**	**403 010**	**360 970**
Net Assets	**404 286**	**375 778**	**339 121**	**297 719**	**263 169**
Capital	201 555	201 555	201 555	201 555	201 555
Reserves	99 858	87 704	63 771	51 518	35 459
Retained profits	102 873	86 519	73 795	44 646	26 155
Total Equity	**404 286**	**375 778**	**339 121**	**297 719**	**263 169**

Comment

Receivables were greater in 2004-05, due predominately to an increase in external contracting activity compared to previous years.

Unbilled energy is an estimate of electricity supplied to customers between the date of the last meter reading and the year-end. In 2004-05 Aurora revised the method of calculating unbilled energy and further revisions to the methodology are anticipated in 2005-06. Movements in this balance have a direct impact on operating results.

Current Investments increased in 2004-05 in order to satisfy Australian Financial Services Licence (AFSL) requirements. See further comment regarding this below.

Inventories were greater in 2004-05 due mainly to increases in capital works and external contracting.

Energy contracts accrued of $43.994m have arisen in 2004-05 since Aurora joined the NEM. This amount represents the difference between the spot price paid to NEMMCO for power and the contracted purchase price from Hydro Tasmania. Hydro Tasmania refunds these differences to Aurora.

Payables increased in 2004-05 and include an amount of $68.000m owing to NEMMCO for power purchased at the spot rate. This is offset to a degree by the energy contracts accrued of $43.994m as above.

Both current and non-current provisions changed in 2004-05 due to a policy revision. Employee entitlement provisions are now classified as current only when there is an expectation of being paid within the next 12 months. This revision more accurately reflects the current portion of these liabilities compared with previous years.

Aurora recorded negative working capital in each of the previous four financial years under review with the level of current borrowings significantly impacting upon the result. In 2004-05 Aurora replaced current borrowings with longer-term borrowings. Aurora also borrowed $50.000m long-term and undertook a current investment with the resultant impact being a positive working capital outcome.

The valuation methodology applied to the Aurora’s distribution assets reflects the Tasmanian Electricity Code rules, which regulates the revenue from these assets based on their written down optimised replacement value, and adjustments to these values as determined by the Regulator. In other words the asset values recognised represents the least cost, modern equivalent assets, which would provide the same service potential of the existing assets. Increases to Aurora’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. Over the five years under review, Aurora’s assets have increased by $155.214m (or 22%) due to its capital expenditure program (Aurora has paid $347.329m in capital expenditure over this five year period) and asset revaluations.

The FITB asset substantially increased since 2002 due to the higher superannuation provision being a tax-deductible charge only at the time of payment.

During 2004-05 Aurora restructured its loan portfolio. Borrowings increased principally to satisfy AFSL requirements.

Aurora’s equity has grown in line with revaluation increments to reserves and the accumulation of retained profits.

CASH POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	780 042	749 039	698 192	635 141	610 638
Payments to suppliers and employees	(653 827)	(604 403)	(561 727)	(520 144)	(508 006)
Interest received	3 107	1 632	1 257	504	939
Borrowing costs	(24 824)	(26 337)	(27 820)	(26 513)	(32 280)
Taxation expense	(23 850)	(23 853)	(18 868)	(16 718)	(13 532)
Cash from operations	**80 648**	**96 078**	**91 034**	**72 270**	**57 759**
Payments for investments	0	0	(660)	0	(800)
Payments for property, plant and equipment	(101 953)	(81 715)	(59 229)	(54 372)	(50 060)
Proceeds from sale of property, plant and equipment	1 038	1 260	4 483	4 378	2 143
Cash used in investing activities	**(100 915)**	**(80 455)**	**(55 406)**	**(49 994)**	**(48 717)**
Proceeds from borrowings	161 910	98 909	79 137	71 075	38 639
Repayment of borrowings	(90 409)	(100 561)	(92 501)	(72 203)	(39 169)
Dividends paid	(13 942)	(14 754)	(12 567)	(10 244)	(10 052)
Cash from financing activities	**57 559**	**(16 406)**	**(25 931)**	**(11 372)**	**(10 582)**
Net increase in cash	**37 292**	**(783)**	**9 697**	**10 904**	**(1 540)**
Cash at the beginning of the period	19 342	20 125	10 428	(476)	1 064
Cash at end of the period	**56 634**	**19 342**	**20 125**	**10 428**	**(476)**

Comment

Aurora benefits from a regular supply of income from its electricity customers to meet its obligations to both suppliers and employees. Cash from operations have been positive each year contributing to Aurora's capital investment program.

Borrowing costs declined in recent years in line with debt restructuring and lower debt-servicing costs.

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

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations ($'000s)		49 793	45 749	46 556	40 530	37 510
EBIT ($'000s)		76 516	72 297	75 560	68 569	71 309
EBITDA ($'000s)		129 387	123 518	121 763	113 352	111 982
Operating margin	>1.0	1.07	1.07	1.08	1.07	1.07
Return on assets		7.7%	8.2%	8.9%	8.4%	9.2%
Return on equity		7.7%	7.7%	9.0%	11.1%	8.0%
Financial Management						
Debt to equity		108.1%	97.4%	107.9%	127.0%	143.9%
Debt to total assets		40.7%	40.4%	42.4%	45.2%	47.8%
Interest cover - EBIT	>3	2.8	2.7	2.6	2.4	2.1
Interest cover - Funds from Operations	>3	3.9	4.6	4.1	3.5	2.6
Current ratio	>1	1.29	0.73	0.89	0.80	0.55
Leverage Ratio		90%	65%	71%	82%	99%
Cost of debt	7.5%	6.8%	7.3%	7.7%	7.5%	9.1%
Debt collection	30 days	28	24	25	26	26
Creditor turnover	30 days	16	4	3	3	4
Capex/Depreciation		1.89	1.71	1.09	1.73	1.43
Returns to Government						
Dividends paid or payable ($'000s)		11 977	13 942	14 754	12 566	10 244
Dividend payout ratio	50%	39.7%	50.7%	51.3%	40.5%	50.8%
Dividend to equity ratio	6%	3.1%	3.9%	4.6%	4.5%	4.1%
Income tax paid or payable ($'000s)		19 225	18 225	17 995	9 082	16 856
Effective tax rate	30%	38.9%	39.9%	38.5%	22.6%	45.6%
Government guarantee fees		1 393	1 312	1 214	1 230	1 082
Statutory 5% Levy		0	0	0	1 632	14 009
Total return to the State ($'000s)		32 595	33 479	33 963	24 510	42 191
Total return to equity ratio		8.4%	9.4%	10.7%	8.7%	16.8%
CSO Funding		11 513	11 319	13 005	9 745	9 727
Other information						
Staff numbers FTEs		981	881	845	820	810
Average staff costs ($'000s)		59	61	58	52	51

Comment

Aurora's result from operations continued to remain strong at $49.793m for the current financial year as do the returns on equity and assets. The return on equity ratio, dividend payout ratio and effective tax rate in 2001-02 were affected by the FITB adjustment referred to previously. Treasury advised that the $6.637m FITB adjustment resulting from entry into the NTER was not assessable for dividends.

The current ratio for 2004-05 year increased due to changes in borrowings structure as current borrowings were replaced with longer-term borrowings. The increase in debt during 2004-05 of $70.000m is evident in the debt to equity ratio.

Aurora's debt to equity ratio was greater than 100% in four of the five years under review. Despite this, Aurora's profitability indicates it is able to service this level of debt. This ratio increased in 2004-05 due to the $50.000m outlined previously. Without this additional borrowing, the ratio would be 95.7% which continues the downward trend over this period.

Included in the calculation of the debt collection ratio are major industrial customers that pay a substantial portion of charges in advance. Excluding these customers, the ratio for 2004-05 is approximately 40 days (2003-04, 35).

The dividends payable and the payout ratio for 2004-05 have reduced compared to recent years due to adjustments relating to the revised calculations for the unbilled energy component of revenue as mentioned earlier in this Report.

FTE numbers increased during 2004-05 due to entry into the NEM, an increased capital works program and a greater level of external contracting.

OVERALL COMMENT

Based on Aurora's 2004-05 performance, the Tasmanian Government will receive $32.595m comprising income tax equivalent, $19.225m, proposed dividend, $11.977m, and debt guarantee fees, $1.393m.

The Tasmanian Government has a Community Service Agreement with Aurora to provide discounts to pensioners. In 2004-05 reimbursements for this community service, plus administration costs, were $11.513m. Commencing from 1 July 2003 the Government expanded this agreement to include eligible Commonwealth Health Care Cardholders in the two winter quarters.

The 2004-05 Audit was completed with satisfactory results.

3.2 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. On 30 June 2005, Metro acquired the business of its subsidiary Metro Coaches. The assets and liabilities were purchased at their fair value at acquisition date.

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 2004-05 FINANCIAL STATEMENTS

Signed financial statements of Metro and Metro Coaches were received on 15 August 2005 and unqualified audit reports were issued on 18 August 2005.

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. These reviews impact on the levels of funding provided by the Government and the revenue raised through fares.

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, which amounted to $22.618m in 2004-05 from this contract. 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 on 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.

This program continues and ensures that Metro maintains an appropriate mix of vehicle ages and sizes in its fleet to meet the needs of customers, and to reflect the age profile of its remaining fleet.

FINANCIAL PERFORMANCE

	2004-05	**2003-04**	**2002-03**	**2001-02**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Government contribution	22 618	21 259	19 990	19 345	18 829
Fare revenue	8 095	7 669	7 306	7 064	6 984
Other operating revenue	2 763	2 840	2 780	3 126	3 137
Non-operating revenue	126	40	(30)	70	44
Total Revenue	**33 602**	**31 808**	**30 046**	**29 605**	**28 994**
Borrowing costs	192	201	215	227	262
Depreciation	3 391	3 128	3 128	2 975	2 790
Administration	3 814	3 667	3 532	3 445	3 566
Employee expenses	19 418	19 085	17 891	17 299	16 940
Other operating expenses	6 740	5 664	5 200	5 246	5 489
Total Expenses	**33 555**	**31 745**	**29 966**	**29 192**	**29 047**
Result from ordinary activities	**47**	**63**	**80**	**413**	**(53)**
Income tax expense	0	0	0	0	0
Result after taxation	**47**	**63**	**80**	**413**	**(53)**

Comment

As mentioned previously Metro receives the majority of its revenue from the CSA, which has gradually increased over the years in line with increases in Metro's costs as contract payments are indexed. This revenue source represents 67% of Metro's total revenue, up from 65% in 2000-01.

Fare revenue has grown 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. Without the non-operating revenue of $0.126m in 2004-05, Metro would have made an overall loss of $0.079m.

Borrowing costs have reduced with reductions in the levels of debt.

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

Other operating expenses increased in 2004-05 primarily due to higher fuel and maintenance costs.

