Tasmanian Audit Office

Accountability on Your Behalf

Government Departments and Public Bodies 2005-2006

VOLUME TWO

Government Businesses

Report of the Auditor-General
Report No. 2

November 2006

THE ROLE OF THE AUDITOR-GENERAL

The roles and responsibilities of the Auditor-General, and therefore the Tasmanian Audit Office, are set out in the *Financial Management and Audit Act 1990.*

Our major responsibility is to conduct financial or 'attest' audits of State public sector agencies' annual financial reports. We also audit the Treasurer's Annual Financial Statements which report on financial transactions in the Public Account, and the consolidated whole of government financial report.

Audits of financial reports are designed to add credibility to assertions made by management in preparing their financial reports, enhancing their value to end users. Also, the existence of such audits provides a constant stimulus to agencies to ensure sound financial management.

In the main financial reports by agencies are prepared consistent with Accounting Standards and other mandatory professional requirements in Australia. On occasion reports are "special purpose financial reports" such as the Treasurer's Annual Financial Report. In all cases our audits are conducted in accordance with Australian Auditing Standards.

Following a financial audit, the Office issues a variety of reports to agencies and reports periodically to the Parliament. In combination these reports give opinions on the truth and fairness of financial reports, and comment on agencies compliance with certain laws, regulations and Government directives. They may comment on financial prudence, probity and waste, and recommend operational improvements.

We also conduct performance audits and compliance audits. Performance audits examine whether an agency is carrying out its activities effectively and doing so economically and efficiently and in compliance with relevant laws. Audits may cover all or part of an agency's operations, or consider particular issues across a number of agencies.

Compliance audits are aimed at ensuring compliance by agencies of directives, regulations and appropriate internal control procedures. Audits focus on selected systems (including information technology systems), account balances or projects.

Performance and compliance audits are reported separately and at different times of the year, with all financial audits included in one of the regular volumes of the Auditor-General's reports to the Parliament normally tabled in November each year. In doing so the Auditor-General is providing information to the Parliament to assist both Houses in their review of the performance of executive Government.

Management of agencies are provided with opportunity to comment on any matters reported. Where they choose to do so, their responses are detailed within the reports.

2006 (No. 13)

2006

PARLIAMENT OF TASMANIA

REPORT OF THE

AUDITOR-GENERAL

GOVERNMENT DEPARTMENTS

AND PUBLIC BODIES 2005-2006

No 2 0f 2006

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Tasmanian Audit Office

GPO Box 851

Hobart

TASMANIA 7001

Phone: (03) 6226 0100, Fax (03) 6226 0199

Email: admin@audit.tas.gov.au

Home Page: http://www.audit.tas.gov.au

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TABLE OF CONTENTS

VOLUME TWO

GOVERNMENT BUSINESSES

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

The State Government owns a diverse portfolio of businesses, which at 30 June 2006 comprised 10 Government Business Enterprises (GBEs) and 6 State Owned Corporations (SOCs) operating in many commercial markets including various primary industries, port operations, transport, financial services, construction, forestry and public utilities.

Government businesses have $3.896bn 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. Also of significance is that during 2005-06 these entities paid out $366.317m in capital expenditure.

The following chapters of this volume provide commentary on groups of Government Businesses as follows:

- Government Business Enterprises; and
- State Owned Corporations.

In previous years a separate section was included dealing with the four Port companies. Following their merger into Tasmanian Ports Corporation Pty Ltd, a separate section for ports is not necessary.

For each Government Business this Report provides a comparative analysis of:

- Financial results for 2004-05 prepared under the former Australian Generally Accepted Accounting Principles compared with the results prepared under the newly applied Australian Equivalents to International Financial Reporting Standards (AIFRS); and
- Financial results for 2005-06 compared with those for 2004-05 both prepared under AIFRS.

In the case of the Energy Businesses a separate chapter is included comparing performance between the three businesses in 2005-06.

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 sets distribution targets of 50% of after-tax profits.

PROVISION FOR DIVIDENDS

Accounting Standard AASB 110 *Events after the Balance Sheet Date* applicable from 1 January 2005 establishes the disclosure requirements for dividends. Dividends declared (ie. appropriately authorised and no longer at the discretion of the entity) on or before the reporting date must be recognised as a liability as at that date. Dividends declared before the financial report is authorised for issue but not on or before the reporting date must be disclosed in the notes to the financial report.

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 (5.78% at 30 June 2006) 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).

In many GBEs and SOCs returns on equity have been impacted, generally negatively, by the impact of adopting AIFRS. Comparative assessment this year was made more difficult by this change.

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. Also, the introduction of Australian Equivalents to International Financial Reporting Standards impacted each entity to differing extents.

At the same time, however, there are many similarities and comparative assessment is again provided 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

INCOME STATEMENTS FOR YEAR ENDED 30 JUNE 2006

	Hydro	**Aurora**	**Transend**
	$'000s	$'000s	$'000s
Electricity sales/transmission/distribution	405 646	715 981	115 100
Other operating revenue	99 054	22 527	5 025
Non-operating revenue	27 264	788	10 047
Total Revenue	**531 964**	**739 296**	**130 172**
Borrowing costs	85 860	28 369	4 150
Depreciation	87 945	61 026	35 461
Labour	88 024	63 785	16 372
Energy and transmission purchases	0	497 988	18 038
Other operating expenses	203 042	56 052	2 504
Total Expenses	**464 871**	**707 220**	**76 525**
Result from Ordinary Activities	**67 093**	**32 076**	**53 647**
Income tax expense	22 824	9 734	16 099
Result After Taxation	**44 269**	**22 342**	**37 548**

Comment

These entities made a combined profit after tax of $104.159m with Hydro contributing 43%, Aurora 21% and Transend 36% of this profit. Aurora's energy and other operating costs includes $497.988m (2004-05, $477.422m) for purchase of energy and transmission costs, in the main paid to Hydro and Transend (although via the National Energy Market) 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 and due to the inclusion this year of a $35.044m gain on the deconsolidation of the R40s group of companies.

Non-operating revenues represent a credit on the actuarial re-assessment of Hydro's superannuation liabilities and in Transend's case, receipt of gifted assets received for no consideration. All three entities benefited from the actuarial assessment of their superannuation liabilities in 2005-06 with details provided in individual chapters.

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

Hydro	18.47%
Aurora	4.01%
Transend	5.42%

Transend's borrowing costs are after deducting capitalised interest of $1.628m. If included, the percentage would be 7.39%.

These percentages vary due to their operating structures, the nature of costs incurred by each and their respective capital structures. Transend's percentage increased from the 3.22% reported in my 2004-05 Report because its borrowings increased significantly in 2005-06. These matters are commented upon further in the financial analysis section of this chapter.

BALANCE SHEETS AS AT 30 JUNE 2006

	Hydro	Aurora	Transend
	$'000s	$'000s	$'000s
Cash and investments	15 751	12 359	29
Receivables	98 797	70 255	19 589
Unbilled energy	0	51 251	0
Inventories	705	6 700	152
Financial assets	19 106	0	0
Other	3 727	4 416	551
Total Current Assets	**138 086**	**144 981**	**20 321**
Payables	102 867	106 272	16 162
Borrowings	7 000	62 325	27 724
Financial liabilities	90 543	0	0
Provisions	43 888	29 934	6 634
Tax liabilities	15 624	0	7 067
Other	7 069	13 493	17 106
Total Current Liabilities	**266 991**	**212 024**	**74 693**
Working Capital	**(128 905)**	**(67 043)**	**(54 372)**
Property, plant and equipment	3 440 858	922 675	761 297
Investments	80 005	52	0
Deferred tax assets	0	23 197	0
Intangible assets	0	14 622	572
Financial assets - Basslink	141 885	0	0
Other	50 110	1 010	0
Total Non-Current Assets	**3 712 858**	**961 556**	**761 869**
Borrowings	1 070 000	399 081	65 053
Provisions	256 599	42 189	16 038
Financial liabilities	876 355	0	0
Deferred tax liabilities	473 564	119 310	97 898
Other non-current liabilities	0	788	0
Total Non-Current Liabilities	**2 676 518**	**561 368**	**178 989**
Net Assets	**907 435**	**333 145**	**528 508**
Capital	0	201 555	336 549
Reserves	4 649	86 652	125 419
Minorities/joint ventures	0	18	0
Retained profits	902 786	44 920	66 540
Total Equity	**907 435**	**333 145**	**528 508**

Comment

All three entities have negative Working Capital suggesting that, before adjusting for employee and other provisions, liquidity is tight. In Hydro's case this position is exacerbated by the short term obligations flowing from the Basslink and Gas Pipeline Capacity Agreement and in Aurora and Transend by the need to meet heavy short term debt payments.

As expected, infrastructure assets, resulting in high depreciation charges, dominate each entity's balance sheet. Another large non-current asset at Hydro is its $80.000m, 50%, investment in the R40s joint venture.

Hydro's balance sheet has been significantly impacted by the need for it to recognise financial instruments (assets and liabilities) in relation to the Basslink and Gas Pipeline Capacity Agreement. The debt situation for these entities is as follows:

	Hydro	Aurora	Transend
Borrowings at 30 June 2005 ($'000)	1 211 518	436 875	52 901
Borrowings at 30 June 2006 ($'000)	1 077 000	461 406	92 777
Increase/(decrease) in borrowings ($'000)	(134 518)	24 531	39 876
Percentage change in borrowings (%)	(11.10)	5.62	75.38

Hydro's debt decreased primarily due to the deconsolidation of the R40s group of companies whilst the debt of Aurora and Transend increased primarily to fund capital expenditure.

CASH POSITION FOR YEAR ENDED 30 JUNE 2006

	Hydro $'000s	Aurora $'000s	Transend $'000s
Receipts from customers	481 189	828 016	141 824
Payments to suppliers and employees	(259 635)	(708 813)	(48 148)
Interest received	3 722	3 273	0
Borrowing costs	(62 123)	(27 776)	(4 163)
Income tax equivalents paid	(19 061)	(17 104)	(18 636)
Government guarantee fee paid	(4 124)	(1 492)	0
Cash From Operations	**139 968**	**76 104**	**70 877**
Payments for investments	(15 788)	0	0
Payments for financial assets	(50 110)	0	0
Payments for assets and intangibles	(116 984)	(134 436)	(97 337)
Proceeds from investments and asset sales	2 547	1 505	312
Cash (Used in) Investing Activities	**(180 335)**	**(132 931)**	**(97 025)**
Proceeds from borrowings	482 259	197 833	44 920
Repayment of borrowings	(526 639)	(173 304)	(5 000)
Dividend paid	(40 000)	(11 977)	(13 766)
Cash From Financing Activities	**(84 380)**	**12 552**	**26 154**
Net Increase/(Decrease) in Cash	**(124 747)**	**(44 275)**	**6**
Cash at the beginning of the period	140 498	56 634	23
Cash at End of the Period	**15 751**	**12 359**	**29**

Comment

These entities continue to generate significant cash from operations, which totalled $286.949m in 2005-06 (2004-05, $271.609m). They also invested heavily in capital expenditure, $348.757m in 2005-06 and $256.658m in 2004-05.

Despite strong operating cash flows, all three entities are facing tight liquidity positions due to their high levels of capital expenditure.

FINANCIAL ANALYSIS

	Bench Mark	Hydro	Aurora	Transend
Financial Performance				
Result from operations ($'000s)		68 922	31 288	37 548
EBIT ($'000s)		133 080	60,445	57 797
EBITDA ($'000s)		221 025	121 471	93 258
Operating margin	>1.0	1.89	1.04	1.50
Return on assets		3.8%	5.5%	7.8%
Return on equity		4.8%	6.9%	7.3%
Financial Management				
Debt to equity		118.7%	138.5%	17.6%
Debt to total assets		28.0%	41.7%	11.9%
Interest cover - EBIT		1.51	2.13	10.0
Interest cover - EBITDA	>3	3.56	4.28	22.47
Interest cover - operating cash flows		3.32	2.68	17.08
Current ratio	>1	0.52	0.68	0.27
Leverage ratio		424.4%	332.1%	148.0%
Cost of debt	7.50%	5.2%	6.3%	7.9%
Debt collection	30 days	75 days	29 days	7
Creditor turnover	30 days	19 days	10 days	16
Capital Exp/Depreciation	1	1.33	1.94	2.3
Returns to Government				
Dividends paid or payable ($'000s)		21 200	9 585	13 766
Dividend payout ratio	50%	47.9%	42.9%	50.0%
Dividend to equity ratio	6%	2.3%	3.0%	3.7%
Income tax paid or payable ($'000s)		22 825	17 104	18 636
Effective tax rate	30%	34.0%	53.3%	26.0%
Government guarantee fees		4 124	1 492	0
Total return to the State ($'000s)		48 149	28 181	32 402
Total return to equity ratio		5.29%	8.7%	6.4%
CSO funding		6 200	11 198	0
Other Information				
Staff numbers - FTEs		829	1 042	185
Average staff costs ($'000s)		101	59	91
Average leave balances per employee ($'000s)		23	19	24

Comment

Applying conventional financial performance ratios indicate that all three entities achieve operating margins above the benchmark with positive returns on assets and equity. Returns on equity vary with Transend standing out at 7.3%

Debt to equity ratios indicate that Hydro and Aurora rely 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. However, as noted earlier, Transend's debt has increased and its Interest cover - EBIT has dropped from 14.4 to 10.0.

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 $108.732m (2004-05, $129.900m) to the State in 2005-06.

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 $1.782bn, employ over 1 600 people, and generate $169.789m 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.

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 was established under the *Forestry Amendment (Forestry Corporation) Act 1994*, which amended the Forestry Act 1920. Forestry Tasmania 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.

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

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

AUDIT OF THE 2005-06 FINANCIAL STATEMENTS

Financial statements, signed by the Board were received on 14 August 2006. An unqualified audit report was issued on 8 September 2006.

FINANCIAL RESULTS

INCOME STATEMENT

	2005-06 AIFRS	**2004-05 AIFRS**	**2004-05 AGAAP**
	$'000	$'000	$'000
Forest sales revenue	107 331	137 589	137 589
Share of GMO JV revenues	24 432	22 350	22 350
Forest management services revenue	13 626	14 251	14 251
Tasmanian Community Forest Agreement	17 716	0	0
Other operating revenue	12 570	9 204	10 764
Non-operating revenue	0	8	750
Total Revenue	**175 675**	**183 402**	**185 704**
Employee benefits and expenses	33 758	32 288	31 874
Contractors expenses	65 888	73 438	73 438
Share of GMO JV expenses	23 010	20 705	20 705
Borrowing costs	1 073	1 425	1 594
Depreciation	9 594	9 065	9 065
Other operating expenses	23 486	29 200	31 509
Non-operating expenses	53	(8)	(8)
Total Expenses	**156 862**	**166 113**	**168 177**
Profit before net market value adjustment and movement in the unfunded superannuation liability	**18 813**	**17 289**	**17 527**
Forest net market value adjustment	6 745	(12 645)	(12 645)
Superannuation liability movement	5 754	(15 739)	(4 227)
Profit/(loss) before income tax	**31 312**	**(11 095)**	**655**
Income tax (credit)/expense	8 526	(4 392)	(695)
Net profit/(loss)	**22 786**	**(6 703)**	**1 350**

Comment

There were significant variations between 2004-05 AGAAP and AIFRS results. Forestry Tasmania recorded a net profit of $1.350m in 2004-05 under AGAAP which changed to a loss of $6.703m under AIFRS. The main changes are to the superannuation expense off-set by an increase in the income tax credit:

- An actuarial re-assessment, based on the revised accounting standards, of Forestry Tasmania's superannuation liability in 2004-05 resulted in an increase to the liability of $15.739m. This represents a difference of $11.512m compared to the movement under AGAAP, due mainly to a change in the discount rate applied by the State Actuary in accordance with AASB 119 *Employee Benefits*; and
- The negative income tax expense for 2004-05 under AGAAP was due to the over provision of tax from the prior year. The movement from AGAAP to AIFRS in that year was impacted predominantly by changes in the deferred tax liability due to the revaluation of biological assets.

Regarding the 2005-06 operating results, 2005-06 was a difficult trading year for Forestry Tasmania. Forest sales revenue decreased significantly primarily due to a decline in price and volume of wood products. This saw a reduction in gross sales of approximately $30.000m with most of the change relating to hardwood pulpwood. The main factors contributing to this outcome included the strong Australian dollar, which negatively affected export sales, increased freight costs and boycotting of Tasmanian wood products by some buyers.

Despite the drop in sales revenue, Forestry Tasmania maintained a profit of around $18.000m before recording the impact of the movement in the net market value in the plantation forest and before the impact of the change in the unfunded superannuation liability. A significant contributor to this $18.000m profit was the revenue of $17.716m flowing from the Tasmanian Community Forest Agreement (TCFA). However, this $17.716m is largely matched by expenditure incurred under the TCFA on current year plantation establishment costs, future crop expenditure (primarily contractor costs) and on other operating expenditure including some payroll costs. Forestry Tasmania management assure us that these costs would not have been incurred had the TCFA monies not been received.

The TCFA was signed in May 2005 between the State and Federal Governments. To date $35.481m has been received by Forestry Tasmania with $17.716m earned so far and the balance of $17.765m carried forward to future years to match expenditure still to be incurred. This agreement is designed to enhance the productivity of the forest, improve timber value recovery and capitalise on tourism opportunities from the substantially enlarged conservation reserves.

The $18.000m profit was also achieved due to:

- An increase in other operating revenue in 2005-06 was mainly a result of payments by Newood Holdings Pty Ltd to Forestry Tasmania for development fees for the Smithton and Huon Wood Centre sites;
- A decrease in contractors expenses due to the decline in wood product sales;
- A reduction in other operating expenses, which include items such as external

plant hire and transport costs, due also to the decline in the volume of wood products sold; offset by

- The higher depreciation expense due to increased capitalised expenditure on Forestry Tasmania’s road network.

It is also noted that Forestry Tasmania’s share of Taswood Growers with GMO (Grantham, Mayo and Otterloo) Renewable Resources Joint Venture revenue and expenditure both increased in 2005-06 due to increases in the volume of softwood sales. However, the net impact on the overall profit for the period was small, a net contribution of $1.422m (2004-05 $1.645m).

Forestry Tasmania’s net profit after tax was $22.786m, a significant improvement on the prior year loss of $6.703m, due primarily to:

- The favourable movement in the provision for staff superannuation caused by changes in discounts rates and an increase in the value of contributory scheme assets which resulted in a reduction of the liability of $5.754m; and

- The increase in the forest net market value of $6.745m which relates solely to hardwood and softwood plantation standing timber. The increase is primarily due to changes to the discount rate and a change to a market based value for some joint venture timber resources. The loss in 2004-05 of $12.645m was principally due to accounting for increased costs such as council rates, land rental charges and plantation establishment costs.

BALANCE SHEET

	2005-06 AIFRS $'000	2004-05 AIFRS $'000	2004-05 AGAAP $'000
Cash	26 436	18 691	18 691
Receivables	26 042	28 796	28 866
Inventories	9 247	6 997	6 997
Biological assets	21 230	26 336	26 336
Other	558	560	560
Total Current Assets	**83 513**	**81 380**	**81 450**
Payables	39 816	34 874	34 050
Deferred government grants	110	109	0
Provisions - leave and other	6 148	6 554	7 825
Provisions - superannuation	10 388	8 759	8 760
Total Current Liabilities	**56 462**	**50 296**	**50 635**
Working Capital	**27 051**	**31 084**	**30 815**
Biological assets	339 288	340 088	340 088
Forest estate	375 431	370 085	370 085
Property, plant and equipment	30 286	30 009	30 754
Intangible assets	1 067	745	0
Receivables	50	202	202
Investments	570	623	623
Other financial assets	18 651	15 953	15 953
Deferred tax assets	31 785	33 728	24 229
Total Non-Current Assets	**797 128**	**791 433**	**781 934**
Borrowings	35 000	32 000	32 000
Deferred government grants	3 861	3 999	0
Deferred tax liabilities	137 019	137 794	25 484
Provisions - leave and other	1 137	1 287	1 365
Provisions - superannuation	77 720	85 102	57 085
Total Non-Current Liabilities	**254 737**	**260 182**	**115 934**
Net Assets	**569 442**	**562 335**	**696 815**
Capital	234 057	233 057	233 057
Reserves	292 659	306 893	419 440
Retained profits	42 726	22 385	44 318
Total Equity	**569 442**	**562 335**	**696 815**

Comment

Forestry Tasmania's net assets dropped by $134.480m upon the introduction of the new accounting standards in 2004-05 due primarily to:

- The increase in the provision for employee superannuation by $29.303m;
- An increase in the deferred tax liability by $112.310m, caused mainly by Forestry Tasmania's policy of recording its non-current assets at valuation which gives rise to significant differences between the book and tax values of these assets;
- The need to recognise government grants received on a deferred basis thereby matching grants with the timing of associated expenditure which increased liabilities by $3.990m; offset by
- An increase of $9.499m in deferred tax assets, which relate to the higher superannuation and other provisions.

Movements in 2006 balances when compared to 2005 are noted as being due to:

- The increase in cash, which was partly due to payments of $22.981m received under the TCFA;
- A reduction in receivables reflecting the reduction in forest sales revenue;
- Inventories, which include gravel stocks, specialty timbers, seed and seedlings, increased due to higher gravel stocks held in preparation for road capital works which did not all proceed as planned due to adverse weather conditions;
- Payables, which include trade creditors, accrued expenses and revenue received in advance, increased due to the higher Revenue received in advance, up by $4.102m and related to TCFA funds;
- A reduction in the carrying value of Forests (biological assets comprising both native and plantation forests), which are valued using a discounted cash flow model to derive a net present 'market' value of the existing forest crop, by $5.907m and related to:
  - A decrease in the net market value of the native forest of $25.135m; offset by
  - An increase in the net market value of plantation forests of $19.228m.

  The decrease in the value of the native forest was principally due to a reduction in wood flows arising from the TCFA. This reduction includes additional native forest being transferred into conservation reserves and restrictions on clear felling of old growth forests into the future. An increase in the discount rate from 8.89% to 9.12% also contributed to the reduction in value. Plantations increased in value due to a decrease in the discount rate from 10.5% to 10.0% and a change to a market based value for some joint venture timber resources;

- An increase in Forest estate assets, which comprises land and roads. Higher road values due to additions of $10.019m were the main reason for the increase at 30 June 2006 and this was offset by depreciation of $6.391m;
- Other financial assets consist of the superannuation investment account, invested with the Tasmanian Public Finance Corporation. The value of these investments rose in 2005-06 due to gains in the share portfolio component; and
- Borrowings increased by $3.000m in 2005-06 to $35.000m in accordance with the Corporate Plan and budget to assist fund essential capital expenditure.

CASH POSITION

	2005-06 AIFRS $'000	2004-05 AIFRS $'000	2004-05 AGAAP $'000
Receipts from customers	143 805	177 638	177 638
Proceeds from TCFA	22 981	12 500	12 500
Distributions received	750	2 200	2 200
Interest received	989	485	485
Payments to suppliers and employees	(136 874)	(154 894)	(154 894)
Payments to suppliers and employees - plantations	(11 932)	(11 292)	(11 292)
Borrowing costs	(2 092)	(1 594)	(1 594)
Tax equivalents paid	3 523	(3 778)	(3 778)
Cash from operations	**21 150**	**21 265**	**21 265**
Proceeds from investments	0	3 000	3 000
Proceeds from sale of property, plant and equipment	1 111	1 646	1 646
Payments for property, plant and equipment	(16 069)	(20 508)	(20 508)
Cash (used in) investing activities	**(14 958)**	**(15 862)**	**(15 862)**
Equity Contribution	1 000	1 000	1 000
Proceeds from borrowings	3 000	7 000	7 000
Dividends paid	(2 447)	(5 232)	(5 232)
Cash from financing activities	**1 553**	**2 768**	**2 768**
Net increase in cash	**7 745**	**8 171**	**8 171**
Cash at the beginning of the period	18 691	10 520	10 520
Cash at end of the period	**26 436**	**18 691**	**18 691**

Comment

The adoption of new accounting standards had no impact on the cash position of Forestry Tasmania.

The decrease in 2005-06 in Receipts from customers and Payments to suppliers and employees reflect the decrease in sales and operational costs noted previously.

As mentioned previously, additional funding flowed through in 2005-06 from the TCFA, of which the majority of funds were used for the establishment of new hardwood plantations, stand management activities such as thinning, pruning and fertilising and research and development activities associated with specific projects agreed under the TCFA. This, combined with a reduction in capital expenditures, resulted in an overall increase in cash as at 30 June 2006.

The equity contribution in 2005-06 of $1.000m and in 2004-05 relates to a contribution from the State Government towards the cost of the Maydena Hauler project.

FINANCIAL ANALYSIS

	Bench Mark	2005-06	2004-05
Financial Performance			
Result from operations ($'000)		18 760	17 297
EBIT ($'000)		19 886	18 714
Operating margin	>1.0	1.12	1.10
Return on assets		3.7%	(1.1%)
Return on equity		4.0%	(1.0%)
Financial Management			
Debt to equity		6.2%	5.7%
Debt to total assets		4.0%	3.7%
Interest cover	>3	9	9
Current ratio	>1	1.48	1.62
Cost of debt	7.5%	5.8%	5.7%
Debt collection	30 days	53	41
Creditor turnover	30 days	54	41
Returns to Government			
Dividends paid ($'000)		2 447	5 232
Dividend payout ratio	50%	10.7%	-78.1%
Dividend to equity ratio		0.3%	0.7%
Income tax paid ($'000)		(3 523)	3 778
Effective tax rate	30%	-11.3%	-34.1%
Total return to the State ($'000)		(1 076)	9 010
Total return to equity ratio		-0.1%	1.1%
Other Information			
Staff numbers FTEs		516	560
Average staff costs ($'000)		65	57
Average leave balances per employee ($'000)		12	11

Comment

It is noted that the Result from operations, EBIT and Operating margin do not include the net market movement in the forest asset or the movement in the unfunded superannuation liability.

However, the Return on assets and Return on equity percentages are determined after the net market movement in the forest asset and superannuation liability as noted above, with the negative return on assets and equity for 2004-05 being due to the $12.645m decrement in the net market value of the forest asset and the increase of $15.739m in the unfunded superannuation liability. These returns improved in 2005-06 as Forestry Tasmania moved into profit compared to the prior year’s operating loss after tax.

Debt collection increased to 53 days in 2005-06, which is reflective of a slower payment cycle due to reduced sales turnover in some sectors of the forest industry. The Creditor turnover increased to 54 days due to tighter cash flow management and a change in internal policy from the previous financial year related to creditor payment cycles.

The Dividends and Income tax are cash payments and relate to the prior year. Forestry Tasmania received a tax refund of $3.523m in 2005-06 due to a tax adjustment, causing negatives in 2005-06. Dividends paid in 2005-06 decreased due to lower profitability in 2004-05.

Staff numbers declined in 2005-06, as part of reducing costs of operations in response to the loss of sales, but average staff costs rose due to redundancy payments and timing issues.

OVERALL COMMENT

The audit was completed satisfactorily with no major items outstanding.

2.2 HYDRO-ELECTRIC CORPORATION

INTRODUCTION

The Hydro-Electric Corporation (Hydro, 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.

Subsidiary and Associated Companies

- **Bell Bay Power Pty Ltd** (BBP), established on 20 December 2001, owns and operates the Bell Bay power station. Following commissioning of Basslink, the Bell Bay power station was no longer required by Hydro for drought relief backup. Under market structure proposals made by the State to the Australian Competition and Consumer Commission, it was expected that BBP would be separated either to a third party or as a separate State owned entity. Until the separation of the Bell Bay plant as a viable operation can be achieved, the Bell Bay plant is expected to be held by BBP in a standby state. At the date of this Report the plant had been operating intermittently since the end of the previous financial year. However, it remains the Hydro position that, in the long term, the station has little prospect of providing future economic benefit to the Corporation. This resulted in the Bell Bay power station asset being assessed as impaired and the carrying value of $22.435m written down to nil, with an expense recorded in the financial statements.

- **Bell Bay Three Pty Ltd** was incorporated on 7 December 2005. It constructed three 38.75MVA gas turbine units during the 2005-06 financial year that have since been commissioned. The turbines were installed at a project cost of $52.409m.