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

FINANCIAL POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	2 347	2 445	4 599	3 704	1 329
Receivables	980	946	652	863	1 068
Investments	9 337	5 990	5 688	2 695	3 092
Inventories	861	793	795	742	696
Other	461	460	560	497	431
Total Current Assets	**13 986**	**10 634**	**12 294**	**8 501**	**6 616**
Payables	2 809	2 626	2 018	2 726	1 975
Borrowings	35	2 826	169	4	71
Provisions	6 976	5 954	5 511	4 474	3 995
Total Current Liabilities	**9 820**	**11 406**	**7 698**	**7 204**	**6 041**
Working Capital	**4 166**	**(772)**	**4 596**	**1 297**	**575**
Property, plant and equipment	30 149	32 379	24 538	26 039	26 834
Investments	0	0	0	2 630	1 990
Other	256	272	288	304	127
Total Non-Current Assets	**30 405**	**32 651**	**24 826**	**28 973**	**28 951**
Borrowings	2 792	35	2 861	3 030	3 034
Provisions	10 341	10 294	9 775	10 052	9 431
Total Non-Current Liabilities	**13 133**	**10 329**	**12 636**	**13 082**	**12 465**
Net Assets	**21 438**	**21 550**	**16 786**	**17 188**	**17 061**
Capital	15 503	15 503	15 503	15 502	15 501
Reserves	5 373	5 704	1 017	1 192	1 207
Retained profits	562	343	266	494	353
Total Equity	**21 438**	**21 550**	**16 786**	**17 188**	**17 061**

Comment

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 financial statements by a movement in the investment assets from non-current to current in 2002-03. Investments increased in 2004-05 due to a higher level of cash holdings. This increase represents funds set aside for bus purchases during the last half of 2005.

Total cash and investment holdings improved by $3.249m from $8.435m in 2003-04 to $11.684m in 2004-05 due primarily to cash generated from operations of $5.145m and net investments in property, plant and equipment of only $1.862m. This was the main contributor to Metro's improved net working capital. The other main reason for the increase in net working capital was the refinancing of debt that saw the bulk of Metro's borrowings reclassified as non-current.

Payables in 2001-02 included $0.698m for two buses delivered prior to the end of the year. Similarly, the higher amounts in 2003-04 and 2004-05 reflect a greater level of purchasing activity.

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. The revaluation reserve decreased by $0.331m in 2004-05 due to sales of buses resulting in a realisation of a part of this reserve.

CASH POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	34 589	32 360	30 848	29 969	28 700
Payments to suppliers and employees	(29 756)	(28 062)	(27 931)	(25 274)	(26 132)
Interest received	546	477	458	384	387
Borrowing costs	(234)	(227)	(215)	(227)	(262)
Cash from operations	**5 145**	**4 548**	**3 160**	**4 852**	**2 693**
Proceeds from investments	0	0	5 547	0	500
Payments for investments	(3 347)	(302)	(5 910)	(298)	(335)
Payments for property, plant and equipment	(2 310)	(6 354)	(2 608)	(2 899)	(858)
Proceeds from sale of property, plant and equipment	448	123	996	791	275
Cash used in investing activities	**(5 209)**	**(6 533)**	**(1 975)**	**(2 406)**	**(418)**
Proceeds from borrowings	2 792	0	0	2 792	0
Repayment of borrowings	(2 826)	(169)	(4)	(2 863)	(588)
Dividends Paid	0	0	(286)	0	(533)
Cash from financing activities	**(34)**	**(169)**	**(290)**	**(71)**	**(1 121)**
Net increase (decrease) in cash	**(98)**	**(2 154)**	**895**	**2 375**	**1 154**
Cash at the beginning of the period	2 445	4 599	3 704	1 329	175
Cash at end of the period	**2 347**	**2 445**	**4 599**	**3 704**	**1 329**

Comment

Receipts from customers increased in 2003-04 and 2004-05 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, 14 buses in 2003-04 and four buses in 2004-05.

Borrowings were refinanced in 2004-05.

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 in 2002-03 reflect the change in investment strategy as mentioned previously. Metro continues to invest surplus cash requirements in short term interest earning investments.

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations ($'000s)		(79)	23	110	343	(97)
EBIT ($'000s)		239	264	295	640	209
Operating margin	>1.0	1.00	1.00	1.00	1.01	1.00
Return on assets		0.5%	0.7%	0.8%	1.8%	0.6%
Return on equity		0.2%	0.3%	0.5%	2.4%	-0.3%
Financial Management						
Debt to equity		13.2%	13.3%	18.1%	17.7%	18.2%
Debt to total assets		6.4%	6.6%	8.2%	8.1%	8.7%
Interest cover	>3	1.2	1.31	1.37	2.82	0.80
Current ratio	>1	1.42	0.93	1.60	1.18	1.10
Leverage ratio		207.1%	200.9%	221.1%	218.0%	208.5%
Cost of debt	7.5%	6.8%	6.8%	7.1%	7.4%	7.7%
Debt collection	30 days	11	11	8	11	13
Creditor turnover	30 days	31	30	39	51	32
Returns to Government						
Dividends paid or payable ($'000s)		0	0	0	286	0
Dividend payout ratio	50%	-	-	-	69.2%	-
Dividend to equity ratio		-	-	-	1.7%	-
Income tax paid or payable ($'000s)		0	0	0	0	0
Effective tax rate	30%	-	-	-	-	-
Total return to the State ($'000s)		0	0	0	286	0
Total return to equity ratio		-	-	-	1.7%	-
CSA funding ($'000s)		22 618	21 259	19 990	19 345	18 829
Other information						
Staff numbers FTEs		370	373	363	367	371
Average staff costs ($'000s)		52	51	51	50	46

Comment

Metro had a negative result from operations in 2004-05 and 2000-01.

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. This is confirmed by the low return on assets, low return on equity and nil return to the State in the form of taxes and dividends.

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.

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, whilst in 2004-05 the increase was due to improved cash holdings and debt refinancing.

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

OVERALL COMMENT

Both revenue and expenditure for Metro have been steady over the five-year period. Total borrowings have decreased in line with its retirement of debt and cash and payables balances have varied mainly due to the purchase of buses.

The 2004-05 audits of Metro and Metro Coaches were completed with satisfactory results.

3.3 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* and for the development of an efficient and effective racing and breeding industry under the *TOTE Tasmania Act 2000*. 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 wholly owns 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 2005 the Responsible Minister was the Minister for Racing.

AUDIT OF THE 2004-05 FINANCIAL STATEMENTS

Signed financial statements were received on 14 October 2005 and an unqualified audit report was issued on the same day.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Wagering revenue	46 075	43 504	40 879	36 595	30 830
Government Grant	1 060	2 212	1 085	1 085	350
Interest received	1 418	554	423	316	305
Other revenue	6 911	5 976	5 329	3 691	3 000
Non-operating revenue	19	26	210	0	0
Total Revenue	**55 483**	**52 272**	**47 926**	**41 687**	**34 485**
Borrowing costs	459	452	340	215	154
Depreciation and amortisation	3 648	3 249	3 243	2 784	2 326
Employee benefits	8 198	7 087	6 617	6 310	5 247
Prize money, benefits, incentives	13 670	13 377	12 361	11 847	10 977
Wagering pooling fees	6 394	6 163	5 264	3 596	2 161
Other operating expenses	22 121	21 034	18 674	15 440	12 724
Non-operating expenses	0	0	0	195	1
Total Expenses	**54 490**	**51 362**	**46 499**	**40 387**	**33 590**
Result from ordinary activities	**993**	**910**	**1 427**	**1 300**	**896**
Income tax expense	308	412	234	497	362
Result after taxation	**685**	**498**	**1 193**	**803**	**533**

Comment

The five-year comparatives refer to the TAB for the period 2000-01 to 4 March 2001, the Company from 5 March 2001 to 30 June 2001 and the Company from 2001-02 onwards.

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.

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

In 2004-05, wagering revenue rose by $2.571m due to higher turnover, and other revenue rose by $0.935m, due to grossing up of amounts relating to recoveries for patrol films and some insurance. These were offset by increases in most operating expenses in particular employee costs of $1.111m due to the Brighton Training Centre and staff for new multi-code centres at Mowbray and Elwick. In addition other operating expenses increased by $1.087m due to grossing up of recoveries noted previously, and a return of the government grant to a more normal level. Profit before tax increased marginally from $0.910m in 2003-04 to $0.993m in 2004-05.

Government grants increased in 2003-04 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.

FINANCIAL POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	1 037	2 027	2 854	2 002	993
Receivables	2 525	2 117	2 406	1 520	1 144
Investments	17 833	8 827	7 411	6 498	4 909
Other	367	340	382	517	973
Total Current Assets	**21 762**	**13 311**	**13 053**	**10 537**	**8 018**
Payables	4 887	5 157	2 770	1 849	2 054
Borrowings	1 000	1 050	0	0	0
Provisions	1 288	1 227	1 095	2 547	1 669
Telephone Betting deposits	2 384	2 656	2 635	2 030	1 643
Dividends and Refunds Due and Unpaid	614	527	511	537	506
Other	409	500	324	412	434
Total Current Liabilities	**10 582**	**11 117**	**7 335**	**7 375**	**6 306**
Working Capital	**11 180**	**2 194**	**5 718**	**3 162**	**1 712**
Property, plant and equipment	28 757	15 571	13 261	14 292	16 791
Tax Assets	714	604	510	549	0
Intangibles	473	460	431	693	833
Receivables	0	423	423	0	0
Other	136	154	172	191	0
Total Non-Current Assets	**30 080**	**17 212**	**14 797**	**15 725**	**17 624**
Borrowings	528	1 979	3 232	2 819	2 784
Provisions	1 115	1 069	1 031	1 000	929
Total Non-Current Liabilities	**1 643**	**3 048**	**4 263**	**3 819**	**3 713**
Net Assets	**39 617**	**16 358**	**16 252**	**15 068**	**15 623**
Capital	37 203	14 602	14 602	14 382	9 892
Reserves	344	162	162	383	5 505
Retained profits	2 070	1 594	1 488	303	226
Total Equity	**39 617**	**16 358**	**16 252**	**15 068**	**15 623**

Comment

During 2004-05, Capital increased due to an equity contribution of $22.600m to be applied to improvements to specified racetracks and infrastructure. As a result, property plant and equipment increased by $13.186m.

Investments increased in 2004-05 due mainly to the unexpended portion of the equity contribution as at that date.

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. Receivables again increased in 2004-05 due to the timing of some sponsorship funding and GST receivable.

Accruals and accounts payable have increased significantly in 2003-04 and 2004-05 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.