- **Lofty Ranges Power Pty Ltd** operates a power generating joint venture activity in South Australia.

- **Roaring 40s Renewable Energy Pty Ltd** (R40s), on 17 October 2005, CLP Asia Renewable Projects Limited became an equal co-investor in R40s thus reducing Hydro’s interest from 100% to 50%. At the time of deconsolidation, Hydro’s investment in this former subsidiary was reclassified as an investment in a joint venture and revalued to 50% of the fair value of the total equity of R40s at that date. This revaluation resulted in a gain of $35.044m that has been included in revenue in the Income Statement. The transaction with CLP Asia resulted in Hydro also deconsolidating a number of other former subsidiary companies.

  In addition to the $35.044m gain referred to above, the financial impact of the deconsolidation of R40s resulted in a number of changes to Hydro’s consolidated Balance Sheet when compared to the financial position at 30 June 2005. The main changes were a reduction in Property, plant and equipment of approximately $128.900m and a decrease in Borrowings of approximately $90.000m.

- **RE Storage Pty Ltd** was incorporated during the year but did not trade.

I am the auditor of all wholly-owned subsidiary companies but I am not the auditor of R40s.

Basslink was successfully commissioned during the year and the Basslink Services Agreement came into force. This commissioning of Basslink gives Hydro physical access to the National Electricity Market (NEM).

As at 30 June 2006 the Responsible Minister was the Minister for Energy.

AUDIT OF THE 2005-06 FINANCIAL STATEMENTS

The directors signed Hydro's financial statements on 14 August 2006 and an unqualified audit report was issued on 16 August 2006.

The audits of the 100% owned subsidiaries were completed at the same time, with unqualified audit opinions being issued for all by 15 August 2006.

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. The borrowings have existed since disaggregation when Hydro was left with $1 046.000m in debt. Debt reduced by $134.518m during 2005-06 as a result of the deconsolidation of R40s and the restructuring of the arrangements in place to meet the liquidity requirements necessary to comply with the Australian Financial Services License (AFSL).

Hydro's capital investment program continued in 2005-06 and was principally aimed at managing risk by improving the operational reliability and efficiency of generation assets, in some cases leading to increases in generating capacity.

On adoption of new Australian Accounting Standard AASB 139 *Financial Instruments: Recognition and Measurement* on 1 July 2005, Hydro recognised the fair value of the contractual rights and obligations of the Basslink contracts (Basslink Services Agreement and Basslink hedging arrangements) as a financial asset of $151.300m and financial liabilities of $895.300m. In addition, AASB 139 required Hydro to recognise the Gas Pipeline Capacity Agreement as a financial liability of $56.200m. The fair value of these financial assets and financial liabilities must be reassessed at the end of each year with any change being reported in the Income Statement. With respect to the Basslink financial instruments the net gain was $9.900m and for the gas pipeline capacity agreement there was an expense of $4.800m.

With the separate recognition of the Basslink financial instruments on 1 July 2005 there was a related increase of $748.300m in the carrying value of Property, plant and equipment. This resulted in additional depreciation expenses of $17.800m in the 2006 financial year.

It is noted that the Hydro Balance Sheet at 30 June 2005, summarised later in this chapter, prepared in accordance with Australian Equivalents to International Financial Reporting Standards (AIFRS) applicable at that date, recognised generating assets on a net basis (the Basslink and related obligations were netted against the carrying values of these assets) with the Basslink related financial instruments disclosed in the notes to the Hydro financial statements.

During 2004-05, under Australian Generally Accepted Accounting Principles (AGAAP), there was a material revaluation decrement of $523.033m in the fair value of Hydro's generating assets. This decrement was reported as an adjustment to the asset revaluation reserve and did not impact on the operating result. Under AIFRS this decrement is treated as an impairment of these assets and reported as an impairment expense in the Income Statement. The impairment under AIFRS was $542.269m. This adjustment took effect in 2004-05 resulting in an ongoing reduced annual depreciation charge. However, and as explained in Hydro's audited 2005-06 financial statements at note 31(f), under AIFRS the impairment is recorded at the end of the financial year (and not evenly over the year as applied under AGAAP). This resulted in a higher depreciation charge of $5.300m at 30 June 2005 under AIFRS.

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

INCOME STATEMENT

	2005-06 AIFRS $'000s	2004-05 AIFRS $'000s	2004-05 AGAAP $'000s
Electricity sales revenue	405 646	399 177	399 177
Other operating revenue	64 010	62 745	62 588
Total Revenue	**469 656**	**461 922**	**461 765**
Operating expenses	160 607	121 567	143 201
Labour	88 024	80 229	83 642
Total Operating Expenses	**248 631**	**201 796**	**226 843**
Earnings before interest, tax, depn and amortisation (EBITDA)	**221 025**	**260 126**	**234 922**
Depreciation	87 945	83 135	77 835
Earnings before interest & tax (EBIT)	**133 080**	**176 991**	**157 087**
Borrowing costs	(85 860)	(88 594)	(71 526)
Loss on disposal of non-current assets	(13 667)	(9 572)	(5 165)
Share of loss of joint venture	(5 562)	(316)	0
Gain on R40s deconsolidation	35,044	0	0
Superannuation credit/(expense)	27 264	(34 561)	0
Asset impairments	(23 206)	(542 269)	0
Result from ordinary activities	**67 093**	**(498 321)**	**80 396**
Income tax expense/(credit)	22 824	(149 908)	35 986
Result after taxation	**44 269**	**(348 413)**	**44 410**

Comment

The significant change between Hydro's 2004-05 profit before taxation reported under AGAAP, $80.396m, and its loss reported under AIFRS, $498.321m, is almost entirely due to:

- the requirement under AIFRS for the revaluation decrement of the generation assets (brought to account under AGAAP as a reduction of the revaluation reserve) to be charged against profits as an impairment expense; and
- the application and recognition of revised actuarial assumptions in valuing Hydro's staff superannuation liabilities.

These accounting adjustments had no impact on Hydro's cash flow. Details are:

	2004-05 $m
Profit before tax under AGAAP	80.396
Generation assets impairment loss	(542.269)
Increase in the superannuation liability	(31.100)
Other reasons (net)	(5.348)
Loss before tax under AIFRS	**(498.321)**

These adjustments significantly amended the taxation charge, giving rise to income tax benefits totalling $185.894m.

The new accounting standards also resulted in a reclassification of notional interest incurred on superannuation liabilities from Operating expenses to Borrowing costs.

When assessing Hydro's operating performance in 2005-06, it is noted that this financial year was the first full year of trading in the NEM, the commencement of operations of Basslink and the deconsolidation of R40s. These events, along with the introduction of AIFRS, make it difficult for year on year comparisons to be meaningful. To assist comparative assessment, the Income Statement above has been prepared in such a way as to highlight Earnings before interest and tax (EBIT) and Earnings before interest, tax, depreciation and amortisation (EBITDA). This format highlights the following:

- Ordinary revenues increased by only $7.734m or 1.67%;
- Operating expenses increased by $39.040m, the main reason for this was payment of costs totalling $29.409m associated with Basslink (for example the facility fee);
- Labour costs increased by $7.795m or 9.72%. However, a superannuation credit reduced the 2004-05 expense by $3.153m meaning that the more relevant comparison between the two periods is an increase of $4.642m or 5.79%. This increase was caused by wage and salary increases and increases in employee numbers;
- Borrowing costs decreased by $2.734m or 3.09% primarily due to the deconsolidation of R40s and a reduction in interest rates;

- The impact of the Hydro's gain, $35.044m, at the time of deconsolidating the R40s group of companies and its share of post deconsolidation joint venture operating losses totalling $5.562m; and
- The impact on operating results of losses arising from the de-recognition/loss on disposal of non-current assets, $13.667m, and of asset impairments ($23.206m relating to impairment of the Bell Bay power station).

In addition, the introduction of AIFRS gave rise to a number of significant individual transactions this year. These were:

Reason for increase or decrease in revenues/expenses	**Hydro's Notes***	**2005-06 $m**
Actuarial Gain arising from application of a lower discount rate and other actuarial factors in assessing superannuation liabilities	2(b) and 3	27.3
Income arising from a re-assessment at 30 June 2006 of the Basslink financial asset and financial liabilities – included as Other operating revenue in the Income Statement above	3	9.9
Expense resulting from the re-assessment of the Gas pipeline capacity agreement financial liability at 30 June 2006	3	(4.8)
Recognition of the Basslink financial instruments increased the carrying value of Hydro's Property, plant and equipment resulting in additional depreciation	2(b) and 3	(17.8)

** Hydro's notes – this cross references to the note number in Hydro's audited financial statements for the year ended 30 June 2006.*

Aside from these issues the expenses were in line with the previous year after taking into account that the costs of R40s are included for the full year in 2004-05 but for only part of the year for 2005-06.

BALANCE SHEET

	2005-06 AIFRS $'000s	2004-05 AIFRS $'000s	2004-05 AGAAP $'000s
Cash	660	10 221	10 221
Receivables	98 797	103 392	103 392
Investments	15 091	130 277	130 277
Inventories	705	549	549
Prepayments	0	0	3 695
Financial assets	19 106	0	0
Future income tax benefit	0	0	9 188
Other	3 727	5 099	1 410
Total Current Assets	**138 086**	**249 538**	**258 732**
Payables	102 867	105 110	105 110
Borrowings	7 000	32 912	32 912
Financial liabilities - Basslink and PCA*	90 543	0	0
Tax liabilities	15 624	0	0
Provisions	43 888	42 180	54 522
Other	7 069	1 048	1 051
Total Current Liabilities	**266 991**	**181 250**	**193 595**
Working Capital	**(128 905)**	**68 288**	**65 137**
Receivables	0	0	2 061
Property, plant and equipment	3 440 858	2 824 639	2 900 667
Investments	80 005	9 767	9 767
Financial assets - Basslink	141 885	2 061	0
Future income tax benefit	0	0	58 145
Unamortised hedging costs	0	0	19 028
Other	50 110	19 028	0
Total Non-Current Assets	**3 712 858**	**2 855 495**	**2 989 668**
Borrowings	1 070 000	1 178 606	1 178 606
Provisions	256 599	286 360	319 563
Financial liabilities - Basslink and PCA*	876 355	0	0
Deferred hedging costs	0	0	19 028
Deferred tax liabilities	473 564	498 221	0
Other	0	19 028	0
Total Non-Current Liabilities	**2 676 518**	**1 982 215**	**1 517 197**
Net Assets	**907 435**	**941 568**	**1 537 608**
Reserves	4 649	1 000	1 348 133
Retained profits	902 786	940 568	189 475
Total Equity	**907 435**	**941 568**	**1 537 608**

** PCA – Gas Pipe Line Capacity Agreement*

Comment

The main reasons for the decrease in equity of $596.040m at 30 June 2005 resulting from the transition from AGAAP to AIFRS were:

	$m
Increase in generating assets impairment losses	(19.3)
Increase in depreciation charges	(5.3)
• Reduction in deemed cost of generation assets – aligning valuation methodologies under AGAAP and AIFRS	(51.1)
Net increases in deferred tax liabilities	(416.2)
Increase in the superannuation liability	(103.7)

Commentary below deals with Balance Sheet movements between 2005-06 and 2004-05 prepared under AIFRS.

The significantly higher investments in 2004-05 was due to the need to satisfy the financial conditions of the AFSL 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 borrow $100.000m on a long term basis for investment short term. In 2005-06 Hydro arranged an alternative un-drawn facility with Tascorp enabling it to repay the $100.000m borrowing from Tascorp.

The debt position of Hydro was improved during the year with the deconsolidation of R40s and the restructuring of debt to meet the AFSL requirements. It is noted that the deconsolidation of the R40s group resulted in all assets and liabilities of that group being removed from the Hydro Balance Sheet, being principally Property, plant and equipment of approximately $128.900m and Borrowings of approximately $90.000m.

Despite Hydro operating at an after tax profit of $44.269m, its retained earnings decreased by $37.782m due primarily to:

- Deferred tax assets (a tax benefit) of $16.923m recognised directly against retained earnings in accordance with accounting standards;
- Dividend paid of $40.000m; and
- A net reduction in retained earnings of $56.527m arising from the first time application by Hydro of AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139. There are a number of offsetting reasons for this, details of which are noted immediately below.

Other material Balance Sheet movements this year related to changed accounting treatments under AIFRS. Details are:

- **Basslink Services Agreement (BSA)**

Basslink was successfully commissioned during the year and the BSA came into force. Commencement of this agreement gives Hydro physical access to the NEM.

As previously explained, on adoption of AASB 139 on 1 July 2005 Hydro recognised the fair value of the Basslink financial instruments. It is emphasised that these financial instruments were recognised on 1 July 2005, not on 30 June 2005. The fair value of these financial instruments must be reassessed at the end of each year with any change being reported in the Income Statement. With respect to the Basslink financial instruments, the net balances at 30 June 2006 were $738.100m giving rise to a net gain of $9.900m.

- **Gas pipeline capacity agreement**

On adoption of AASB 139 on 1 July 2005 Hydro recognised the fair value of the Gas Pipeline Capacity Agreement, $56.200m, as a financial liability, being the present value of the future obligations under this agreement. A liability was recognised on the basis that the Bell Bay plant is not expected to operate any further for the remaining term of the contract and, therefore, Hydro will not derive any future benefit from the obligations under the contract. The fair value of this financial liability must also be reassessed at the end of each year with any change being reported in the Income Statement. The valuation at 30 June 2006 was $61.000m giving rise to an expense of $4.800m.

- **Property, plant and equipment valuation and depreciation**

With the separate recognition of the Basslink financial instruments on 1 July 2005 there was a related increase of $748.000m in the carrying value of Property, plant and equipment. This resulted in additional depreciation expense of $17.800m for 2005-2006.

The net movement of $616.219m in Hydro's Property, plant and equipment is summarised as follows:

	$m
Bringing to account the Basslink financial instruments	748.0
Asset additions	126.4
Net disposals	(18.2)
Depreciation	(86.3)
Impairments	(23.2)
Transfer of R40 assets to joint venture	(128.9)

There was a material revaluation decrement under AGAAP of $523.033m in the fair value of Hydro's generating assets during 2004-05. This decrement is reported as an adjustment to the asset revaluation reserve. As noted previously, under AIFRS this decrement is reported as an impairment of Property, plant and equipment in the Income Statement. The impairment under AIFRS was $542.269m.

- **RBF actuarial gain or loss**

Under AIFRS the surplus or deficit resulting from an actuarial review of an employer sponsored defined benefit superannuation plan is taken up through the Income Statement. For 2004-05 the loss was $34.561m and for 2005-06 the gain was $27.264m. This gain or loss is after taking up interest expenses of $19.261m and $18.373m respectively.

- **Impairment testing of assets**

Under AIFRS all assets are subject to regular impairment testing. For Hydro the significant impairment for 2004-05 was the generation assets as noted previously. In 2005-06 the only impairment was the Bell Bay generation assets noted above. All other assets were tested but no other adjustments were deemed necessary.

- **CLP take up of a 50% interest in R40s**

On 17 October 2005, CLP Asia Renewable Projects Limited became an equal co-investor in R40s. At the time of deconsolidation, Hydro's investment in the subsidiary was reclassified as an investment in a joint venture and revalued to 50% of the fair value of the total equity of R40s. This revaluation resulted in a gain of $35.044m that has been included in revenue in the Income Statement. The deconsolidation also resulted in significant wind assets (including Woolnorth Bluff Point wind farm) transferring from Hydro to the joint venture.

- **Deferred Tax Liability**

Under AIFRS the future tax liabilities and tax assets have been calculated on a different basis to that previously used under AGAAP. The balance under the new method is disclosed as a Deferred tax liability. As noted previously, the impact of AIFRS at 30 June 2005 was an increase in the Deferred tax liabilities of $416.200m. At 30 June 2006 this net liability decreased by $24.657m primarily due to the bringing to account of the Basslink financial instruments and related balances.

CASH POSITION

	2005-06 AIFRS $'000s	**2004-05 AIFRS** $'000s	**2004-05 AGAAP** $'000s
Receipts from customers	481 189	455 731	455 731
Payments to suppliers and employees	(259 635)	(232 891)	(232 891)
Interest received	3 722	2 654	2 654
Borrowing costs	(66 247)	(71 284)	(71 284)
Income tax equivalent paid	(19 061)	(29 955)	(29 955)
Cash from operations	**139 968**	**124 255**	**124 255**
Payments for investments	(15 788)	(9 000)	(9 000)
Payments for financial assets	(50 110)	0	0
Payments for property, plant and equipment	(116 984)	(79 759)	(79 759)
Proceeds from sale of property, plant and equipment	2 547	1 096	1 096
Cash (used in) investing activities	**(180 335)**	**(87 663)**	**(87 663)**
Proceeds from borrowings	482 259	740 705	1 382 605
Repayment of borrowings	(526 639)	(605 745)	(1 247 645)
Repayment of Treasury loans	0	(3 991)	(3 991)
Dividend paid	(40 000)	(40 000)	(40 000)
Cash from/(used in) financing activities	**(84 380)**	**90 969**	**90 969**
Net increase/(decrease) in Cash	**(124 747)**	**127 561**	**127 561**
Cash at the beginning of the period	140 498	12 937	12 937
Cash at end of the period	**15 751**	**140 498**	**140 498**

Comment

Other than not grossing up proceeds from, and repayments of, short term borrowings and investments, there was no impact on the Cash Flow Statement of the move to the new accounting standards.

Hydro had a strong cash flow surplus from operations of $139.968m, which, increased by 10% over last year. This cash flow and surplus cash at the start of the year enabled Hydro to meet the investment needs of the business as well as reduce borrowings and pay the dividend.

As noted previously, Cash at 30 June 2005 included $100.000m held to satisfy a condition of Hydro's AFSL. This condition has now been met with an alternate facility. Without this $100.000m, Hydro's cash position at 30 June 2005 would have been $40.498m meaning that Hydro's cash reserves have decreased by $24.747m since 30 June 2005. The above cash flow statement indicates that free cash flow for 2005-06 was negative $40.367m (cash from operations less cash used in investing activities). Cash used for investing activities included payment of the $50.000m Basslink security deposit and construction of the $52.409m gas turbines at Bell Bay. The decision to construct the gas turbines at Bell Bay was taken in July 2005 to mitigate the risks created by a delay in Basslink commissioning and the low storage position caused by abnormally low inflows in the 2005 winter. This negative free cash flow amount is before the dividend payment of $40.000m.

However, prior to accounting for the $100.000m AFSL change, Hydro's debt increased by $56.000m. In my view, Hydro's liquidity and Balance Sheet position is tight. This observation is supported by Hydro's negative net Working Capital position (see Balance Sheet) of $128.905m and a current ratio (see Financial Analysis section) of less than one.

Hydro's challenge is to determine a sustainable level of expenditure to enable it to balance a reasonable return to Government, preservation of its assets and investment in growth opportunities while not increasing its borrowings to an unsustainable level.

FINANCIAL ANALYSIS

	Bench Mark	2005-06	2004-05
Financial Performance			
Result from operations ($'000s)		68 922	53 520
EBIT ($'000s)		133 080	176 991
EBITDA ($'000s)		221 025	260 126
Operating margin	>1.0	1.89	2.29
Return on assets		3.8%	n/a
Return on equity		4.8%	n/a
Financial Management			
Debt to equity		118.7%	128.7%
Debt to total assets		28.0%	39.0%
Interest cover - EBIT		1.51	n/a
Interest cover - EBITDA	>3	3.56	3.87
Interest cover - operating cash flows		3.32	2.91
Current ratio	>1	0.52	1.38
Leverage ratio		424.4%	329.8%
Cost of debt	7.5%	5.2%	5.9%
Debt collection	30 days	75	51
Creditor turnover	30 days	19	25
Capex/Depreciation		1.33	0.96
Returns to and from Government			
Dividends payable ($'000s)		21 200	40 000
Dividend payout ratio	50%	47.9%	n/a
Dividend to equity ratio		2.3%	2.7%
Income tax payable ($'000s)		22 825	n/a
Effective tax rate	30%	34.0%	n/a
Government guarantee fees		4 124	4 020
Total return to the State ($'000s)		48 149	n/a
Total return to equity ratio		5.2%	n/a
CSO funding		6 200	6 030
Other Information			
Staff numbers FTEs		832	829
Average staff costs ($'000s)		106	97
Average leave balance per FTE ($'000s)		23	21

** In a number of cases, the ratios for 2004-05 are not regarded as applicable due to the impact of the impairment losses booked in 2004-05 - refer to the Income Statement.*

Comment

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

The two significant events, which impacted on the 2005-06 and the 2004-05 financial statements, are the introduction of AIFRS in two stages and the commencement of the operations of Basslink. These two events and in particular the timing of introduction of AASB 139 has meant that the two years are not comparable for many of the ratios noted in the above table. There is detailed discussion of significant matters in previous sections of this chapter. Commentary on the above ratios is therefore limited to matters not previously dealt with:

- Whilst Hydro's Debt to equity has increased, indicating that it is more reliant at 30 June 2006 on debt funding than equity funding than it was one year earlier, Interest cover based on earnings before interest, tax and depreciation, is reasonable being greater than three times;
- Hydro's Leverage ratio has increased. The leverage ratio is calculated by dividing total assets by shareholders' equity and it measures the proportion of equity funding in the asset base. The ratio suggests that equity funding, as a proportion of Hydro's total assets, decreased. This was predominantly caused by:
    - The lower Retained profits at 30 June 2006; and
    - The additions to Property plant and equipment this year due to ongoing capital investment and the increase in asset values arising from the Basslink financial instruments;
- The Debt collection (days debtors) would appear to have worsened. However, the calculation of this ratio is impacted by Hydro's arrangements with the NEM and contracts for differences. All electricity trading on the NEM is settled on 30 days and Hydro's risk of not collecting its core energy debts is low;
- The Capital expenditure to depreciation ratio was high due to the construction of the three Bell Bay gas turbines this year; and
- The Current ratio (indicator of Hydro's working capital position – see Balance Sheet section) is less than one. This was mainly due to the inclusion this year of the Basslink and PCA Financial liabilities, $90.543m. The ratio was better than one at 30 June 2005 due to the inclusion in cash of the $100.000m cash held in connection with the AFSL noted previously.

OVERALL COMMENT

2005-06 has been a challenging year for Hydro. The introduction of AIFRS has seen the structure of the Balance Sheet significantly changed. However, it continues to generate strong operating cash flows and profits before interest and tax.

The commissioning of Basslink at the end of April 2006 was the end of a six year journey for Hydro. The new phase involves Hydro operating Basslink to its full potential.

As noted previously in this Chapter, in my view, Hydro's liquidity and Balance Sheet position is tight and its challenge is to determine a sustainable level of expenditure to enable it to balance a reasonable return to Government, preservation of its assets and investment in growth opportunities while not increasing its borrowings to an unsustainable level.

The audit was competed 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 (Liabilities 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, including the Chief Executive Officer, who are appointed by the Governor on the joint recommendation of the Treasurer and Portfolio Minister.

The Responsible Minister is the Minister for Infrastructure.

AUDIT OF THE 2005-06 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2006 and an unqualified audit report was issued on 8 September 2006.

FINANCIAL RESULTS – KEY CONCEPTS

Financial reporting for the MAIB is complex as a result of which some key concepts are noted in this section.

The nature of the MAIB's insurance business is that it is "long-tailed" meaning that for some claimants, benefits payments will not have to be paid for many years. It is normal for an insurance business, as occurred in the 2003-04 and 2004-05 financial years under AGAAP, 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 and the main costs are payments of claims. 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 majority 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. 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.

Growth in investment assets arises from increases in premiums received, operating profits and movements in the market values of investments.

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.

In view of this uncertainty, the claims 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 past two 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.

INCOME STATEMENT

	2005-06 AIFRS	**2004-05 AIFRS**	**2004-05 AGAAP**
	$'000s	$'000s	$'000s
Premium revenue	117 354	111 412	111 412
Outwards reinsurance expense	(4 711)	(4 159)	(4 159)
Claims expense	(94 546)	16 209	(108 216)
Recovery revenue	(530)	2 352	0
Unexpired risk expense	1 061	(3 806)	0
Other underwriting expenses	(2 361)	(2 236)	(2 236)
Underwriting Result	**16 267**	**119 772**	**(3 199)**
Investment revenue on insurance funds	92 794	73 095	73 095
General and administration expenses	(4 136)	(4 051)	(3 815)
Road Safety Initiative	(2 425)	(2 284)	(2 284)
Injury Prevention and Management Foundation	(1 023)	(748)	(748)
Insurance Result	**101 477**	**185 784**	**63 049**
Investment revenue on retained earnings	31 718	18 745	18 745
Operating result from ordinary activities	**133 195**	**204 529**	**81 794**
Income tax expense	(37 008)	(63 032)	(23 369)
Result after taxation	**96 187**	**141 497**	**58 425**

Comment

The difference between the 2004-05 result reported under AGAAP of $58.425m and the result reported under AIFRS of $141.497m is primarily due to the following once off adjustments:

- A decrease in Claims expense of $124.425m and an increase in Recovery revenue of $2.352m. The net movement of $126.777m is due to the impact of applying a risk free discount rate to the provision for outstanding and unreported claims (claims liability). (refer to the commentary relating to Claims expense for the details);
- An increase in Unexpired risk expense of $3.806m resulting from the recognition of a Provision for unexpired risk. At July 2004, a provision of $7.241m was recognised which was adjusted against retained earnings. As at 30 June 2005, the provision had increased to $11.047m with the movement of $3.806m being recognised in the Income Statement. (refer to the Balance Sheet section for further details regarding the Provision for unexpired risk);
- An increase in General and administration expenses of $0.236m due to a change in the calculation of the liability for the defined benefit superannuation provided for RBF contributory members; and
- An increase in Tax expense of $39.663m due to the application of the balance sheet approach to accounting for income taxes as prescribed under AIFRS. The majority of the increase to tax expense is due to the increase in profit arising from the decrease in the claims liability of $126.777m noted above.

Due to the one-off nature of these adjustments, comparison of operating results between 2005-06 and 2004-05, particularly as this relates to claims expenses, is difficult.

The MAIB recorded a $133.195m operating profit before tax ($96.187m after tax) for the 2005-06 financial year, a particularly strong result due to a number of factors including:

- Earned premiums of $117.354m (2004-05, $111.412m). The increase of 5.3% is attributed mostly to a 2.7% increase in the number of currently registered vehicles since June 2005;
- A decrease in the Unexpired risk expense of $1.061m; and
- Investment revenue, comprising Investment revenue on insurance funds and Investment revenue on retained earnings, of $124.512m ($91.840m); offset partly by
- Claims expense of $94.546m (credit of $16.209m).

This result has strengthened the MAIB’s financial position, increasing equity by $83.382m.

With regard to the strong investment result, it is noted that the Board’s investments are measured at net market value at the end of each reporting period in accordance with Australian Accounting Standard AASB 1023 *General Insurance Contracts*. Investment returns distinguish between those generated by investments supporting insurance activities and investments supporting retained earnings.

The higher investment revenue in 2005-06 is mainly due to the strength of the equities markets at 30 June 2006 compared to the position a year earlier resulting in the recognition of market value gains of $77.248m, of which $71.006m was unrealised.

The reinsurance expense of $4.711m represents an increase of $0.552m from 2004-05. The increase of 13.3% is attributable to a rise in premium rates of 10.3% combined with an increase in the number of registered motor vehicles of 2.7%.

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

Type of Expense	**2005-06 AIFRS** $’000s	**2004-05 AIFRS** $’000s	**2004-05 AGAAP** $’000s
Claims paid	57 939	64 488	64 488
Movement in the provision for outstanding and unreported claims	36 228	(81 046)	44 200
Re-insurance and other recoveries	0	0	(821)
Other claims paid	379	349	349
Total claims expenses	**94 546**	**(16 209)**	**108 216**

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 AASB 1023. 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 as inflation and discount rates.

As previously mentioned, the transition to AIFRS had the effect of decreasing Claims expense by $124.425m (as shown in the above table) and increasing Recovery revenue by $2.352m. The net movement of $126.777m is due to the impact of applying a risk free discount rate to the claims liability.