CASH POSITION

	2004-05	**2003-04**	**2002-03**	**2001-02**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers and other TABs	217 589	211 715	204 131	184 146	163 512
Other receipts	7 749	8 372	6 502	3 694	400
Interest received	1 465	525	422	322	290
Payments to customers	(170 849)	(167 820)	(162 107)	(149 667)	(131 457)
Payments to suppliers and employees	(52 652)	(46 256)	(43 174)	(34 169)	(30 132)
Borrowing costs	(98)	(198)	(160)	(196)	(169)
Other payments	(442)	(604)	(785)	(87)	(183)
Cash from operations	**2 762**	**5 734**	**4 829**	**4 043**	**2 261**
Proceeds from investments	0	0	423	47	2 633
Payments for investments	(1 038)	(121)	(423)	0	(41)
Payments for property, plant and equipment	(16 090)	(5 159)	(4 461)	(2 369)	(2 410)
Proceeds from sale of property, plant and equipment	31	910	2 230	1 282	503
Cash used in investing activities	**(17 097)**	**(4 370)**	**(2 231)**	**(1 040)**	**685**
Proceeds from borrowings	0	0	0	0	0
Repayment of borrowings	0	(302)	(18)	(10)	0
Proceeds from issue of shares	22 600	0	0	0	0
Dividends paid	(249)	(474)	(803)	(407)	0
Cash from financing activities	**22 351**	**(776)**	**(821)**	**(417)**	**0**
Net increase in cash	**8 016**	**588**	**1 777**	**2 586**	**2 945**
Cash at the beginning of the period	10 854	10 266	8 488	5 902	2 957
Cash at end of the period	**18 870**	**10 854**	**10 265**	**8 488**	**5 902**

Comment

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

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, 2003-04 and 2004-05.

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. In 2004-05 these payments represent the works being carried out at Elwick Racecourse and the Brighton Training Centre.

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

Proceeds from sale of shares of $22.600m represents equity contribution discussed previously.

The overall decrease in cash during 2003-04 reflects the considerable expenditure made in capital improvements during the year. The improvement in cash position for 2004-05 predominately reflects the unexpended equity contribution for the Elwick redevelopment.

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations ($'000s)		993	910	1 427	1 300	896
EBIT ($'000s)		1 089	1 060	1 582	1 460	1 050
Operating margin	>1.0	1.02	1.02	1.03	1.03	1.03
Return on assets		2.6%	3.6%	5.8%	5.6%	4.1%
Return on equity		2.4%	3.1%	7.6%	5.2%	3.4%
Financial Management						
Debt to equity		3.9%	18.5%	19.9%	18.7%	17.8%
Debt to total assets		2.9%	9.9%	11.6%	10.7%	10.9%
Interest cover	>3	11	7	10	9	7
Current ratio	>1	2.06	1.20	1.78	1.43	1.27
Cost of debt	7.5%	5.3%	5.0%	5.8%	5.8%	5.5%
Debt collection	30 days	55	27	22	38	14
Creditor turnover	30 days	37	42	27	22	29
Returns to Government						
Dividends paid or payable ($'000s)		0	249	473	803	407
Dividend payout ratio	50%	-	50.0%	39.6%	100.0%	76.3%
Dividend to equity ratio	6%	-	1.5%	3.0%	5.2%	2.6%
Income tax paid or payable ($'000s)		553	549	457	497	362
Effective tax rate	30%	55.7%	60.3%	32.0%	38.2%	40.4%
Total return to the State ($'000s)		553	798	930	1 300	769
Total return to equity ratio		2.0%	4.9%	5.9%	8.5%	4.9%
Other information						
Staff numbers FTEs		122	114	115	112	102
Average staff costs ($'000s)		67	62	58	56	51

Comment

Return on equity and Return on assets both decreased in 2004-05 due to impact of equity contribution and its subsequent application to property plant and equipment.

Debt collection ratio increased in 2004-05 due to the timing of two large debts at the end of that year (one for GST recoveries from the Federal Government, the other for Sponsorship income, both of which were received in July).

Creditor turnover was again high in 2003-04 and 2004-05 and related to the increase in payables described earlier due to the developments occurring at various racecourses and training centres.

Average staff costs for the period under review have remained fairly steady. The increase in 2004-05 is attributable to extra staff required for Brighton Training Complex and Mowbray and Elwick racing centres.

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.

For 2004-05 the Directors resolved that no dividend would be paid and the amount that would otherwise have been payable is to be used to bolster cash reserves. This has resulted in Total Return to Equity ratio dropping from 4.9% to 2.0% in 2004-05.

OVERALL COMMENT

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 2004-05 year reflects an equity contribution of $22.600m, which was applied from that year to improvements to specified racetracks and infrastructure, resulting in increases to property plant and equipment and cash (due to the unspent portion), as the works are completed.

The 2004-05 audit was completed with satisfactory results.

3.4 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 2001* 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 hold 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. Transend ceased responsibility for System Controller at midnight on 28 May 2005 upon entry into the National Electricity Market. However Transend has an agreement with the National Electricity Market Management Company requiring Transend to retain power system security in some parts of the Tasmanian system. Transend also has an obligation under the Tasmanian *Electricity Supply Industry Act 1995* to retain the capability to manage power system security for the entire Tasmanian system.

The board comprises seven directors, including the Chief Executive Officer.

AUDIT OF THE 2004-05 FINANCIAL STATEMENTS

Signed financial statements were received on 27 September 2005 and an unqualified audit report was issued on 29 September 2005.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000	$'000	$'000	$'000	$'000
Transmission use of system (TUOS)	108 029	85 946	71 601	70 702	68 185
System Controller	9 536	9 508	9 757	9 145	8 329
Other revenue	1 930	1 544	1 755	1 180	1 425
Total Revenue	**119 495**	**96 998**	**83 113**	**81 027**	**77 939**
Borrowing costs	2 449	2 052	981	1 153	1 006
Depreciation	32 955	26 979	22 537	21 314	17 454
Other operating expenses	40 027	35 593	32 267	29 780	27 899
Non-operating expenses	698	200	173	143	9 173
Total Expenses	**76 129**	**64 824**	**55 958**	**52 390**	**55 532**
Result from ordinary activities	**43 366**	**32 174**	**27 155**	**28 637**	**22 407**
Income tax expense	15 833	12 327	10 789	8 963	12 341
Result after taxation	**27 533**	**19 847**	**16 366**	**19 674**	**10 066**

Comment

Revenue from Transmission use of system (TUOS) increased 25.69% in 2004-05, this was a continued trend from the increase in 2003-04, which was due to a higher return on capital allowed by the Australian Competition and Consumer Commission (ACCC) and a higher capital base. The ACCC gave a determination of the regulated income for five and a half years from January 2004.

System controller and other revenues continued to grow, increasing by 3.74%. This is consistent with the growth achieved in prior years.

Borrowing costs increased in 2004-05 in accordance with the increase in borrowings for the period.

Higher depreciation expenses in 2004-05 compared to 2003-04 resulted from the increase of 7.19% in plant and equipment during 2004-05 and acceleration of depreciation expenses relating to older assets that are due to be replaced in 2005-06 under the capital expenditure program.

The increase in other operating expenses in 2004-05 is attributable to the increased business activity and contracted services.

Non-operating expenses increased by $0.498m in 2004-05. In this financial year the written down value of all assets was expensed through non-operating expenses, and any asset revaluation increments and decrements were reversed against the asset revaluation reserve. The full amount of substation assets decommissioned and disposed has been taken to the asset revaluation reserve reversing revaluation increment in previous years.

The income tax expense increased each year, other than 2000-01, in line with the increase in results from ordinary activities.

Results after taxation for 2004-05 grew by 38.73% compared to 2003-04, driven by the 25.69% increase in revenue while expenses only increased by 17.44%.

FINANCIAL POSITION

	2004-05	**2003-04**	**2002-03**	**2001-02**	**2000-01**
	$'000	$'000	$'000	$'000	$'000
Cash	23	4	0	0	0
Receivables	12 659	10 169	9 389	9 075	9 744
Investments	0	0	3 946	0	530
Inventories	153	421	425	481	489
Other	365	234	264	112	1 102
Total Current Assets	**13 200**	**10 828**	**14 024**	**9 668**	**11 865**
Bank Overdraft	0	0	37	197	76
Payables	18 253	13 410	12 221	9 344	10 806
Borrowings	17 806	9 896	4 994	1 760	5 052
Provisions	12 388	9 277	5 038	12 972	16 387
Other	1 270	1	1	1	826
Total Current Liabilities	**49 717**	**32 584**	**22 291**	**24 274**	**33 147**
Working Capital	**(36 517)**	**(21 756)**	**(8 267)**	**(14 606)**	**(21 282)**
Property, plant and equipment	679 152	633 568	586 251	580 736	451 682
Other	5 378	4 238	3 357	2 817	623
Total Non-Current Assets	**684 530**	**637 806**	**589 608**	**583 553**	**452 305**
Borrowings	35 095	25 191	20 510	15 490	10 418
Provisions	40 921	39 186	34 422	30 196	25 248
Total Non-Current Liabilities	**76 016**	**64 377**	**54 932**	**45 686**	**35 666**
Net Assets	**571 997**	**551 673**	**526 409**	**523 261**	**395 357**
Capital	336 549	336 549	336 549	336 549	336 549
Reserves	158 804	156 089	142 489	155 707	37 639
Retained profits	76 644	59 035	47 371	31 005	21 169
Total Equity	**571 997**	**551 673**	**526 409**	**523 261**	**395 357**

Comment

Receivables increased in 2004-05 by 24.48% from 2003-04, which is in line with the increase in TUOS revenue.

In 2004-05 investments were again nil. Investments in cash related assets were high in 2002-03 due to the capital expenditure program being lower than forecast.

Inventories held at year-end decreased 63.66% from 2003-04. This was due to the write-off of reclaimed steel in 2004-05.

Other current assets remained consistent with prior years, except for 2000-01, which included a prepayment of $1.064m for the Risdon substation project.

Payables increased 36.11% in 2004-05 from the 2003-04 year. This is due to increased operations and as a result of the timing of capital expenditure occurring around year-end.

During 2004-05 additional borrowings were required to fund the large capital expenditure program. This resulted in an increase in total borrowings of 50.77% in 2004-05. The Company's capital expenditure program is designed to improve the reliability of the State's transmission system.

The total increase in provisions in 2004-05 is 10%, which is consistent with previous years. The growth is largely attributable to the increase in the provision for unfunded defined benefit superannuation. Note that no provision has been made for dividends since 2002-03 in accordance with changes in accounting standards.

In previous years other current liabilities remained low and relatively consistent. However, in 2004-05 a substantial increase in other current liabilities occurred due the recognition of income received in advance. This was in relation to a contract which had not yet commenced at year end.

The negative Working Capital is mainly attributed to the policy adopted by Transend of maintaining negligible cash reserves. Transend has a $1.000m bank overdraft facility with the Commonwealth Bank of Australia. At 30 June 2005 Transend has $12.800m of overnight borrowings, $40.000m of fixed term borrowings and further $15.000m of exercisable fixed term borrowings with Tascorp.

Property, plant and equipment increased by 7.19% in 2004-05 as a result of the capital expenditure program which is currently in progress. The increase in these assets is also attributable to the accounting policy adopted by the company which provides that the assets are revalued by the Australian Bureau of Statistics Consumer Price Index. The inflation factor for both the 2004-05 and 2003-04 years was 2.5%.

Other non-current assets includes deferred tax assets which increased 26.9% in 2004-05 compared to 2003-04.

Capital in 2004-05 remains consistent with prior years and changes in Reserves are related to the revaluation of Transend's assets mentioned previously.

CASH POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000	$'000	$'000	$'000	$'000
Receipts from customers	134 986	105 067	90 994	89 551	87 434
Interest received	48	91	190	44	45
Payments to suppliers and employees	(51 120)	(40 345)	(35 741)	(38 544)	(32 749)
Borrowing costs	(2 464)	(2 338)	(1 186)	(1 203)	(1 124)
Taxation paid	(14 744)	(7 225)	(6 197)	(10 293)	(8 295)
Cash from operations	**66 706**	**55 250**	**48 060**	**39 555**	**45 311**
Transfer of system controller functions	0	0	0	0	2 046
Proceeds from sale of property and plant	213	360	542	221	197
Payments for fixed assets	(74 946)	(60 915)	(43 076)	(32 359)	(32 073)
Cash used in investing activities	**(74 733)**	**(60 555)**	**(42 534)**	**(32 138)**	**(29 830)**
Proceeds from borrowings	17 970	9 583	10 177	2 553	5 689
(Payment of)/proceeds from investments	0	3 946	(5 706)	0	(9 930)
Dividends paid	(9 924)	(8 183)	(9 837)	(10 091)	(11 199)
Cash from financing activities	**8 046**	**5 346**	**(5 366)**	**(7 538)**	**(15 440)**
Net increase in cash	**19**	**41**	**160**	**(121)**	**41**
Cash at the beginning of the period	4	(37)	(197)	(76)	(117)
Cash at end of the period	**23**	**4**	**(37)**	**(197)**	**(76)**

Comment

Transend is generating significant cash from its operations, with an increase in 2004-05 of 20.73% compared to 2003-04.

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 previous years has been a small bank overdraft, however this position improved in 2003-04 and was further improved upon in 2004-05, with a positive net cash increase being achieved.

The growth in receipts from customers is consistent with the growth in revenue from TUOS which was driven by a higher determination allowed by the ACCC. An increase in payments to suppliers and employees has also resulted from increased business activity.

Payments for fixed assets continued to increase due to the capital expenditure program in place and likewise the increase in proceeds from borrowings is attributable to the funding of the capital expenditure program.

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations ($'000s)		42 134	30 830	25 573	27 600	30 155
EBIT ($'000s)		46 599	34 441	28 862	30 261	23 863
EBITDA ($'000s)		79 554	61 420	51 399	51 575	41 317
Operating margin	>1.0	1.56	1.48	1.46	1.53	1.65
Return on assets		6.9%	5.5%	4.8%	5.7%	5.3%
Return on equity		4.9%	3.7%	3.1%	4.3%	2.6%
Financial Management						
Debt to equity		9.2%	6.4%	4.8%	3.3%	3.9%
Debt to total assets		7.6%	5.4%	4.2%	2.9%	3.3%
Interest cover - EBIT	>3	14.4	15.2	16.9	18.6	16.4
Interest cover - Funds from Operations	>3	28	25	42	34	41
Current ratio	>1	0.27	0.33	0.63	0.40	0.36
Cost of debt	7.5%	7.3%	7.5%	8.0%	9.9%	8.4%
Debt collection	30 days	7	7	11	7	9
Creditor turnover	30 days	17	4	15	0	4
Capex/Depreciation		2.3	2.2	1.8	1.5	2.7
Returns to Government						
Dividend payout ratio	50%	50.0%	50.0%	50.0%	50.0%	100.0%
Dividend to equity ratio	6%	2.5%	1.8%	1.6%	2.1%	2.6%
Effective tax rate	30%	31.3%	22.8%	28.2%	24.4%	39.5%
Total return to the State ($'000s)		27 354	17 269	15 836	16 838	18 946
Total return to equity ratio		4.9%	3.2%	3.0%	3.7%	4.9%
Other information						
Staff numbers FTEs		183	157	125	113	91
Average staff costs ($'000s)		97	88	87	82	83

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 (2004-05, 0.27:1).

At the same time the Debt to equity ratio is very low (2004-05, 9.2%), though there has been a steady increase over the last five years due to the capital expenditure program which is resulting in further borrowings. Interest coverage has remained consistent with a slight downward movement over the five years. Interest coverage is high (2004-05 14.4:1) which is consistent with the debt equity structure of Transend, agreed with the Department of Treasury and Finance.

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

The company’s large capital expenditure program results in the high capital expenditure to depreciation ratios throughout the period of review.

The Company has paid consistent dividends to the Government.

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 and increasing operational needs.

The impact of the higher average salary rates and staff numbers has been to increase costs by approximately $3.935m.

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

OVERALL COMMENT

Transend has a strong Net Asset position. However, its liquidity is very tight in accordance with the policy adopted by Transend of maintaining negligible cash holdings. 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 $13.676m for 2004-05.

The 2004-05 audit was completed with satisfactory results.

3.5 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 services 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 2005 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 2004-05 FINANCIAL STATEMENTS

Signed financial statements were received on 9 September 2005 and an unqualified audit report was issued on 16 September 2005.

FINANCIAL RESULTS

The Company has undergone significant change during the five years under review. As a result, commentary 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 repeated here.

FINANCIAL PERFORMANCE

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Operating revenue	154 793	154 212	134 111	86 129	81 829
Non-operating revenue	81	38	61 407	107	13
Total Revenue	**154 874**	**154 250**	**195 518**	**86 236**	**81 842**
Employee costs	33 803	30 444	24 309	17 816	16 777
Borrowing costs	16 192	13 954	12 673	1 958	2 696
Depreciation	24 006	18 635	13 994	6 304	5 970
Other operating expenses	116 915	94 613	79 194	50 501	51 031
Non-operating expenses	43 237	0	62 736	30 940	0
Total Expenses	**234 153**	**157 646**	**192 906**	**107 519**	**76 474**
Result from ordinary activities	**(79 279)**	**(3 396)**	**2 612**	**(21 283)**	**5 368**
Income tax expense	0	0	0	0	0
Result after taxation	**(79 279)**	**(3 396)**	**2 612**	**(21 283)**	**5 368**

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 $47.982m 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 operated considerably below budgeted expectations and caused an 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 which did not eventuate.

Spirit III was operational for all of the 2004-05 financial year and continued to operate below budgeted expectations. The results for Spirit III reflect lower than expected passenger numbers, vehicle numbers and carriage of freight.

Spirits I & II also incurred losses in 2004-05. Although vehicle numbers and carriage of freight were above budget, this was offset by lower than expected passenger numbers.

The below budget operational results are understood to reflect increased competition from budget airlines which increased their operations between Tasmania and mainland Australia during this period.

Details of passenger and vehicle numbers and freight are shown in the table below:

	2004-05	**2003-04**	**2002-03**	**2001-02**	**2000-01**
	$'000's	$'000's	$'000's	$'000's	$'000's
Passenger Numbers	451 917	505 587	504 350	348 435	330 961
% Increase/(decrease)	**-10.62%**	**0.25%**	**44.74%**	**5.27%**	
Vehicle Numbers	206 014	220 608	210 194	134 829	127 124
% Increase/(decrease)	**-6.62%**	**4.95%**	**55.89%**	**6.06%**	
Freight (TEU)	68 720	51 412	39 543	22 525	21 771
% Increase	**33.67%**	**30.01%**	**75.55%**	**3.46%**	

The loss of $79.279m for 2004-05 includes a valuation decrement of $43.237m, which all related to the carrying value of the company's three ferries. During 2004-05 the Directors decided to change the company's basis for valuing the ferries from "at cost" to a fair valuation basis. The decrement arises from independent valuations obtained by the Directors. It is probable that application of the previous "at cost" policy would have resulted in the same decrement because current and projected operating performance would have required a write down in the carrying values of the three ferries in any event.

The decrement of $43.237m includes write downs for each ferry as follows:

Spirit I	$13.920m
Spirit II	$15.230m
Spirit III	$14.087m

Without this decrement the company traded at an operating loss of $36.042m due primarily to the drop in passenger and vehicle numbers previously referred to. These losses were incurred as follows:

Devonport to Melbourne route	$6.382m
Devonport to Sydney route	$29.533m
Other	$0.127m

The Company incurred net non-operating losses totalling $32.374m ($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 2004-05, of $3.359m attributable to a full years' operation of the Sydney service.

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 for the first time in 2002-03.

During 2003-04, the Company incurred further loan debt of $125.00m, 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.

There are no proceeds from borrowings for 2004-05, however, principal repayments for 2004-05 amounted to $57.178m.

Consistent with the acquisition of the new ferries, depreciation expense increased in 2002-03 by $7.690m to $13.994m, in 2003-04 by a further $4.641m to $18.635m and, again in 2004-05, by a further $5.371m to $24.006m with operating expenses increasing similarly.

In summary, the Company reported operating profits (before non-operating revenues and costs) in the first three years under review recording its first operating loss in 2003-04 with a further operating loss in 2004-05.

FINANCIAL POSITION

	2004-05 $'000s	2003-04 $'000s	2002-03 $'000s	2001-02 $'000s	2000-01 $'000s
Cash	2 854	1 543	94	7 814	12 039
Receivables	12 561	16 561	11 906	3 261	4 743
Inventories	1 738	1 388	803	492	581
Other	2 408	722	429	62 769	583
Total Current Assets	**19 561**	**20 214**	**13 232**	**74 336**	**17 946**
Payables	16 900	16 984	16 216	12 461	6 999
Borrowings	63 567	48 321	53 060	112 511	16 971
Provisions	6 522	5 265	5 063	3 436	3 639
Other	8 209	6 954	5 154	5 810	5 176
Total Current Liabilities	**95 198**	**77 524**	**79 493**	**134 218**	**32 785**
Working Capital	**(75 637)**	**(57 310)**	**(66 261)**	**(59 882)**	**(14 839)**
Property, plant and equipment	349 972	407 715	392 518	304 806	101 655
Total Non-Current Assets	**349 972**	**407 715**	**392 518**	**304 806**	**101 655**
Borrowings	160 814	233 237	151 931	201 536	22 587
Provisions	3 429	2 978	2 557	2 388	1 946
Other	0	0	87 394	0	0
Total Non-Current Liabilities	**164 243**	**236 215**	**241 882**	**203 924**	**24 533**
Net Assets	**110 092**	**114 190**	**84 375**	**41 000**	**62 283**
Capital	244 214	169 033	135 822	94 568	94 568
Retained profits	(134 122)	(54 843)	(51 447)	(53 568)	(32 285)
Total Equity	**110 092**	**114 190**	**84 375**	**41 000**	**62 283**

Comment

The Company maintained a strong cash position over the two-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. The cash position improved in 2004-05, primarily due to a $75.181m contribution from owners during the year. This tight liquidity position is likely to continue until the Sydney to Devonport line becomes profitable and until the Devonport to Melbourne route returns to profitability.

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.

The 2004-05 Receivables balance shows a decrease of $4.000m compared to the prior year, which primarily reflects insurance claims outstanding in the prior year that were not applicable at 30 June 2005 and lower accrued loan interest.

Inventory balances have increased since 2002-03 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 2004-05 is consistent with 2002-03 and 2003-04 and includes a loan interest accrual of $4.371m.

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 unfunded superannuation for employees with 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. The decrease of $57.743m in 2004-05 includes the valuation decrement of $43.237m applied to the ferries as a result of the change in accounting policy described earlier in this Report.