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 at 30 June 2005. Previously, the discount rate was based on a risk-free rate plus a margin for higher returns expected on investments. Resulting from the review of economic assumptions the claims liability at 30 June 2005 was calculated using a risk-free discount rate, which was in accordance with AIFRS requirements. To calculate the Board's opening balances under AIFRS, a risk-free rate was applied to the claims liability at 1 July 2004. The reduction in the discount rate resulted in an increase to liabilities at 1 July 2004 of $126.777m. As the 30 June 2005 AGAAP provision did not require adjustment to comply with AIFRS, the impact on the claims liability at 1 July 2004 was fully recognised in the Income Statement for 2004-05.

Recovery revenue was not recognised in the 2004-05 AGAAP Income Statement, as the claims liability was previously recorded net of any reinsurance recoveries receivable. The 2005-06 financial statements (including 2004-05 comparatives) disclose the claims liability gross of reinsurance recoveries receivable. Recovery revenue is comprised of the movement in the receivable and any reinsurance and other recoveries received during the period. Reinsurance and other recoveries were previously included in the calculation of Claims expense (refer previous table).

Prior to 2004-05, superimposed inflation was applied at a flat rate across all expected future claim payments. The actuarial review undertaken in 2004-05 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. The same inflation rates have been used in the calculation of the claims liability at 30 June 2006.

BALANCE SHEET

	2005-06 AIFRS $'000s	2004-05 AIFRS $'000s	2004-05 AGAAP $'000s
Cash	448	351	351
Receivables	1 919	1 743	1 743
Investments	895 784	749 183	749 183
Other	35	39	39
Total Current Assets	**898 186**	**751 316**	**751 316**
Plant and equipment	575	535	535
Property and investments	106 960	100 343	100 343
Deferred tax asset	4 674	5 054	0
Reinsurance recoveries receivable	14 220	17 100	0
Total Non-Current Assets	**126 429**	**123 032**	**100 878**
Payables	1 849	1 711	1 711
Provision for employee benefits - leave	308	346	346
Provision for employee benefits - superannuation	20	167	167
Provision for injury prevention	1 055	820	820
Provision for tax	20 434	4 680	4 680
Provision for unexpired risk	9 986	11 047	0
Provision for unearned income	52 143	49 978	49 978
Provision for outstanding and unreported claims	75 656	73 292	73 300
Total Current Liabilities	**161 451**	**142 041**	**131 002**
Payables	2	3	3
Provision for employee benefits - leave	37	55	55
Provision for employee benefits - superannuation	2 019	1 760	1 189
Deferred tax liability	34 181	20 811	19 433
Provision for outstanding and unreported claims	578 473	544 608	527 500
Total Non-Current Liabilities	**614 712**	**567 237**	**548 180**
Net Assets	**248 452**	**165 070**	**173 012**
Retained profits	248 452	165 070	173 012
Total Equity	**248 452**	**165 070**	**173 012**

Comment

The decrease of $7.942m between the Board's total Equity at 30 June 2005 reported under AGAAP, $173.012m, and Equity reported under AIFRS, $165.070m, is due to the following:

- The recognition of a Provision for unexpired risk of $11.047m, which is further explained below;
- Recognition of a Deferred tax asset of $5.054m and an increase in the Deferred tax liability of $1.377m resulting from the application of the balance sheet approach to accounting for income tax; and
- An increase in the Provision for employee benefits of $0.572m resulting from changes to the calculation of the RBF liability (refer to the Income Statement section for further details).

Under AIFRS a Reinsurance recoveries receivable, $17.100m, is separately disclosed causing a corresponding increase in the Provision for outstanding and unreported claims. Previously, under AGAAP this was netted off the claims liability.

Investments grew strongly during the year primarily due to the improved market values of securities held at 30 June 2006, $71.006m of which was unrealised at year-end.

At 30 June 2006, the total claims liability of $654.129m was comprised of the following categories, which recognise the three claims liability streams:

- Future Care $420.129m;
- Common Law $181.182m; and
- Scheduled Benefits $52.818m.

The increase in the claims liability has been driven mainly by the:

- Increase in the size of the future care liability. 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. This increase was offset by a decrease in the liability for common law claims due to the combined impact of higher than assumed numbers of settlements (and hence lower numbers of open claims for future settlement), higher assumed nil settlements, and a reduction in the assumed average non-nil claim settlement size;
- Increase from 4% to 6% of the gross central estimate to cover claims handling expenses; and
- Consequent impact of the above increases on the prudential margin.

The Provision for unearned income has remained reasonably consistent at about 44% of earned premiums suggesting that premiums are collected at a reasonably consistent rate throughout the year.

As mentioned under the Income Statement section, the Reinsurance recoveries receivable was previously netted off the claims liability. In the 2005-06 financial statements, the Board disclosed the claims liability gross of reinsurance recoveries receivable. The receivable is included in the claims liability actuarial review and the estimated recoveries are based on figures provided to the actuary by the Board's reinsurance provider.

At 30 June 2006, the Board recognised a Provision for unexpired risk of $9.986m. The implementation of AIFRS resulted in the introduction of a liability adequacy test where, at each reporting date, the Board's actuary assesses whether the provision for unearned premium liability is sufficient to cover all expected future cash flows relating to future claims against current insurance contracts. If the present value of the expected future cash flows relating to future claims plus claim handling expenses and a risk margin, to reflect the inherent uncertainty in the central estimate, exceeds the provision for unearned premium liability, then the provision for unearned premium liability is deemed to be deficient. The deficiency is recognised as a Provision for unexpired risk.

At 30 June 2006, the Board had a provision for tax of $20.434m, which comprised total tax payable for the year of $23.709m less tax instalments paid of $3.275m. The increased provision is mainly due to the increased operating result before tax of $133.195m, compared with the AGAAP 2004-05 operating result before tax of $81.794m.

CASH POSITION

	2005-06 AIFRS $'000s	2004-05 AIFRS $'000s	2004-05 AGAAP $'000s
Receipts from premiums	131 243	122 932	122 932
Payments for claims	(62 098)	(68 021)	(68 021)
Other payments	(23 975)	(23 094)	(23 094)
Other receipts	3 341	1 857	1 857
Tax paid	(7 503)	(939)	(939)
Dividends received	36 998	32 499	32 499
Interest received	11 098	11 349	11 349
Cash generated from operations	**89 104**	**76 583**	**76 583**
Payments for investments	(75 978)	(70 816)	(70 816)
Payments for property, plant and equipment	(312)	(212)	(212)
Proceeds from sale of property, plant and equipment	88	81	81
Cash (used in) investing activities	**(76 202)**	**(70 947)**	**(70 947)**
Dividends paid	(12 805)	(7 269)	(7 269)
Net increase/(decrease) in cash	**97**	**(1 633)**	**(1 633)**
Cash at the beginning of the period	351	1 984	1 984
Cash at end of the period	**448**	**351**	**351**

Comment

The cash balance has remained fairly stable in the years under review. Significant movements in receipts and payments include:

- Receipts from premiums increased by $8.311m in 2005-06. The increase reflects the growth in premium revenue due mainly to increases in vehicle numbers;
- Claim payments decreased by $5.923m in 2005-06. The reasons for the decrease are noted under the Income Statement section, in terms of its impact on Claims expense;
- Total tax paid in 2005-06 amounted to $7.503m, an increase of $6.564m, which comprised $3.275m relating to the current year and $4.228m relating to 2004-05;
- Dividends received increased by $4.499m;
- Payments for investments increased by $5.162m; and
- Dividends paid increased by $5.536m. This relates to the 2004-05 operating result.

FINANCIAL ANALYSIS

	Bench Mark	2005-06	2004-05
Financial Performance			
EBIT ($'000s)		133 195	204 529
Operating margin	>1.0	2.23	191.26
Return on assets		14.0%	25.5%
Return on equity		46.5%	98.6%
Financial Management			
Current ratio	>1	5.56	5.29
Solvency ratio		23.6%	19.8%
Returns to Government			
Dividends paid or payable ($'000s)		22 062	12 805
Dividend payout ratio	50%	22.9%	9.0%
Dividend to equity ratio	6%	10.7%	8.9%
Income tax paid or payable ($'000s)		23 709	5 619
Effective tax rate	30%	17.8%	2.7%
Total return to the State ($'000s)		45 771	18 424
Total return to equity ratio		22.1%	12.8%
Other Information			
Staff numbers (FTEs)		37	39
Average staff costs ($'000s)		60	56
Average leave balance per FTE ($'000s)		9	10

Comment

The high EBIT and Operating margin in 2004-05 are due to the negative Claims expense of $16.209m, which is explained in the Income Statement section. The negative Claims expense also resulted in the high Return on assets and equity ratios for that year. The 2005-06 Return on equity, 46.5%, is relatively high due to the particularly strong operating result after tax of $96.187m. The factors influencing the Board's result are discussed in the Income Statement section.

The Current ratio is above the benchmark of 1 in both years under review and indicates that the Board is able to meet all short-term liabilities.

While the 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 deferred tax assets balance and dividend payable) divided by the outstanding claims liability. The Board's Solvency ratios of 19.8% in 2004-05 and 23.6% in 2005-06 are consistent with these targets.

Dividends totalling $12.805m and $22.062m were paid or are payable to the State Government relating to the 2004-05 and 2005-06 financial years, respectively. It is noted that the dividends are based on a dividend averaging policy, which was adopted by the Board and approved by Government with effect from 2001-02. In accordance with the 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. At 30 June 2006, the Board had a tax equivalent payable of $20.434m, which comprised total tax payable for the year of $23.709m less tax instalments paid of $3.275m.

OVERALL COMMENT

The 2005-06 audit was completed satisfactorily with no major issues outstanding.

2.4 PORT ARTHUR HISTORIC SITE MANAGEMENT AUTHORITY

INTRODUCTION

The *Port Arthur Historic Site Management Authority Act 1987* (the Act) 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 seven members as at 30 June 2006.

The Responsible Minister is the Minister for Tourism, Arts and the Environment.

AUDIT OF THE 2005-06 FINANCIAL STATEMENTS

Signed financial statements were received on 11 August 2006 and an unqualified audit report was issued on 1 September 2006.

FINANCIAL RESULTS

INCOME STATEMENT

	2005-06 AIFRS	**2004-05 AIFRS**	**2004-05 AGAAP**
	$'000	$'000	$'000
Entrance fees	4 226	4 232	4 232
Ghost tours	670	684	684
Food and merchandise sales	3 541	3 516	3 516
Interest	195	190	190
Other income	271	278	278
Conservation funding	2 000	2 000	2 000
Assets not previously recognised	0	250	250
Total Revenue	**10 903**	**11 150**	**11 150**
Visitor services expenses	2 376	2 228	2 228
Ghost tour expenses	343	396	396
Food and merchandise expenses	3 453	3 436	3 436
Conservation expenses	2 511	2 368	2 368
Depreciation	546	522	528
Other operating expenses	1 633	2 713	1 451
Total Expenses	**10 862**	**11 663**	**10 407**
Result From ordinary activities	**41**	**(513)**	**743**

Comment

The Authority has received annual funding of $2.000m since 2000-01 for the purpose of preserving the site's convict heritage for future generations. These funds are expended to conserve the site in accordance with the Act and the Port Arthur Historic Site Conservation Plan 2000. The majority of conservation works are carried out on heritage assets and ruins, which are not recognised as assets of the Authority due to difficulty in determining an appropriate value. As a result, all conservation works are shown as an operating expense and not capitalised.

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

Revenue changed very little between 2004-05 and 2005-06, except for bringing to account in 2004-05 land and infrastructure assets of $0.250m not previously recognised.

Other operating expenses for 2004-05 were higher as a result of an actuarial re-assessment of the Authority's superannuation liability, $1.406m. Of this amount, $1.199m represented the initial adjustment of the unfunded superannuation liability from AGAAP to AIFRS, due mainly to a change in the discount rate applied by the State Actuary in accordance with AASB 119 *Employee Benefits*. This resulted in the Authority incurring a loss from ordinary activities in 2004-05. In 2005-06 the liability changed by $0.084m.

As a result of the lower actuarial movement in the superannuation liability, offset by the reduced income, the Authority's Result from ordinary activities improved from a loss of $0.513m in 2004-05 to a surplus of $0.041m in 2005-06.

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

The table below summarises the segment revenue before Assets not previously recognised, $0.250m for the past two years.

REVENUE BY SEGMENT

2005-06			
Segment	**Conservation**	**Tourism**	**Consolidated**
	$'000	$'000	$'000
Funding	2 000	0	2 000
External sales	37	8 832	8 869
Internal sales	22	12	34
	2 059	**8 844**	**10 903**

2004-05			
Segment	**Conservation**	**Tourism**	**Consolidated**
	$'000	$'000	$'000
Funding	2 000	0	2 000
External sales	45	8 811	8 856
Internal sales	21	23	44
	2 066	**8 834**	**10 900**

BALANCE SHEET

	2005-06 AIFRS $'000	2004-05 AIFRS $'000	2004-05 AGAAP $'000
Cash assets	2 592	2 911	2 911
Receivables	134	137	136
Inventories	413	441	441
Other	15	13	13
Total Current Assets	**3 154**	**3 502**	**3 501**
Payables	479	503	503
Provisions	1 425	1 433	1 433
Total Current Liabilities	**1 904**	**1 936**	**1 936**
Working Capital	**1 250**	**1 566**	**1 565**
Property, plant and equipment	13 465	13 118	13 176
Total Non-Current Assets	**13 465**	**13 118**	**13 176**
Provisions	3 804	3 814	2 615
Total Non-Current Liabilities	**3 804**	**3 814**	**2 615**
Net Assets	**10 911**	**10 870**	**12 126**
Retained profits	8 752	8 711	9 967
Reserves	2 159	2 159	2 159
Total Equity	**10 911**	**10 870**	**12 126**

Comment

As reported 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 assets.

The main Balance Sheet impact of the change from AGAAP to AIFRS resulted in an increase in Provisions because of changes to the superannuation liability, as noted previously.