Total loan debt over the five-year period increased from $39.558m in 2000-01 to $224.381m in 2004-05 reflecting debt incurred in acquiring the three Spirits currently operated by the Company less repayments. During 2002-03 and 2003-04 the repayments totalled $157.488m. The repayments were partly funded by contributions from the State Government and proceeds from the sale of the Spirit of Tasmania of $61.249m in 2002-03.

The repayment in 2004-05 of $57.178 was funded by the contribution of $75.181m 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, 2003-04 and 2004-05 being the State Government's contributions referred to previously.

CASH POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	176 025	166 937	137 781	96 565	90 201
Payments to suppliers and employees	(167 471)	(139 422)	(115 080)	(76 263)	(74 917)
Interest received	83	50	87	468	387
Borrowing costs	(17 570)	(14 665)	(6 409)	(1 271)	(2 722)
Cash from operations	**(8 933)**	**12 900**	**16 379**	**19 499**	**12 949**
Payments for property, plant and equip.	(7 840)	(121 268)	(17 703)	(298 321)	(1 229)
Proceeds from sale of property, plant and equip.	81	38	61 406	107	87
Cash used in investing activities	**(7 759)**	**(121 230)**	**43 703**	**(298 214)**	**(1 142)**
Proceeds from borrowings	0	125 000	0	291 461	0
Repayment of borrowings	(57 178)	(47 350)	(110 138)	(16 971)	(2 778)
Contribution from owners	75 181	33 211	41 254	0	0
Cash from financing activities	**18 003**	**110 861**	**(68 884)**	**274 490**	**(2 778)**
Net increase in cash	**1 311**	**2 531**	**(8 802)**	**(4 225)**	**9 029**
Cash at the beginning of the period	1 543	(988)	7 814	12 039	3 010
Cash at end of the period	**2 854**	**1 543**	**(988)**	**7 814**	**12 039**

Comment

Up until 2004-05, the Company had maintained positive cash flows from operations with increases in Cash from operations generally representing increasing passenger, vehicle and freight movements. As discussed earlier, results for 2004-05 were below expectations and this is reflected in the net cash outflow from operations of $8.933m.

Cash flows from operations in 2003-04 of $12.900m were $3.479m below the 2002-03 result. The decrease was 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.

Payments for Property, plant and equipment in 2003-04, totalling $121.268m related mainly to the purchase and refurbishment of the third vessel at $108.17m.

Payments for Property, plant and equipment in 2004-05 of $7.840m primarily represent capital works for The Edgewater and ongoing ship refurbishments.

The cash flows relating to Proceeds from borrowings and the Payment of borrowings are consistent with the previous comments made regarding the borrowings balances and loan repayments. 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	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations ($'000s)		(36 123)	(3 434)	3 941	9 550	5 355
EBIT ($'000s)		(63 087)	10 558	15 285	(19 325)	8 064
Operating margin	>1.0	0.81	0.98	1.03	1.12	1.07
Return on assets		-15.8%	2.5%	3.9%	-7.7%	6.9%
Return on equity		-70.7%	-3.4%	4.2%	-41.2%	9.0%
Financial Management						
Debt to equity		203.8%	246.6%	243.0%	766.0%	63.5%
Debt to total assets		60.7%	65.8%	50.5%	82.8%	33.1%
Interest cover	>3	(3.90)	0.76	1. 21	(9. 87)	3.0
Current ratio	>1	0.21	0.26	0.17	0.55	0.55
Cost of debt	7.5%		5.7%	5.8%	5.2%	6.7%
Debt collection	30 days	30	39	32	14	21
Creditor turnover	30 days	29	26	24	33	24
Returns to Government						
Dividends paid or payable ($'000s)		0	0	0	0	0
Dividend payout ratio	50%	-	-	-	-	-
Dividend to equity ratio		-	-	-	-	-
Income tax paid or payable ($'000s)		0	0	0	0	0
Effective tax rate	30%	-	-	-	-	-
Total return to the State ($'000s)		0	0	0	0	0
Total return to equity ratio		-	-	-	-	-
Other information						
Employee costs as % of operating expenses		22%	24%	23%	30%	28%
Staff numbers FTEs		636	635	527	366	345
Average staff costs ($'000s)		53	48	49	49	49

Comment

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

In 2003-04, the Company recorded a loss from operations totalling $3.434m, which is attributable to the performance of the Devonport to Sydney run operating at a significant deficit.

In 2004-05, the Company recorded a loss from operations totalling $36.123m, which reflects lower than expected passenger numbers across all three ferries.

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 and 2004-05, resulted in a negative return on equity of 3.4% and 70.7%, respectively.

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 three 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, should improve this.

In 2000-01, the Company made sufficient profits (EBIT) to meet interest costs associated with its borrowings. This is reflected in the interest cover ratio. 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 calculation, 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 and 2004-05 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. This was further impacted with results for Spirits I & II being below expectations.

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. The failure of the Devonport to Sydney operation to generate positive cash flows and the lower than expected results for Spirits I and II will need 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, and from operating losses in 2003-04 and in 2004-05. Consequently, the taxation calculations do not result in any taxation payments being required.

OVERALL COMMENT

The Company's 2004-05 results reflect increased competition from budget airlines and a continued negative impact following the introduction of the Devonport to Sydney operation in January 2004. The Company will need to continue to closely monitor both impacts.

The Company's difficult financial position was acknowledged in its 30 June 2005 financial statements when a note was including reflecting its present reliance on the State Government for financial support.

The 2004-05 audit was completed with satisfactory results.

4 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.

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 $150.490m, employ 267 people, generate $11.740m 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 6% to 7.5% 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 5.11%) plus a risk margin of between 2% and 5%.

This rate of return would equate to a nominal post tax return of between 5.0% and 6.5%.

In August 2004 the Government appointed a Committee to review the current Tasmanian ports system and report on any alternate port company structures to improve the system. On 1 March 2005 the Minister for Infrastructure, Energy and Resources announced that the Government had agreed in principle to the amalgamation of the four State-owned port corporations into a single port company. The Tasmanian Ports Corporation Pty Ltd was registered on 1 July 2005 with the aim of completing the amalgamation by the end of 2005.

RESPONSIBLE MINISTER

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

For the purposes of this analysis, we have used the unconsolidated results for Hobart Ports Corporation Pty Ltd.

FINANCIAL PERFORMANCE

	Burnie		**Devonport**		**Hobart**		**Launceston**	
	$'m	%	$'m	%	$'m	%	$'m	%
Operating revenue	10.5		14.5		28.2		10.7	
Non-operating revenue	-		-		0.2		0.5	
Total Revenue	**10.5**		**14.5**		**28.4**		**11.2**	
Borrowing costs	0.4	3.8	0.7	4.8	0.5	1.8	0.7	6.5
Depreciation	1.7	16.2	2.1	14.5	2.0	7.1	1.5	14.0
Employee costs	2.6	24.8	2.5	17.2	12.2	43.3	2.8	26.2
Other operating expenses	3.7	35.2	5.9	40.7	10.0	35.5	4.6	43.0
Non-operating expenses	-		-		0.2		-	
Total Expenses	**8.4**		**11.2**		**24.9**		**9.6**	
Result from ordinary activities	**2.1**	**20.0**	**3.3**	**22.8**	**3.5**	**12.3**	**1.6**	**14.3**
Income tax expense	-		1.0		1.1		0.5	
Result after taxation	**2.1**		**2.3**		**2.4**		**1.1**	

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. In reviewing the return to total revenue, each port has performed consistently over 2004-05, with Devonport recording the highest return to total revenue of 22.8%.

Hobart Port's revenue is significantly higher than the other port companies due to its total revenues including $10.968m from stevedoring operations and rental income of $6.670m. As a result, this also gives rise to the increased employee costs of $12.250m and property costs, included within other operating expenses, of $2.397m.

Devonport has a significantly lower employee cost percentage in comparison with the other ports. This is a result of it being able to maximise the port to generate greater revenue than the two other northern ports.

Each of the ports generated results from ordinary activities that represented at least 10% of total revenue.

FINANCIAL POSITION

	Burnie	**Devonport**	**Hobart**	**Launceston**
	$'000s	$'000s	$'000s	$'000s
Cash	400	4 120	6 313	4 600
Receivables	868	2 100	4 176	1 326
Investments	10 787	0	0	0
Inventories	213	5	22	457
Other	59	160	74	165
Total Current Assets	**12 327**	**6 385**	**10 585**	**6 548**
Payables	200	298	4 435	531
Borrowings	843	0	0	1 554
Provisions	742	861	1 465	693
Other	562	661	185	1 335
Total Current Liabilities	**2 347**	**1 820**	**6 085**	**4 113**
Working Capital	**9 980**	**4 565**	**4 500**	**2 435**
Property, plant & equipment	22 422	45 323	52 612	33 732
Other	0	1 804	8 096	2 645
Total Non-Current Assets	**22 422**	**47 127**	**60 708**	**36 377**
Borrowings	5 416	12 032	8 100	7 465
Provisions	81	42	135	81
Other	6 000	1 484	2 688	4 259
Total Non-Current Liabilities	**11 497**	**13 558**	**10 923**	**11 805**
Net Assets	**20 905**	**38 134**	**54 285**	**27 007**
Reserves	23 390	32 936	53 000	24 451
Retained surpluses	(2 485)	5 198	1 285	2 556
Total Equity	**20 905**	**38 134**	**54 285**	**27 007**

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.

Hobart has a significant amount of payables at year-end as the balance includes prepaid rentals of $1.756m.

Devonport and Hobart Ports do not make any loan repayments, as indicated by the nil balances in current liability Borrowings. The use of interest-only loans has been implemented in accordance with specific debt management policies.

Hobart Port has a balance of $7.224m in Other non-current assets, which is attributable to its investment in its subsidiaries, which is principally its share holding in Hobart International Airport Pty Ltd.

The Launceston Port has a significant balance of $2.645m in Other non-current assets, which represents Future Income Tax Benefits relating to carried forward tax losses of $7.867m.

The Burnie Port is the only entity that does not carry its tax balances in its financial statements, as it does not consider the realisation of its accumulated losses as probable. At 30 June 2005, the Port had tax losses totalling $6.750m.

Burnie Port has disclosed a non-current liability of $6.000m representing $12.000m revenue in advance from Brambles Shipping, less five-years' amortisation. The amount is being amortised over the ten-year life of the service agreement.

Burnie Port's accumulated deficit of $2.485m 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	Devonport	Hobart	Launceston
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	10 143	15 555	30 777	12 017
Payments to suppliers and employees	(8 383)	(10 252)	(24 417)	(8 098)
Interest received	645	494	355	172
Borrowing costs	(430)	(715)	(492)	(762)
Taxation expense	0	(1 285)	(933)	0
Cash from operations	**1 975**	**3 797**	**5 290**	**3 329**
Proceeds from investments	6 523	4 892	1 204	12
Payments for investments	(3 926)	(1 530)	(15)	0
Payments for P, P & Equipment	(3 195)	(5 827)	(3 425)	(405)
Proceeds from sale of P, P & E	19	180	207	947
Cash used in investing activities	**(579)**	**(2 285)**	**(2 029)**	**554**
Proceeds from borrowings	0	0	0	0
Repayment of borrowings	(793)	0	(439)	(1 379)
Dividends paid	(617)	(1 488)	(1 000)	(752)
Cash from financing activities	**(1 410)**	**(1 488)**	**(1 439)**	**(2 131)**
Net increase in cash	**(14)**	**24**	**1 822**	**1 752**
Cash at the beginning of the period	414	269	4 491	2 848
Cash at the end of the period	**400**	**293**	**6 313**	**4 600**

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 $10.787m, while Devonport Port held $3.827m in deposits at call and short-term investments. All four ports had sound cash balances at 30 June 2005.

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

All Ports paid dividends during the year, with Devonport paying the highest amount of $1.488m.

FINANCIAL ANALYSIS

	Bench Mark	Burnie	Devonport	Hobart	Launceston
Financial Performance					
Result from operations ($'000s)		2 066	3 298	3 464	1 055
EBIT ($000s)		2 518	3 968	3 997	2 295
Operating margin	>1.0	1.24	1.29	1.13	1.11
Return on assets		6.8%	7.3%	4.4%	5.3%
Return on equity		10.3%	6.0%	4.1%	4.1%
Financial Management					
Debt to equity		29.9%	31.6%	14.9%	33.4%
Debt to total assets		18.0%	22.5%	11.4%	21.0%
Interest cover	>3	5.71	5.60	7.67	3.10
Current ratio	>1	5.25	3.51	1.74	1.59
Cost of debt	7.5%	6.3%	6.3%	6.4%	7.1%
Debt collection	30 days	30	50	36	46
Creditor turnover	30 days	20	19	72	37
Returns to Government					
Dividends paid or payable ($000s)		727	1 126	1 420	752
Dividend payout ratio	50%	35.0%	50.0%	60.5%	68.7%
Dividend to equity ratio		3.6%	3.0%	2.5%	2.8%
Income tax paid or payable ($000s)		0	953	933	0
Effective tax rate	30%	-	29.2%	26.8%	-
Total return to the State ($000s)		727	2 079	2 353	752
Total return to equity ratio		3.6%	5.5%	4.1%	2.8%
Other information					
Staff numbers FTEs		42	37	167	37
Average staff costs ($'000s)		62	68	74	69

Comment

Each of the Ports recorded positive returns on their assets and equity. Both Burnie and Devonport's return on equity ratios were within acceptable limits prescribed by the shareholding Ministers (5.0% to 6.5%, as noted previously), whereas Hobart and Launceston returned 4.1%.

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 4.1% and 5.5% 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

In general, the returns on equity to the Government are considered acceptable in comparison to the shareholders' expectations of 5.0% to 6.5% after tax.

Collectively the four Ports made after-tax profits totalling $11.740m (2003-04 - $9.912m), manage net assets of $150.490m (2003-04 - $142.650m) and will contribute $5.911m (2003-04 - $6.686m) to the State Government in the form of dividends and taxes paid.

4.1 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 2004-05 FINANCIAL STATEMENTS

Signed financial statements were received on 13 October 2005 and an unqualified audit report issued on 14 October 2005.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Services revenue	9 298	10 481	9 496	9 760	10 382
Rental income	588	663	536	617	673
Interest revenue	637	645	674	555	458
Non-operating revenue	11	14	18	17	345
Total Revenue	**10 534**	**11 803**	**10 724**	**10 949**	**11 858**
Borrowing costs	441	533	735	919	1 622
Depreciation	1 676	2 192	2 580	2 652	2 966
Employee benefit expenses	2 600	2 755	2 597	2 808	2 745
Other operating expenses	3 741	4 559	3 687	3 193	3 485
Non-operating expenses	0	0	0	480	3 576
Total Expenses	**8 458**	**10 039**	**9 599**	**10 052**	**14 394**
Result from ordinary activities	**2 076**	**1 764**	**1 125**	**897**	**(2 536)**
Income tax expense	0	0	0	0	0
Result after taxation	**2 076**	**1 764**	**1 125**	**897**	**(2 536)**

Comment

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 and rental revenue in 2003-04 of $1.112m 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 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 consistent with the prior year.

Borrowing costs decreased in 2001-02 by $0.703m due to:

- A reduction in loan interest expense of $0.196m as a result of significant loan principal repayments in 2000-01;
- A reduction in lease interest expense of $0.200m; and
- Additional interest costs incurred in 2000-01 associated with the early settlement of the debt.

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 expense 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.

The decrease in depreciation and amortisation expense in 2004-05 of $0.516m also reflects the purchase of the Post-Panamax crane following the expiration of the finance lease. No amortisation expense was recorded in 2004-05, compared with seven months of amortisation in 2003-04 amounting to $0.750m. This decrease was offset by a full year of depreciation relating to the newly acquired crane of $0.295m, an increase of $0.189m on the 2003-04 depreciation expense of $0.106m.

Other operating expenditure increased by $0.983m in 2003-04 due principally 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 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 a significant loss in 2000-01. The loss of $2.536m 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 past four years, the Corporation has recorded profits from ordinary activities totalling $5.862m.

FINANCIAL POSITION

	2004-05	**2003-04**	**2002-03**	**2001-02**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	400	414	272	265	182
Receivables	868	1 413	948	874	1 127
Investments	10 787	13 383	13 619	15 273	7 108
Inventories	213	236	258	253	268
Other	59	58	60	81	39
Total Current Assets	**12 327**	**15 504**	**15 157**	**16 746**	**8 724**
Payables	200	179	419	174	342
Borrowings	843	793	2 673	3 226	2 559
Provisions	742	660	558	606	598
Other	562	4 758	649	728	723
Total Current Liabilities	**2 347**	**6 390**	**4 299**	**4 734**	**4 222**
Working Capital	**9 980**	**9 114**	**10 858**	**12 012**	**4 502**
Property, plant and equipment	22 422	23 888	22 736	24 591	29 614
Total Non-Current Assets	**22 422**	**23 888**	**22 736**	**24 591**	**29 614**
Borrowings	5 416	6 259	7 052	9 725	12 950
Provisions	81	97	77	69	53
Other	6 000	7 200	8 400	9 600	4 800
Total Non-Current Liabilities	**11 497**	**13 556**	**15 529**	**19 394**	**17 803**
Net Assets	**20 905**	**19 446**	**18 065**	**17 209**	**16 313**
Reserves	23 390	23 390	24 025	24 025	24 025
Retained profits	(2 485)	(3 944)	(5 960)	(6 816)	(7 712)
Total Equity	**20 905**	**19 446**	**18 065**	**17 209**	**16 313**

Comment

Cash has remained fairly constant over the five-year period, as the Corporation deposits excess cash funds into investments to improve its interest return. The balance of investments increased by $8.165m in 2001-02 due to the receipt of a second $6.000m balloon payment from Brambles Shipping (the first payment was received in 2000-01) and the consideration from the sale of the Airport, $2.500m. The investment balance decreased by $2.596m in 2004-05 due mainly to the payment for the purchase of the Post-Panamax crane of $2.955m.

The 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 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 decreased by $5.023m from 30 June 2001 to 30 June 2002. The movement is primarily due to depreciation and amortisation expense of $2.966m and the sale of the Airport, which resulted in a reduction of $2.894m in the written down value of the assets. Property, plant and equipment increased by $1.152m in 2003-04 due to the purchase of the Post-Panamax crane ($2.955m) and depreciation and amortisation expense of $2.192m.

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.

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, which was settled in the following year.

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 2005, five years of the agreement had been completed and $6.000m amortised as revenue.

CASH POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	10 143	10 517	9 694	16 924	18 367
Payments to suppliers and employees	(8 383)	(7 255)	(7 051)	(7 759)	(9 498)
Interest received	645	640	678	526	466
Borrowing costs	(430)	(565)	(766)	(955)	(1 352)
Cash from operations	**1 975**	**3 337**	**2 555**	**8 736**	**7 983**
Proceeds from investments	6 523	4 254	4 817	3 856	5 270
Payments for investments	(3 926)	(4 019)	(3 162)	(12 020)	(3 378)
Payments for property, plant and equipment	(3 195)	(394)	(734)	(451)	(759)
Proceeds from sale of property, plant and equipment	19	19	27	2 521	0
Cash used in investing activities	**(579)**	**(140)**	**948**	**(6 094)**	**1 133**
Repayment of borrowings	(793)	(2 673)	(3 226)	(2 559)	(8 903)
Dividends paid	(617)	(382)	(270)	0	0
Cash from financing activities	**(1 410)**	**(3 055)**	**(3 496)**	**(2 559)**	**(8 903)**
Net increase in cash	**(14)**	**142**	**7**	**83**	**213**
Cash at the beginning of the period	414	272	265	182	(31)
Cash at end of the period	**400**	**414**	**272**	**265**	**182**

Comment

The increased receipts from customers in 2000-01 and 2001-02 are attributable to the balloon payments of $6.000m received in each year. In 2000-01 payments to suppliers was high due to the carryover of significant unpaid creditors from 1999-00. 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. The increase in payments to suppliers in 2004-05 of $1.128m was primarily due to the payment of the legal costs associated with the resolution of the Post-Panamax crane dispute.

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. In 2004-05 payments for Property, plant and equipment included $2.955m for the Post-Panamax crane purchased in the previous year.

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 $1.269m have been paid in the past three financial years relating to the 2001-02, 2002-03 and 2003-04 operating results.

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations ($'000s)		2 065	1 750	1 107	1 360	695
EBIT ($'000s)		2 517	2 297	1 860	1 816	(914)
Operating margin	>1.0	1.24	1.17	1.12	1.14	1.06
Return on assets		6.8%	5.9%	4.7%	4.6%	-2.3%
Return on equity		10.3%	9.4%	6.4%	5.4%	-14.4%
Financial Management						
Debt to equity		29.9%	36.3%	53.8%	75.3%	95.1%
Debt to total assets		18.0%	17.9%	25.7%	31.3%	40.5%
Interest cover	>3	5.71	4.31	2.53	1.98	(0.56)
Current ratio	>1	5.25	2.43	3.53	3.54	2.07
Cost of debt	7.5%	6.3%	6.3%	6.3%	6.3%	6.8%
Debt collection	30 days	30	32	31	30	35
Creditor turnover	30 days	20	14	41	20	36
Returns to Government						
Dividends paid or payable ($'000s)		727	618	383	270	0
Dividend payout ratio	50%	35.0%	35.0%	34.0%	30.1%	-
Dividend to equity ratio		3.6%	3.3%	2.2%	1.6%	-
Total return to the State ($'000s)		727	618	383	270	0
Total return to equity ratio		3.6%	3.3%	2.2%	1.6%	-
Other information						
Staff numbers FTEs		42	42	41	44	48
Average staff costs ($'000s)		62	66	63	61	57

Comment

Over the past five years, the return from operations (i.e. operating revenue less operating expenses) has totalled $6.977m or an annual average return of $1.395m. The profit from ordinary activities before income tax and after adjusting for interest expense totalled $7.576m for the five years or an annual average of $1.515m.

The debt to equity ratio has decreased from 95.1% in 2000-01 to 29.9% in 2004-05 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 remained fairly stable over the five-year period.