CASH POSITION

	2005-06 AIFRS $'000	2004-05 AIFRS $'000	2004-05 AGAAP $'000
Receipts from customers	8 683	8 763	8 763
Payments to suppliers and employees	(10 319)	(9 921)	(9 921)
Interest received	194	190	190
Cash from operations	**(1 442)**	**(968)**	**(968)**
Cash flow from government			
Tasmanian Government	2 000	2 000	2 000
Cash from operations and government	**558**	**1 032**	**1 032**
Payments for property, plant and equipment	(899)	(909)	(909)
Proceeds from sale of property, plant and equipment	22	79	79
Cash (used in) investing activities	**(877)**	**(830)**	**(830)**
Net increase in cash	**(319)**	**202**	**202**
Cash at the beginning of the period	2 911	2 709	2 709
Cash at end of the period	**2 592**	**2 911**	**2 911**

Comment

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

FINANCIAL ANALYSIS

	Bench Mark	2005-06	2004-05
Financial Performance			
Result from operations ($'000s)		41	(763)
EBIT ($'000s)		41	(513)
Operating margin	>1.0	1.00	0.93
Return on assets		0.2%	(3.3%)
Return on equity		0.4%	(5.0%)
Financial Management			
Current ratio	>1	1.66	1.81
Debt collection	30 days	10	10
Creditor turnover	30 days	21	11
Returns to Government			
Dividends paid ($'000s)		0	0
Other Information			
Staff numbers (FTEs)		85	85
Average staff costs ($'000s)		56	52
Daytime Visitors		250 616	253 362
Ghost Tour Visitors		53 477	56 542

Comment

The result from operations improved in 2005-06 compared with 2004-05, which included the higher superannuation expense as discussed previously.

The higher Creditor turnover in 2005-06 was caused by some large accounts not settled until the first week of July 2006. The turnover ratio is still cwithin the benchmark.

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 of the site to the Tasmanian economy. The Authority remains economically dependent on funding from the State Government.

The audit was completed satisfactorily with no major issues outstanding.

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.

AUDIT OF THE 2005-06 FINANCIAL STATEMENTS

Signed financial statements were received on 14 August 2006 and an unqualified audit report was issued on 1 September 2006.

FINANCIAL RESULTS

INCOME STATEMENT

	2005-06 AIFRS	**2004-05 AIFRS**	**2004-05 AGAAP**
	$'000	$'000	$'000
Operating revenue	8 760	8 519	8 519
Total Revenue	**8 760**	**8 519**	**8 519**
Raw material and consumables	3 943	3 527	3 527
Employee expenses	3 054	3 020	3 020
Depreciation charges	319	428	428
Other expenses	1 748	1 640	1 640
Total Expenses	**9 064**	**8 615**	**8 615**
Result from ordinary activities	**(304)**	**(96)**	**(96)**
Income tax benefit/(expense)	101	(33)	(25)
Result after taxation	**(203)**	**(129)**	**(121)**

Comment

In 2005-06 the Authority's Result from ordinary activities was a loss of $0.304m as compared with as loss of $0.096m in 2004-05. The increased loss was due to costs of redundancy payments, $0.233m, and costs incurred by the Authority associated with the relocation to the Technopark and Collins Street premises, $0.184m. Without these costs the Authority would have achieved a profit of around $0.110m.

The Income tax benefit arose in 2005-06 because of the loss and tax accounting treatment of the revaluation and disposal of assets.

BALANCE SHEET

	2005-06 AIFRS	2004-05 AIFRS	2004-05 AGAAP
	$'000	$'000	$'000
Cash	1 038	1 448	206
Receivables	733	583	583
Investments	0	0	1 242
Inventories	382	407	407
Other	109	57	57
Total Current Assets	**2 262**	**2 495**	**2 495**
Payables	904	823	823
Provisions	629	759	780
Other	456	377	377
Total Current Liabilities	**1 989**	**1 959**	**1 980**
Working Capital	**273**	**536**	**515**
Plant and equipment	2 111	2 003	2 003
Deferred tax asset	258	311	319
Total Non-Current Assets	**2 369**	**2 314**	**2 322**
Provisions	109	105	84
Deferred tax liability	16	151	0
Total Non-Current Liabilities	**125**	**256**	**84**
Net Assets	**2 517**	**2 594**	**2 753**
Retained earnings	2 139	1 600	1 608
Reserves	378	994	1 145
Total Equity	**2 517**	**2 594**	**2 753**

Comment

The adoption of AIFRS involved some changes to the AGAAP Balance Sheet in 2004-05 including:

- Investments reclassified with Cash in accordance with AASB 107 *Cash Flow Statements*, whereby highly liquid investments are treated as cash; and
- Recognition of a Deferred tax liability in relation to the revalued assets in accordance with AASB 112 *Income Taxes.*

The decline in working capital in 2005-06 was mainly due to a reduction in cash resulting from operating losses for the year.

Provisions decreased due to payouts of annual leave and long service leave entitlements associated with the redundancies.

There was a 25% increase in Receivables in 2005-06 from the prior year because revenue earned in June 2006 was higher than in the corresponding month in 2005. There were no particularly outstanding debts.

Reserves decreased in 2005-06 due to the transfer from the Asset revaluation reserve to Retained earnings of the revaluation increments attributable to assets disposed of during the year. This was also the main cause of the increase in Retained earnings.

CASH POSITION

	2005-06 AIFRS	**2004-05 AIFRS**	**2004-05 AGAAP**
	$'000	$'000	$'000
Receipts from customers	9 323	9 069	9 094
Interest received	0	0	107
Payments to suppliers and employees	(9 549)	(8 900)	(8 900)
Income tax equivalent paid	(48)	(40)	(40)
Cash (used in)/from operations	**(274)**	**129**	**261**
Interest received	65	107	0
Net increase/(decrease) in investments	0	0	361
Proceeds from sale of plant and equipment	100	25	0
Payments for plant and equipment	(301)	(1 289)	(1 289)
Cash (used in) investing activities	**(136)**	**(1 157)**	**(928)**
Net (decrease) in cash	**(410)**	**(1 028)**	**(667)**
Cash at beginning of the period	1 448	2 476	873
Cash at end of the period	**1 038**	**1 448**	**206**

Comment

For 2004-05 Cash at end of the period under AGAAP and Cash at beginning of the period under AIFRS changed because of the reclassification of investments, as noted previously.

The cash position decreased during 2005-06 due to the operating loss for the year, including payments for redundancies.

FINANCIAL ANALYSIS

	Bench Mark	2005-06	2004-05
Financial Performance			
Result from operations ($'000s)		(304)	(96)
Operating margin	>1.0	0.97	0.99
Return on assets		(6.4%)	(2.0%)
Return on equity	12.00%	(7.9%)	(4.7%)
Financial Management			
Current ratio	>1	1.14	1.27
Debt collection	30 days	31	26
Creditor turnover	30 days	31	31
Returns to Government			
Income tax paid ($'000s)		48	40
Total return to the State ($'000s)		48	40
Total return to equity ratio		1.9%	1.5%
Other Information			
Staff numbers FTEs		50	57
Average staff costs ($'000s)		61	53

Comment

The negative Financial Performance indicators in both years reflect losses after taxation. The situation in 2005-06 was worse because the higher loss as explained previously.

Employee costs remained relatively unchanged from 2004-05 to 2005-06 despite the redundancy costs, which were incurred early in 2005-06. As a result, Average staff costs increased because of the reduction in staff numbers.

OVERALL COMMENT

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

The audit was completed satisfactorily with no outstanding issues remaining.

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. Whilst the Commission has taken over responsibility for the Clyde Irrigation Scheme, the Clyde Water Trust continues as a separate independent entity and remains the owner of the Clyde Irrigation Scheme assets.

The Commission owns the scheme infrastructure of the Cressy-Longford and Winnaleah Irrigation Schemes, which are now managed by irrigators of these 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 then Department of Primary Industries, Water and Environment (DPIWE) to facilitate the private consortium development of the proposed Meander Dam.

In February 2006 the then Minister for Primary Industries and Water issued a Ministerial Direction to the Commission under section 6(2) of the *Rivers and Water Supply Commission Act 1999* to undertake the function of construction and operation of a dam on the Meander River for the purposes of irrigation and a mini hydro electric station.

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.

The Responsible Minister is the Minister for Primary Industries and water.

AUDIT OF THE 2005-06 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2006. Final amended statements were received on 11 October 2006 and an unqualified audit report was issued on 18 October 2006.

FINANCIAL RESULTS

The Commission made losses in each of the two 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.

INCOME STATEMENT

	2005-06 AIFRS	2004-05 AIFRS	2004-05 AGAAP
	$'000s	$'000s	$'000s
Water rates and charges	1 199	922	922
State Government interest contribution	365	567	567
Operating revenue	219	89	88
Non-operating revenue	15	655	655
Total Revenue	**1 798**	**2 233**	**2 232**
Empoyee expenses	254	287	287
Borrowing costs	423	648	648
Depreciation	758	684	684
Impairment losses	1 530	2 197	0
Other operating expenses	708	756	756
Non-operating expenses	27	855	855
Total Expenses	**3 700**	**5 427**	**3 230**
Result From ordinary activities	**(1 902)**	**(3 194)**	**(998)**
Income tax (benefit)	(571)	(958)	(242)
Result after taxation	**(1 331)**	**(2 236)**	**(756)**

Comment

The Commission's operations have resulted in both before and after tax losses in each of the two years under review, due to insufficient revenue earned from water and irrigation schemes. Losses are generated even after excluding the significant impairment losses (discussed later) although surpluses of $0.809m were generated in 2005-06 before borrowing costs and depreciation (2004-05, $0.334m).

Some variations occurred between 2004-05 Australian Generally Accepted Accounting Principles (AGAAP) and Australian Equivalents to International Financial Reporting Standards (AIFRS) results. The Commission recorded an after tax loss from ordinary activities of $0.756m under AGAAP, which changed to a loss of $2.236m under AIFRS.

The main changes were:

- The write down in assets due to AASB136 *Impairment of Assets*. Under this accounting standard, where an indicator of impairment has been identified, the Commission, which is a "for profit" entity, is required to value its assets at their recoverable amount on a discounted cash flow basis. Because of the low revenue from the Commission's schemes, the recoverable amount of the schemes' assets was significantly less than their carrying amount. The write down of $33.700m was adjusted against existing Reserves and Equity at the date of transition to the new accounting standards being 1 July 2004. An additional write-down of $2.197m was made in 2004-05; and

- These impairment losses had a positive impact on the Commission's tax position resulting in a higher negative income tax expense of $0.958m.

In respect to the 2005-06 Income Statement, the after tax Result from ordinary activities changed from a loss of $2.236m to a loss of $1.331m. This improved result was brought about by:

- Water rates and charges increasing by $0.277m due to drier weather conditions;

- Operating revenue increasing by $0.131m which included contributions to a mini hydro electric scheme, $0.058m (recovered from Hydro Tasmania) and irrigation scheme revenue, $0.036m;

- Employee expenses reducing by $0.033m due to the capitalisation of salaries associated with the Meander Dam project;

- The continuation of the Commission's debt reduction program resulted in the reduction in borrowing costs by $0.225m. This was offset by a consequent reduction in the State Government interest contribution;

- Impairment losses reducing by $0.667m; and

- Non-operating expenses decreasing by $0.828m due to a significant one-off write down in land sold in 2004-05.

The effects of the foregoing were offset in part by:

- Non-operating revenue decreasing by $0.640m due to abnormally high land sales in 2004-05; and

- Depreciation increasing by $0.074m due primarily to the revaluation of dams and water infrastructure.

BALANCE SHEET

	2005-06 AIFRS $'000s	2004-05 AIFRS $'000s	2004-05 AGAAP $'000s
Cash	446	210	210
Receivables	669	181	182
Investments	2 592	454	454
Water stock	171	171	171
Total Current Assets	**3 878**	**1 016**	**1 017**
Property, plant and equipment	14 332	6 547	47 541
Other	1 955	1 385	1 690
Total Non-Current Assets	**16 287**	**7 932**	**49 231**
Payables	742	121	121
Unearned revenue	2 900	0	0
Borrowings	3 311	2 440	2 440
Provisions	169	144	144
Total Current Liabilities	**7 122**	**2 705**	**2 705**
Borrowings	1 000	4 305	4 305
Provisions	358	419	273
Total Non-Current Liabilities	**1 358**	**4 724**	**4 578**
Net Assets	**11 685**	**1 519**	**42 965**
Reserves	0	0	32 018
Accumulated losses	(23 794)	(22 462)	(13 034)
Accumulated Government contributions	35 479	23 981	23 981
Total Equity	**11 685**	**1 519**	**42 965**

Comment

For reasons already outlined, the introduction of the new accounting standards in 2004-05 resulted in reduction in the Commission's net assets by 30 June 2005 totalling $40.994m caused primarily by the impairment losses $33.700m on 1 July 2004 and $7.651m at 30 June 2005 and changes to deferred tax balances.

Net assets increased from $1.519m at 30 June 2005 to $11.685m at 30 June 2006. While a number of balances varied compared to the position at 30 June 2005, the main reasons for this $10.166m improvement were:

- State capital contribution for irrigation loans, $2.398m which enabled the Commission to repay debt of a similar amount;
- State capital contribution towards the Meander Dam project, $7.000m;
- Commonwealth capital contribution towards the Meander Dam project, $2.100m; which were offset by
- The after tax operating loss of $1.331m.

A number of other balances on the Balance Sheet varied, but had little impact on the movement in equity, for the following reasons:

- Receivables increasing by $0.488m and investments by $2.138m due primarily to increased water sales and irrigation rights for the Meander Dam. The sale of the Meander Dam water irrigation rights represents unearned revenues giving rise to the $2.900m current liability;

- Property, plant and equipment increasing by $7.785m due mainly to the Meander Dam project which had a work-in-progress value as at 30 June 2006 of $10.027m, offset by depreciation, $0.757m and impairment losses, $1.530m;
- Other non-current assets increasing by $0.906m, due to increases in deferred tax assets; and
- Payables increasing by $0.621m due to a large progress payment for the Meander Dam construction outstanding at 30 June 2006.