The debt collection ratio has been equal to or slightly greater than the 30-day benchmark in all the years under review. 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 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 2000-01. The Board paid dividends of $0.270m, $0.383m and $0.618m during 2002-03, 2003-04 and 2004-05 in respect to the 2001-02, 2002-03 and 2003-04 years respectively. Subsequent to 30 June 2005, the directors recommended a dividend of $0.727m for 2004-05.

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 2005, the Corporation had future income tax benefits, relating to tax losses not brought to account, totalling $2.025m.

The 2003-04 average staff cost of $0.066m was impacted by an accrual of $0.111m for leave payouts under a new enterprise bargaining agreement and an increase in employee provisions of $0.122m (compared with only $0.66m in 2004-05).

OVERALL COMMENT

The Corporation recorded a profit of $2.076m for the 2004-05 financial year.

The 2004-05 audit was completed with satisfactory results.

4.2 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 2004-05 FINANCIAL REPORT

The financial report of the Corporation was signed on 27 October 2005 and received on 1 November 2005. An unqualified audit report was issued on 4 November 2005.

Unqualified audit reports were also issued on the same day for subsidiary companies Port Logistics Pty Ltd and King Island Ports Corporation Pty Ltd. The audit report for Hobart International Airport Pty Ltd was issued on 29 October 2005, the same day that the signed financial report was received.

FINANCIAL RESULTS

Due to timing of the receipt of the signed financial statements, a detailed financial analysis is not provided. This will be included in my report to Parliament to be tabled early next year.

4.3 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 Company Pty Ltd's (TT-Line) 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 is the state's second largest cold store operator and it also generates income from the Devonport Airport, which is serviced principally by Eastern QantasLink and until September 2005, Regional Express.

The Corporation's combined seaport and airport operations facilitated the movement of just over 578 000 passengers in and out of Tasmania in the past financial year.

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

AUDIT OF THE 2004-05 FINANCIAL STATEMENTS

Signed financial statements were received on 29 September 2005 and an unqualified audit report was issued on 30 September 2005.

FINANCIAL RESULTS

FINANCIAL PERFORMANCE

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Service revenue	13 731	11 636	10 761	9 610	9 806
Rental income	343	284	291	216	282
Interest revenue	440	365	420	533	660
Non-operating revenue	25	76	12	18	202
Total Revenue	**14 539**	**12 361**	**11 484**	**10 377**	**10 950**
Borrowing costs	708	587	507	514	522
Depreciation	2 144	2 023	1 916	1 809	1 919
Employee benefit expenses	2 531	2 404	2 451	2 420	2 315
Other operating expenses	5 833	3 633	3 865	4 937	3 392
Non-operating expenses	63	160	215	198	1 734
Total Expenses	**11 279**	**8 807**	**8 954**	**9 878**	**9 882**
Result from ordinary activities	**3 260**	**3 554**	**2 530**	**499**	**1 068**
Income tax expense	1 007	1 116	869	343	852
Result after taxation	**2 253**	**2 438**	**1 661**	**156**	**216**

Comment

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

Service revenue remained fairly stable from 2000-01 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 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 primarily due to a revised service agreement with the TT-Line for the operation of the Sydney service.

Revenue growth continued in 2004-05, with an increase of $2.095m, largely driven by the impact of the Sydney ferry's first full year of operations, generating an additional $0.858m in revenue from TT-Line. Other significant contributions to revenue growth included $0.220 in one-off projects for port customers, while the commissioning of new coldstore facilities in December 2004 pushed revenue from this source up by $0.430m, on top of increased usage by customers. A decision to lift the passenger toll at the airport by $1/head brought in an additional $0.096m.

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.

In the four-year period from 2000-01 to 2003-04, Borrowing costs were static, attributable to the loan debt being interest only loans. Borrowing costs increased in 2004-05 as the full impact of new borrowings in 2003-04 totalling $4.560m, took effect.

Employee benefit expenses were fairly stable over the period under review, although the negotiation of new enterprise agreements resulted in a $0.127m (or 5%) increase for 2004-05.

An increase in depreciation expense of $0.107m was noted in 2003-04, and a further increase of $0.121m in 2004-05, due to the impact of depreciation on new cold stores constructed during these periods.

The increase in Other operating expenses in 2001-02, $1.545m, was primarily due to maintenance dredging undertaken in March and April 2002 amounting to $1.323m. 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. Maintenance dredging is carried out approximately every three years, with the most recent campaign undertaken in May 2005 at a cost of $1.462m, accounting for the majority of the $2.200m increase in 2004-05 operating expenses. Other contributors to this increase included the costs associated with projects undertaken for port customers, higher rates and land tax following municipal revaluations and repairs to storm damage experienced in February 2005.

Non-operating expenses totalled $1.734m in 2000-01, and comprised losses on disposal of assets, $1.684m, and the costs relating to 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

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	4 120	8 987	8 664	9 298	10 174
Receivables	2 100	2 180	1 924	1 645	2 078
Inventories	5	5	9	5	8
Other	160	159	152	122	104
Total Current Assets	**6 385**	**11 331**	**10 749**	**11 070**	**12 364**
Payables	298	577	319	333	208
Borrowings	0	0	0	0	1 543
Provisions	861	790	736	628	723
Current tax liability	126	458	551	127	643
Other	535	2 244	857	551	562
Total Current Liabilities	**1 820**	**4 069**	**2 463**	**1 639**	**3 679**
Property, plant and equipment	45 323	43 358	36 101	33 556	32 599
Investments	1 530	0	0	0	0
Deferred tax assets	274	259	237	205	198
Total Non-Current Assets	**47 127**	**43 617**	**36 338**	**33 761**	**32 797**
Borrowings	12 032	12 032	7 472	7 472	5 975
Provisions	42	63	43	43	36
Deferred tax liabilities	1 484	1 414	1 275	1 303	1 253
Total Non-Current Liabilities	**13 558**	**13 509**	**8 790**	**8 818**	**7 264**
Net Assets	**38 134**	**37 370**	**35 834**	**34 374**	**34 218**
Capital	0	0	0	0	0
Reserves	32 936	32 936	32 936	32 936	32 936
Retained profits	5 198	4 434	2 898	1 438	1 282
Total Equity	**38 134**	**37 370**	**35 834**	**34 374**	**34 218**

Comment

The reduction in cash between 2003-04 and 2004-05 resulted from increased capital expenditure and major maintenance dredging costs, as well as a reclassification of $1.530m investments to non-current as longer term bonds were acquired seeking higher yields.

The Payables balance of $0.577m for 2003-04 was significantly greater than prior periods due to an outstanding 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 was due to the refinancing of a loan in July 2002 when the Corporation moved to holding interest only loans.

The Provisions balances for 2000-01 included 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 subsequent periods 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 TT-Line 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, was 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 was 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, $1.500m. During 2004-05, major capital works included the completion of stage 2 of the Saleyard Road coldstore at a cost of $2.678m, acquisition of several properties adjoining the coldstore totalling $0.803m to provide for potential future expansion and improvements to the western breakwater which is a $0.400m project completed subsequent to year end, the majority of which was capitalised during 2004-05.

Retained earnings increased by $3.916m over the five-year period. The increase represents profits from operations less dividend and tax equivalent payments. The Corporation adhered to the shareholders' requirement to pay 70% of pre-tax profits in either tax equivalent payments or dividends up until 2004-05 when the shareholders' dividend requirement was changed to 50% of after tax profit.

CASH POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	15 555	12 964	11 894	11 049	10 795
Payments to suppliers and employees	(10 252)	(7 178)	(7 271)	(7 955)	(6 518)
Interest received	494	363	442	754	517
Borrowing costs	(715)	(528)	(504)	(516)	(357)
Taxation expense	(1 285)	(1 092)	(453)	(816)	(1 137)
Cash from operations	**3 797**	**4 529**	**4 108**	**2 516**	**3 300**
Proceeds from investments	4 892	0	510	1 058	1 355
Payments for investments	(1 530)	(113)	0	0	(1 789)
Payments for property, plant and equipment	(5 827)	(8 186)	(4 819)	(3 352)	(2 488)
Proceeds from sale of property, plant and equipment	180	322	155	114	282
Cash used in investing activities	**(2 285)**	**(7 977)**	**(4 154)**	**(2 180)**	**(2 640)**
Proceeds from borrowings	0	4 560	0	0	26
Repayment of borrowings	0	0	0	0	(55)
Dividends paid	(1 488)	(902)	(78)	(108)	(621)
Cash from financing activities	**(1 488)**	**3 658**	**(78)**	**(108)**	**(650)**
Net increase in cash	**24**	**210**	**(124)**	**228**	**10**
Cash at the beginning of the period	269	59	183	(45)	(55)
Cash at end of the period	**293**	**269**	**59**	**183**	**(45)**

Comment

Cash at the end of 2004-05 equalled $0.293m, but the Corporation also held $3.827m in deposits at call and short term investments and another $1.530m in long term securities, which are not defined as cash for the purposes of the cash flow statement.

The Corporation generated strong cash inflows from operations over the five-year period under review. Receipts from customers have steadily increased since 2000-01, which reflects the increase in operating revenue. Payments to suppliers and employees in 2001-02 and 2004-05 include the impact of the maintenance dredging works undertaken in those periods.

The increase in Borrowing costs paid during 2004-05 is attributable to the impact of additional borrowings part-way through the previous year, as 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 and the completion of the first stage of the cold store and the top deck loading ramp, $1.480m. Stage 2 of the coldstore accounted for $2.340m in capital payments during 2004-05, along with $1.500m for marshalling year works paid to TT-Line in 2004-05, but capitalised in the previous year when the work was done. Other capital acquisitions, primarily houses and breakwater improvements were acquired and paid for in the 2004-05 year.

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 four-year period 2001-02 to 2004-05.

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations ($'000s)		3 298	3 638	2 733	679	2 600
EBIT ($'000s)		3 968	4 141	3 037	1 013	1 590
Operating margin	>1.0	1.29	1.42	1.31	1.07	1.32
Return on assets		7.3%	8.1%	6.6%	2.3%	3.5%
Return on equity		6.0%	6.7%	4.7%	0.5%	0.6%
Financial Management						
Debt to equity		31.6%	32.2%	20.9%	21.7%	22.0%
Debt to total assets		22.5%	21.9%	15.9%	16.7%	16.6%
Interest cover	>3	5.6	7.1	6.0	2.0	3.0
Current ratio	>1	3.51	2.78	4.36	6.75	3.36
Cost of debt	7.5%	6.3%	6.8%	6.8%	6.9%	6.9%
Debt collection	30 days	50	62	64	58	64
Creditor turnover	30 days	19	21	30	25	22
Returns to Government						
Dividends paid or payable ($'000s)		1 126	1 488	902	78	108
Dividend payout ratio	50%	50.0%	61.0%	54.3%	50.0%	50.0%
Dividend to equity ratio		3.0%	4.1%	2.6%	0.2%	0.3%
Income tax paid or payable ($'000s)		953	999	876	304	1 057
Effective tax rate	30%	29.2%	28.1%	34.6%	60.9%	99.0%
Total return to the State ($'000s)		2 079	2 487	1 778	382	1 165
Total return to equity ratio		5.5%	6.8%	5.1%	1.1%	3.4%
Other information						
Staff numbers FTEs		37	39	40	41	41
Average staff costs ($'000s)		68	62	61	59	56

Comment

Over the past five years, the return from operations (i.e. operating revenue less operating expenses) totalled $12.948m, representing an annual average return of $2.589m. The result from ordinary activities before income tax and after adjusting for interest expense (EBIT) totalled $13.749m for the five years or an annual average of $2.749m.

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 uses 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 result for 2004-05 is particularly strong, maintaining profitability ratios close to previous years in spite of the May 2005 maintenance dredging program.

The debt to equity and debt to total assets ratios have been fairly consistent over the first three years under review. The ratios for 2003-04 and subsequent year 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 debt collection ratio 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 were 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 ratios were consistent. As noted previously, the 2001-02 profit was affected by maintenance dredging expenditure, although the dredging incurred in 2004-05 did not have the same impact, partly because of the higher dividend resulting from the 2004-05 profit.

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 $6.724m. Returns to the State, from both dividends and income tax paid or payable, over the five-year period, total $7.891m or an average return of $1.578m 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 2004-05 audit was completed with satisfactory results.

4.4 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, Energy and Resources. Upon incorporation, the then shareholders were each issued with one ordinary share.

The Port of Launceston facilitates the import and export of cargo on a statewide basis with particular focus on major industries such Comalco, TEMCO, Gunns and Pinepanels, located on the Bell Bay industrial estate. Around half of the ports business is derived from the timber industry and approximately 75% involves the handling of bulk cargos. Last financial year over 6 million tonnes of cargo and 95,000 containers were loaded and discharged from 463 vessels, the majority of which was exported internationally.

The Board of the Port of Launceston Pty Ltd is comprised of six directors, appointed by the shareholders of the Company. During the 2004-05 financial year, one of the Directors resigned and has not been replaced due to the impending amalgamation of the four state port companies.

AUDIT OF THE 2004-05 FINANCIAL STATEMENTS

Signed financial statements were received on 19 September 2005, and an unqualified audit report was issued on 21 September 2005.

FINANCIAL RESULTS

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

FINANCIAL PERFORMANCE

	2004-05	**2003-04**	**2002-03**	**2001-02**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Services revenue	9 960	9 224	9 158	8 431	8 318
Rental income	519	497	528	597	667
Interest revenue	183	105	115	94	150
Non-operating revenue	493	108	0	85	326
Total Revenue	**11 155**	**9 934**	**9 801**	**9 207**	**9 461**
Borrowing costs	747	828	867	944	1 066
Depreciation	1 440	1 370	1 372	1 375	1 338
Employee benefit expenses	2 809	2 497	3 221	2 617	2 481
Other operating expenses	4 611	4 106	3 173	3 328	4 115
Non-operating expenses	0	0	71	0	0
Total Expenses	**9 607**	**8 801**	**8 704**	**8 264**	**9 000**
Result from ordinary activities	**1 548**	**1 133**	**1 097**	**943**	**461**
Income tax expense	454	330	370	299	180
Result after taxation	**1 094**	**803**	**727**	**644**	**281**

Comment

The Company has traded profitably for the period under review with a steady increase in revenue over the five years. Services revenue increased during 2004-05 due to greater trading activity throughout the port, mainly in the areas of general containers, clinker and manganese products. A new revenue stream was added in 2004-05, with the weighbridge constructed during 2003-04 becoming operational.

Non-operating revenues and expenses relate to profits and losses incurred from the sale of assets. The larger revenue in 2004-05 is mainly due to the sale of land and buildings, including the George Town ferry terminal.

Borrowing costs decreased by $0.319m over the period and reflect the reduction in the level of debt from $13.922m at 30 June 2000 to $9.019m at 30 June 2005.

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

Other operating expenses vary each year. Major items included:

- 2000-01:
  - Additional maintenance costs in finalising the port access roads upgrade.
- 2003-04:
  - Repair of an item of plant following damage ($0.068m); and
  - The maintenance component of an upgrade of No 7 Berth marshalling area.
- 2004-05:
  - Repairs following significant storm damage ($0.302m);
  - Higher levels of general maintenance to container handling areas; and
  - Additional running costs due to the increased trade turnover through the port.

FINANCIAL POSITION

	2004-05	**2003-04**	**2002-03**	**2001-02**	**2000-01**
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	4 600	2 848	2 779	3 538	1 745
Receivables	1 326	1 761	1 628	1 607	1 693
Inventories	457	466	465	557	530
Other	165	107	199	45	460
Total Current Assets	**6 548**	**5 182**	**5 071**	**5 747**	**4 428**
Payables	531	352	523	767	469
Borrowings	1 554	1 391	1 012	907	809
Provisions	693	586	473	498	780
Other	1 335	1 124	1 428	1 195	677
Total Current Liabilities	**4 113**	**3 453**	**3 436**	**3 367**	**2 735**
Working Capital	**2 435**	**1 729**	**1 635**	**2 380**	**1 693**
Property, plant and equipment	33 732	35 221	35 113	34 995	35 609
Deferred tax assets	2 645	3 070	3 357	3 386	3 358
Total Non-Current Assets	**36 377**	**38 291**	**38 470**	**38 381**	**38 967**
Payables	28	35	0	0	0
Borrowings	7 465	9 007	9 483	10 494	11 382
Provisions	81	110	125	121	102
Deferred tax liabilities	4 231	4 202	4 160	3 835	3 509
Total Non-Current Liabilities	**11 805**	**13 354**	**13 768**	**14 450**	**14 993**
Net Assets	**27 007**	**26 666**	**26 337**	**26 311**	**25 667**
Reserves	24 451	24 451	24 451	24 454	24 454
Retained profits	2 556	2 215	1 886	1 857	1 213
Total Equity	**27 007**	**26 666**	**26 337**	**26 311**	**25 667**

Comment

Greater cash and investment balances were held at 30 June 2005 due primarily to the greater revenue and profit achieved in 2004-05 and increased collection of cash from debtors.

Receivables at 30 June 2005, decreased to its lowest level in the period under review. The Port has increased its efforts to collect debts in a more timely manner and there are less large individual debtor balances at 30 June 2005 than in prior years.

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.

The Company has had a positive working capital for each of the five years under review. At 30 June 2005 the working capital was $2.435m, giving a current ratio of 1.59, which represents a solid financial position.

Deferred tax assets represent future income tax benefits available to the Company in future periods and include carried forward tax losses of $7.955m. 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 $9.019m at 30 June 2005 due to regular loan repayments. The Company borrowed $1.000m in 2003-04 to fund capital works.

CASH POSITION

	2004-05	2003-04	2002-03	2001-02	2000-01
	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	12 017	10 752	11 218	10 213	9 434
Payments to suppliers and employees	(8 098)	(7 999)	(8 179)	(6 473)	(6 946)
Interest received	172	104	118	98	161
Borrowing costs	(762)	(832)	(878)	(954)	(1 143)
Cash from operations	**3 329**	**2 025**	**2 279**	**2 884**	**1 506**
Proceeds from investments	12	0	0	0	17
Payments for property, plant and equipment	(405)	(1 600)	(1 602)	(739)	(841)
Proceeds from sale of property, plant and equipment	947	216	133	774	117
Cash used in investing activities	**554**	**(1 384)**	**(1 469)**	**35**	**(707)**
Proceeds from borrowings	0	1 000	0	0	0
Repayment of borrowings	(1 379)	(1 097)	(907)	(791)	(1 730)
Dividends paid	(752)	(475)	(662)	(335)	(604)
Cash from financing activities	**(2 131)**	**(572)**	**(1 569)**	**(1 126)**	**(2 334)**
Net increase in cash	**1 752**	**69**	**(759)**	**1 793**	**(1 535)**
Cash at the beginning of the period	2 848	2 779	3 538	1 745	3 280
Cash at end of the period	**4 600**	**2 848**	**2 779**	**3 538**	**1 745**

Comment

Receipts from customers increased significantly during 2004-05 due to the increased trade through the port and a reduction in the debtors of $0.435m compared to the prior year.

Payments to suppliers and employees increased during 2004-05 due to the storm damage payments, increased general maintenance and higher running costs due to the trade increase.

The increase in Payments for property, plant and equipment for the 2002-03 year of $0.863m was due to the completion of the construction of a woodchip conveyor system for $1.001m. Major capital works during 2003-04 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.

The capital works during 2003-04 were funded by borrowings of $1.000m.

Proceeds from the sale of property, plant and equipment were larger during 2004-05 as a result of the sale of land and buildings, including the George Town ferry terminal.

FINANCIAL ANALYSIS

	Bench Mark	2004-05	2003-04	2002-03	2001-02	2000-01
Financial Performance						
Result from operations ($'000s)		1 055	1 025	1 168	858	135
EBIT ($'000s)		2 295	1 961	1 964	1 887	1 527
Operating margin	>1.0	1.11	1.12	1.14	1.10	1.02
Return on assets		5.3%	4.5%	4.5%	4.3%	3.5%
Return on equity		4.1%	3.0%	2.8%	2.5%	1.1%
Financial Management						
Debt to equity		33.4%	39.0%	39.8%	43.3%	47.5%
Debt to total assets		21.0%	23.9%	24.1%	25.8%	28.1%
Interest cover	>3	3.1	2.4	2.3	2.0	1.4
Current ratio	>1	1.59	1.50	1.48	1.71	1.62
Cost of debt	7.5%	7.1%	7.3%	7.5%	7.5%	7.8%
Debt collection	30 days	46	66	61	65	69
Creditor turnover	30 days	37	23	40	35	35
Returns to Government						
Dividends paid or payable ($'000s)		752	475	662	0	335
Dividend payout ratio	50%	68.7%	59.2%	91.1%	-	119.2%
Dividend to equity ratio	6%	2.8%	1.8%	2.5%	-	1.3%
Income tax paid or payable ($'000s)		0	0	0	0	0
Effective tax rate	30%	-	-	-	-	-
Total return to the State ($'000s)		752	475	662	0	335
Total return to equity ratio		2.8%	1.8%	2.5%	-	1.3%
Other information						
Staff numbers FTEs		37	35	33	38	38
Average staff costs ($'000s)		69	66	67	65	62

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. As a result, the Company’s operating margin, has consistently been above the benchmark.

The returns on equity and assets have been fairly stable over the period under review. Increases were achieved during 2004-05 as a result of the higher revenue and profit this year.

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. There was a significant improvement during the current year as receivables at 30 June 2005 decreased by $0.435m from the prior year. 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 all years other than 2003-04, been above the benchmark. The Company has a policy to settle outstanding creditors within 30 days. The policy is being adhered to.

During the five-year period under review, the Company paid dividends to the State Government totalling $2.224m. 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 2001-02, dividends were recommended and paid in the next year. A dividend in respect to the 2004-05 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 $3.549m. Returns to the State from dividends over the five-year period totalled $2.224m, an average return of $0.445m 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 2004-05 financial year was completed with satisfactory results.