CASH POSITION

	2005-06 AIFRS	2004-05 AIFRS	2004-05 AGAAP
	$'000s	$'000s	$'000s
Receipts from customers	1 512	1 037	1 037
Payments to suppliers and employees	(1 159)	(1 120)	(1 120)
Interest received	45	24	24
Borrowing costs	(423)	(648)	(648)
Contribution from State government	365	567	567
Contribution from Commonwealth government	2 100	0	0
Other	942	151	151
Cash from operations	**3 382**	**11**	**11**
Payments for property, plant and equipment	(3 393)	(77)	(77)
Proceeds from sale of property, plant and equipment	15	655	655
Cash from/(used in) investing activities	**(3 378)**	**578**	**578**
Capital contribution from Government	4 797	2 196	2 196
Proceeds from borrowings	1 135	206	206
Repayment of borrowings	(3 562)	(2 851)	(2 851)
Cash from/(used in) financing activities	**2 370**	**(449)**	**(449)**
Net increase in cash	**2 374**	**140**	**140**
Cash at the beginning of the period	664	524	524
Cash at end of the period	**3 038**	**664**	**664**

Comment

The new accounting standards had no impact on the cash flow statement of the Commission.

This Report notes previously that during 2005-06 an amount of $9.100m was made available for the construction of the Meander Dam and a further contribution of $2.398m was made to assist the Commission to repay debt. Approximately $6.700m of the $9.100m was expended by the Department of Primary Industries and Water on behalf of the Commission, with the Commission recording the asset on its Balance Sheet and the funding as contributions that are part of Equity. For this reason, these funds do not appear as cash receipts in the table above.

Reasons for variations in cash flow amounts and cash balances reflect the comments made previously in the Income Statement and Balance Sheet sections of this chapter.

FINANCIAL ANALYSIS

	Bench Mark	2005-06	2004-05
Financial Performance			
Result from operations ($'000s)		(1 890)	(2 994)
EBIT ($'000s)		(1 479)	(2 546)
Operating margin	>1.0	0.49	0.35
Return on assets		(10.2%)	(9.3%)
Return on equity	12%	(20.2%)	(11.9%)
Financial Management			
Debt to equity		36.9%	444.0%
Debt to total assets		21.4%	75.4%
Interest cover	>3	(3.5)	(3.9)
Current ratio	>1	0.54	0.38
Cost of debt	7.5%	7.7%	8.0%
Debt collection	30 days	96	13
Returns to Government			
Dividends paid or payable ($'000s)		0	0
Income tax paid or payable ($'000s)		0	0
Total return to the State ($'000s)		0	0
Other Information			
Staff numbers (FTEs)		7	4
Average staff costs ($'000s)		55	71
Average leave balance per FTE ($'000s)		15	11

Comment

Impairment losses in both years have substantially contributed to the negative Results from operations. Excluding these write-downs the Results from operations would have been a loss of $0.360m for 2005-06 (2004-05, loss of $0.798m).

Debt collection days increased significantly due to the inclusion of large invoices for Meander Dam irrigation rights, issued in June 2006.

The Current ratio improved marginally but is still below the benchmark.

As the Commission makes losses there have been no payments of taxes or dividends.

Staffing levels rose in 2005-06 due to the Meander Dam project.

In 2003-04 a salary accrual was underestimated. This had the effect of an abnormally high average staff cost in 2004-05. In addition, a portion of Commission salaries have been capitalised to the Meander Dam project in 2005-06.

OVERALL COMMENT

As noted earlier, the Commission continues 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. Profitability will be aided should commercial arrangements be entered into relating to sales of water rights associated with the Meander Dam project, which is anticipated by the Commission.

The 2005-06 audit was completed satisfactorily with no major issues outstanding.

2.7 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 and Water.

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 is the Minister for Sport and Recreation.

AUDIT OF THE 2005-06 FINANCIAL STATEMENTS

Signed financial statements were received on 7 September 2006, and an unqualified audit report was issued on 26 September 2006.

FINANCIAL RESULTS

INCOME STATEMENT

	2005-06 AIFRS	**2004-05 AIFRS**	**2004-05 AGAAP**
	$'000s	$'000s	$'000s
Sporting operations	56	51	51
Non-sporting operations	48	61	61
Other revenue	188	243	243
Government deficit contribution	335	285	285
Total Revenue	**627**	**640**	**640**
Employee expenses	250	282	282
Depreciation	77	71	71
Other operating expenses	374	385	385
Total Expenses	**701**	**738**	**738**
Result from ordinary activities	**(74)**	**(98)**	**(98)**
Income tax expense	0	0	0
Result after taxation	**(74)**	**(98)**	**(98)**

Comment

There were no changes to the Income Statement resulting from the transition to AIFRS.

The Authority has recorded deficits for a number of years and the Silverdome facility has been the subject of several reviews, discussions and reports dealing with options for its future operations. A series of negotiations were held with the Launceston City Council (Council) in 2005, with a view to the Silverdome being taken over by Council. Following the rejection of this option in October 2005 by Council, the Government announced that it would retain ownership and has commenced the process of working towards implementing a schedule of works for the Silverdome.

It is noted that $3.000m has been provided for in the 2006-07 State Budget for redevelopment. This will include the upgrading of building facilities to enable it to operate as an international-standard sporting space. The Authority recorded a deficit of $0.074m in 2005-06 compared with a deficit of $0.098m in 2004-05. Whilst revenues declined by $0.013m, expenditure also declined by $0.037m. The following items impacted on these movements:

- Revenue from Non-sporting operations, which includes live entertainment, exhibitions, meeting and function room hire, decreased by $0.013m. This was predominantly due to a downturn in the number of concerts and other events held during the year;
- Other revenue, which consists mainly of recoveries of expenditure and merchandising from events, decreased by $0.055m in line with fewer events;
- Government deficit contributions rose by $0.055m to assure the Authority's viability, budgeted funding was $0.185m in both years; and
- Expenditure declined in relation to Employee expenses by $0.032m and Other operational expenses by $0.011m due to the previously noted downturn in events.

BALANCE SHEET

	2005-06 AIFRS $'000s	2004-05 AIFRS $'000s	2004-05 AGAAP $'000s
Cash	300	150	150
Receivables	14	25	25
Other	4	4	4
Total Current Assets	**318**	**179**	**179**
Payables	70	60	60
Provisions - employee benefits	73	70	70
Provisions - superannuation	26	25	25
Other	267	120	120
Total Current Liabilities	**436**	**275**	**275**
Working Capital	**(118)**	**(96)**	**(96)**
Plant, equipment and leasehold improvements	331	383	383
Total Non-Current Assets	**331**	**383**	**383**
Net Assets	**213**	**287**	**287**
Accumulated losses	(243)	(169)	(566)
Reserves	456	456	853
Total Equity	**213**	**287**	**287**

Comment

There was no change to the Authority's total Net assets upon the transition to AIFRS, however, the balance of the Asset revaluation reserve ($0.397m) was transferred from Reserves to Accumulated losses. The Authority adopted cost as its measurement basis for Plant, equipment and leasehold improvements upon transition to AIFRS. As a result, the balance of the Asset revaluation reserve was written back against Accumulated losses.

The Authority's Net assets decreased from $0.287m at 30 June 2005 to $0.213m at 30 June 2006 due to the operational deficit of $0.074m. The major movements in assets and liability balances are detailed below.

The balance of Cash increased by $0.150m during the year. It was noted that the Authority received $0.250m (excluding GST of $0.025m) from the State Government in June 2006. Of this amount, $0.200m was funding to assist with the construction of a strength and conditioning facility at the Tasmanian Institute of Sport. The remaining $0.050m was a grant for administrative restructuring of the Authority.

Plant, equipment and leasehold improvements decreased by $0.052m, which was due to depreciation charges of $0.077m offset by additions of $0.025m.

The Employee benefits provision balance is for 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 is working towards reducing these balances. However, given the small number of permanent employees, it is difficult for extended periods of leave to be taken.

Other current liabilities increased by $0.147m during 2005-06. The balance at 30 June 2006 included $0.250m of income received in advance, which comprised the government funding received in June 2006 for the strength and conditioning facility and the administrative restructure. The balance at 30 June 2005 included $0.109m of prepaid receipts for the Alice Cooper concert held in July 2005.

CASH POSITION

	2005-06 AIFRS $'000s	**2004-05 AIFRS** $'000s	**2004-05 AGAAP** $'000s
Receipts from customers	351	458	458
Receipts from government funding	585	285	285
Payments to suppliers and employees	(764)	(710)	(710)
Interest received	4	6	6
Cash from operations	**176**	**39**	**39**
Payments for plant and equipment	(26)	(48)	(48)
Cash (used in) Investing Activities	**(26)**	**(48)**	**(48)**
Net increase (decrease) in cash	**150**	**(9)**	**(9)**
Cash at the beginning of the period	150	159	159
Cash at end of the period	**300**	**150**	**150**

Comment

There were no changes to the Cash Position resulting from the transition to AIFRS.

As noted under the Balance Sheet section, the balance of Cash increased by $0.150m during the year due to the receipt of government funding of $0.250m in June 2006.

Receipts from customers, which included sporting, non-sporting and other income, decreased by $0.107m due to the downturn in concerts and other events, as noted under the Income Statement section.

The Receipts from government funding, $0.585m, is higher than the same amount shown on the Income Statement, $0.335m, because $0.250m of the receipts have been recognised as income received in advance on the Balance Sheet.

FINANCIAL ANALYSIS

	Bench Mark	2005-06	2004-05
Financial Performance			
Result from operations ($'000s)		(409)	(383)
EBIT ($'000s)		(74)	(98)
Operating margin	>1.0	0.42	0.48
Return on assets		(12.2%)	(16.7%)
Return on equity		(29.6%)	(29.2%)
Financial Management			
Current ratio	>1	0.73	0.65
Debt collection	30 days	18	26
Creditor turnover	30 days	32	40
Other Information			
Staff numbers (FTEs)		4.49	6.67
Average staff costs ($'000s)		56	42
Average leave balance per FTE ($'000s)		22	14

Comment

Due to the Authority's ongoing loss situation, no dividends or tax payments were made to the State.

The financial performance ratios reveal that the Authority made a loss from operations in both years and, as a result, the operating margin for each year was well below the benchmark of one. The difference between the Result from operations and 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 the increased balance of Other current liabilities at 30 June 2005 and 2006, as noted under the Balance Sheet section.

The Debt collection ratio was below the benchmark of 30 days for both years under review indicating active debt management. The Creditor turnover ratio was 40 days at 30 June 2005 due to capital creditors included in the payables balance of $0.020m.

The number of FTEs at 30 June decreased from 6.7 to 4.5 due to the resignation of a permanent employee in April 2006 and the reclassification of administrative staff to casual including a reduction in hours worked. The resignation of the permanent employee impacted upon both Average staff costs and Average employee entitlements. The employee's salary for the part-year worked has been included in employee costs, however, the employee is not included in the staff numbers at year-end. The employee's LSL entitlements were not paid out until 2006-07 and are therefore still included in the Employee benefits provision balance at 30 June 2006.

OVERALL COMMENT

The 2005-06 audit was completed with satisfactory results.

2.8 TASMANIAN PUBLIC FINANCE CORPORATION

INTRODUCTION

The Tasmanian Public Finance Corporation (Tascorp or the Corporaion) 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 2005-06 FINANCIAL STATEMENTS

Financial statements were received on 11 August 2006 and an unqualified audit report was issued on 11 August 2006.

2005-06 was a year of considerable change for Tascorp. This was the first year for preparing financial statements in accordance with AIFRS. In particular on 1 July 2005 Tascorp adopted AASB 139 *Financial Instruments: Recognition and Measurement*. With the adoption of this standard Tascorp implemented mark to market accounting for all financial instruments. Financial instruments include Tascorp's investments, advances to third parties (both being assets) and deposits and borrowings (both being liabilities). Under prior accounting standards these financial instruments were recognised at cost whereas under mark to market accounting they are recorded at fair value.

During the year Tascorp conducted a review of how they manage the balance sheet, which resulted in a recommendation to Government that the amount of risk (as measured by the amount of effective capital employed in the business) be reduced by 50%. Tascorp has introduced new investment and risk management processes in order to meet this risk capital target.

Managing the volatility of earnings has proven to be a most significant challenge for Tascorp post the introduction of AIFRS.

FINANCIAL RESULTS

INCOME STATEMENT

	2005-06 AIFRS $'000s	2004-05 AIFRS $'000s	2004-05 AGAAP $'000s
Interest revenue	382 882	422 642	422 642
Other operating revenue	431	2 098	2 098
Gains less losses from financial instruments	(1 846)	2 236	2 236
Non-operating revenue	0	9 686	9 686
Total Revenue	**381 467**	**436 662**	**436 662**
Interest expense	367 414	413 355	413 355
Other operating expenses	4 230	4 798	4 816
Total Expenses	**371 644**	**418 153**	**418 171**
Profit from ordinary activities	**9 823**	**18 509**	**18 491**
Income tax expense	2 947	2 647	2 641
Net Profit	**6 876**	**15 862**	**15 850**

Comment

The impact of the move to the new accounting standards on Tascorp's net financial results at 30 June 2005 resulted in a minor improvement of $0.012m.

Interest receipts and payments are a function of:

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

These payments and receipts are lower for the 2005-06 year than for the 2004-05 year because of the reduction by $793.390m in the average balances of investments and advances over the year.

Tascorp's net profit before tax declined by $8.686m due predominantly to:

- The one off sale of the Police Services Building in 2004-05 which generated $9.686m in that financial year; and
- This resulted in a decrease in rental earnings of $1.704m, which is the main reason for the decline in Other operating revenue. However, proceeds from the sale of this building were invested in interest earning financial assets.

BALANCE SHEET

	2005-06 AIFRS $'000s	2004-05 AIFRS $'000s	2004-05 AGAAP $'000s
Cash	1 128	4 836	4 836
Investments *	3 216 831	3 910 187	3 910 187
Advances *	2 294 979	2 659 654	2 659 654
Derivative instruments receivable	64 991	73 251	73 251
Property, plant and equipment	697	652	634
Intangibles and other	174	27 829	27 829
Total Assets	**5 578 800**	**6 676 409**	**6 676 391**
Payables	70 964	154 157	147 400
Deposits *	1 446 060	1 468 486	1 468 486
Borrowings *	4 004 382	5 019 434	5 019 434
Derivative instruments payable	33 478	13 904	13 904
Current tax liabilities	2 952	39	7 481
Provisions	918	691	
Total Liabilities	**5 558 754**	**6 656 711**	**6 656 705**
Net Assets	**20 046**	**19 698**	**19 686**
Reserves	10 000	10 000	10 000
Retained earnings	10 046	9 698	9 686
Total Equity	**20 046**	**19 698**	**19 686**

** Consistent with the new accounting standards, Tascorp's Balance Sheet refers to these balances as financial assets at fair value through profit and loss and Interest bearing liabilities at fair value through profit and loss.*

Comment

The introduction of the new accounting standards had minimal impact on Tascorp's net equity at 30 June 2005. The new standards did result in a reclassification of the dividend payable at 30 June 2005, $6.164m, from Other liabilities to Payables.

The impact on Tascorp's balance sheet of the application from 1 July 2005 of AASB 132: *Financial Instruments: Disclosure and Presentation* and ASAB 139 – the financial instrument standards, which Tascorp applied from that date, is disclosed in notes 14(b) and 23(5) of its audited financial statements. The impact was a net $5.975m reduction in its equity on 1 July 2005, which essentially arose from marking to market financial assets and financial liabilities at that date.

During the year Tascorp reduced its borrowings by $1.015bn. This arose through a retirement of Government debt and a repositioning of the Balance Sheet to reflect the borrowing needs of Government and other clients of Tascorp into the future. The impact on Tascorp's financial assets was a similar reduction, $1.058bn. With the focus by management on the volatility of earnings and market risks inherent in the Balance Sheet this trend is expected to continue.

Derivative financial instruments are used to manage foreign currency and interest rate risk associated with transactions entered into by Tascorp. The derivative instruments receivable and payable are the amounts payable or receivable under the contracts.

CASH POSITION

	2005-06 AIFRS $'000s	2004-05 AIFRS $'000s	2004-05 AGAAP $'000s
Interest and other receipts	424 170	419 597	417 128
Interest payments	(388 273)	(421 400)	(421 400)
Other receipts from customers	0	0	2 469
Payments to suppliers and employees	(3 941)	(2 190)	(2 190)
Taxation expense	(35)	(2 960)	(2 960)
Net increase/(decrease) in deposits & others	(136 506)	(161 304)	0
Net (increase)/decrease in advances & others	303 179	152 348	308 123
Payments for financial assets at fair value through profit and loss	888 833	(117 674)	(273 449)
Cash from/(used in) operations	**1 087 427**	**(133 583)**	**27 721**
Payments for property, plant and equip.	(337)	(82)	(82)
Proceeds from sale of property, plant and equip.	71	27 156	27 156
Cash from/(used in) investing activities	**(266)**	**27 074**	**27 074**
Receipts from other financial liabilities at fair value through profit and loss (borrowings)	(1 207 388)	770 273	(325 152)
Net increase/(decrease) in borrowings	0	0	934 121
Dividends paid	(6 164)	(6 289)	(6 289)
Cash from/(used in) financing activities	**(1 213 552)**	**763 984**	**602 680**
Net increase (decrease) in cash	**(126 391)**	**657 475**	**657 475**
Cash at the beginning of the period	855 796	198 322	198 322
Cash at end of the period	**729 405**	**855 797**	**855 797**

Comment

Other than the need to reclassify certain amounts, the new accounting standards had no impact on Tascorp's cash flow statement.

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 clients' needs and it'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 and receipts.

As expected, and for the reasons outlined under the Balance Sheet section, cash holdings decreased through debt retirement.

FINANCIAL ANALYSIS

Tascorp is the banker to Government in Tasmania. Its role is to meet the non transactional banking needs of Government and related bodies in Tasmania and to manage the market risks associated with those banking needs. As such conventional measures of assessing financial performance have little relevance particularly in an AIFRS environment. Therefore, performance measures have not been reported.

Tascorp notes in its annual report the need for it to manage its risks to enable it to achieve a return on effective capital employed. The annual report also notes that from 1 July 2006, Tascorp's effective capital employed will be $22 million. I will work with Tascorp management in 2006-07 to develop relevant performance measures for inclusion in this section of my Report.

OVERALL COMMENT

The audit of the financial statements for the 2005-06 year was completed with satisfactory results.

2.9 THE PUBLIC TRUSTEE

INTRODUCTION

The Public Trustee was established by the *Public Trustee Act 1930* and 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. The Governor, on the recommendation of the Minister, appoints all members of the Board.

The Responsible Minister is the Attorney-General.

AUDIT OF THE 2005-06 FINANCIAL STATEMENTS

Signed financial statements were received on 1 September 2006, which was two weeks late, the statutory deadline being 15 August 2006. Re-signed financial statements were received on 19 October 2006 and an unqualified audit report was issued on the same day.

FINANCIAL RESULTS

INCOME STATEMENT

	2005-06 AIFRS $'000	2004-05 AIFRS $'000	2004-05 AGAAP $'000
Commission and fees	4 483	4 614	4 614
Funding of community service obligations	793	793	793
Income from investments	414	360	360
Profit from asset revaluations	587	237	0
Other income	2	2	2
Total Revenue	**6 279**	**6 006**	**5 769**
Employee costs	3 291	3 028	3 079
Accommodation expenses	128	115	115
Administration expenses	1 290	1 219	1 219
Depreciation	63	71	71
Total Expenses	**4 772**	**4 433**	**4 484**
Result from ordinary activities	**1 507**	**1 573**	**1 285**
Income tax expense	233	378	363
Result after taxation	**1 274**	**1 195**	**922**

Comment

Some variations occurred between the 2004-05 AGAAP and AIFRS results. The Public Trustee recorded a positive Result from ordinary activities of $1.285m under AGAAP, which increased by $0.288m to $1.573m under AIFRS. The changes related to:

- Profit from asset revaluations, $0.237, due to the requirement under AASB 140 *Investment Property* that profits and losses on revaluations of investment property be brought to account in the Income Statement, whereas under AGAAP the revaluation increment was credited to the Asset revaluation reserve in Equity; and
- A decrease in Employee costs, $0.051m, due to an actuarial re-assessment of the provision for superannuation, resulting from a change in the discount rate applied by the State Actuary in accordance with AASB 119 *Employee Benefits*.

The Public Trustee's Operating revenue is derived from commission and fees charged on the administration of estates and trusts under its control, including payment of an amount for performing Community Service Obligations (CSO's) on behalf of the Government, and 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.

The CSO funding will be $0.793m for the three years 2004-05 to 2006-07.

In respect to the 2005-06 Income Statement, the Result from ordinary activities decreased by $0.066m to a surplus of $1.507m. This result was brought about by:

- Property revaluations of $0.350m due to a revaluation in owner-occupied properties, as a reversal of previous devaluations.

Offset in part by:

- Commission and fees decreasing by $0.131m due to the finalisation of a significant estate and the higher levels of distributions that were paid out to estates being administered by The Public Trustee. This decrease was offset by an additional $0.111m received in investment management fees because of strong returns from equity markets; and
- Employee costs increasing by $0.263m. These costs were low in 2004-05 due to a high number of staff vacancies, which were subsequently filled in 2005-06.

BALANCE SHEET

	2005-06 AIFRS $'000	2004-05 AIFRS $'000	2004-05 AGAAP $'000
Cash	291	233	233
Receivables	450	419	419
Investments	6 000	5 200	5 200
Other	72	65	65
Total Current Assets	**6 813**	**5 917**	**5 917**
Payables	474	537	537
Provisions	1 687	1 330	1 643
Income tax liability	183	265	265
Total Current Liabilities	**2 344**	**2 132**	**2 445**
Working Capital	**4 469**	**3 785**	**3 472**
Property, plant and equipment	1 879	1 579	3 315
Investment property	2 500	2 263	
Deferred tax asset	2 613	2 632	1 926
Total Non-Current Assets	**6 992**	**6 474**	**5 241**
Provisions	7 010	7 456	4 792
Deferred tax liability	3	12	12
Total Non-Current Liabilities	**7 013**	**7 468**	**4 804**
Net Assets	**4 448**	**2 791**	**3 909**
Retained profits	4 448	2 791	3 909
Total Equity	**4 448**	**2 791**	**3 909**

Comment

The Public Trustee's Net assets decreased by $1.118m upon the introduction of the new accounting standards in 2004-05 due to:

- An increase in the provision for employee superannuation, $2.350m, primarily due to a change in the discount rate required by AASB 119.

Offset by:

- Profit on revaluation of property, $0.527m; and
- An increase in the Deferred tax asset of $0.705m, caused by the higher superannuation provision.

Net assets increased by $1.657m from $2.791m at 30 June 2005 to $4.448m at 30 June 2006. The main factors contributing to this were:

- Investments increasing by $0.800m due to higher levels in investments in the Common Fund; and
- Property, plant and equipment increasing by $0.300m and Investment property increasing by $0.237m, as a result of revaluations.

The effects of the foregoing were offset in part by:

- Provisions increasing by $0.087m due to an actuarial adjustment to the superannuation liability, together with rising annual and long service leave entitlements.

The increase in Retained profits in 2005-06, $1.656m, consisted of the Net profit for the year after tax, $1.274m and Net income recognised directly in equity from an actuarial gain in the superannuation liability, $0.382m.

CASH POSITION

	2005-06 AIFRS $'000	**2004-05 AIFRS** $'000	**2004-05 AGAAP** $'000
Receipts from clients, Government and Common Fund	6 209	5 680	5 680
Payments to suppliers and employees	(4 867)	(4 087)	(4 087)
Taxation expense	(470)	(241)	(241)
Cash from operations	**872**	**1 352**	**1 352**
(Increase) decrease in investment in Common Fund	(800)	(1 350)	(1 350)
Payments for property, plant and equipment	(15)	(22)	(22)
Proceeds from sale of property, plant and equipment	1	0	0
Cash used in investing activities	**(814)**	**(1 372)**	**(1 372)**
Net increase (decrease) in cash	**58**	**(20)**	**(20)**
Cash at the beginning of the period	233	253	253
Cash at end of the period	**291**	**233**	**233**

Comment

The adoption of the new accounting standards had no impact on the cash position of The Public Trustee.

Reasons for variations in cash flow receipt and payment amounts reflect the comments made previously in the Income Statement and the Balance Sheet sections of this chapter.

FINANCIAL ANALYSIS

	Bench Mark	2005-06	2004-05
Financial Performance			
Result from operations ($'000s)		920	1 336
EBIT ($'000s)		1 507	1 573
Operating margin	>1.0	1.19	1.30
Return on assets		11.5%	14.2%
Return on equity		35.2%	41.4%
Financial Management			
Current ratio	>1	2.91	2.78
Creditor turnover	30 days	51	63
Returns to Government			
Dividends paid or payable ($'000s)		0	0
Income tax paid ($'000s)		470	241
Effective tax rate	30%	31.2%	15.3%
Total return to the State ($'000s)		470	241
Total return to equity ratio		13.0%	8.3%
Other Information			
Staff numbers (FTEs)		50	50
Average staff costs ($'000s)		66	61
Average leave balance per FTE ($'000s)		14	13

Comment

The receipt of the CSO funding helps to underpin the positive financial performance ratios.

The Current ratio remained consistently high over the two 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.

Creditor turnover is generally high due to delays in invoicing by contractors. No dividends were paid in 2004-05 or 2005-06. At the time of writing this report, a decision as to a dividend for 2005-06 had yet to be made.

Average staff costs in 2004-05 were low due to a high number of vacancies, which were subsequently filled in 2005-06.

OVERALL COMMENT

The operations of The Public Trustee are generally reflective of its limited business opportunities, 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 two years, employee-related costs accounted for approximately 69% of its Operating Expenditure.

The 2005-06 audit was completed satisfactorily with no major issues outstanding.

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).

The Tasmanian Ports Corporation Pty Ltd (TasPorts) was registered on 1 July 2005 and the four port corporations ceased trading on 31 December 2005 when their assets and liabilities transferred to the new Corporation or to the Department of Treasury and Finance.

Up until 31 December 2005, Tasmanian port corporations had comprised:

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

In the past a separate section was devoted to the port companies but as a consequence of the above change I have decided to incorporate the analysis of the TasPorts into this section.

Tasmania's SOCs collectively have net assets valued at $1.225bn, employ 2 608 people, and reported a profit of $62.695m after taxation in 2005-06, 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 2006 for the entities within this group were as follows:

Entity	Responsible Minister
Aurora Energy Pty Ltd	Minister for Energy
Metro Tasmania Pty Ltd	Minister for Infrastructure
TOTE Tasmania Pty Ltd	Minister for Racing
Transend Networks Pty Ltd	Minister for Energy
TT-Line Company Pty Ltd	Minister for Infrastructure
Tasmanian Ports Corporation Pty Ltd	Minister for Infrastructure

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 Energy, 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 the Commercial Services Division. 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 subsidiaries - Aurora Gas Pty Ltd, formed in 2002 to enter the gas tender process, and Auroracom Pty Ltd formed in 2006 have not begun 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 nine directors, including the Chief Executive Officer.

AUDIT OF THE 2005-06 FINANCIAL STATEMENTS

Signed financial statements were received on 2 October 2006 and an unqualified audit report was issued on the same day.

FINANCIAL RESULTS

When reading this commentary it needs to be borne in mind that Aurora is:

- Subject to price controls fixed 5 yearly;
- Limited in its capacity to increase prices in response to cost pressures;
- Moving into a more challenging environment where it will need to manage price volatility of the wholesale spot energy market, sourcing competitive contracts with generators and managing inter-regional trading arrangements across Basslink; and
- Facing competition from other retailers over the next 5 years as the Tasmanian market is progressively opened up.

INCOME STATEMENT

	2005-06 AIFRS	**2004-05 AIFRS**	**2004-05 AGGAP**
	$'000s	$'000s	$'000s
Business customer sales	453 759	439 561	439 561
General sales	262 222	247 780	247 780
Other operating revenue	22 527	27 651	27 651
Non-operating revenue	788	124	19
Total Revenue	**739 296**	**715 116**	**715 011**
Energy and transmission purchases	497 988	477 422	477 422
Renewable energy credit purchases	6 842	5 573	5 573
Employee expenses	63 785	57 557	57 565
Borrowing costs	28 369	27 110	27 110
Depreciation	61 026	52 845	52 871
Other operating expenses	49 210	44 659	44 658
Superannuation liability movement	0	7 271	0
Non-operating expenses	0	406	406
Total Expenses	**707 220**	**672 843**	**665 605**
Result from ordinary activities	**32 076**	**42 273**	**49 406**
Income tax expense	9 734	12 857	19 225
Result after taxation	**22 342**	**29 416**	**30 181**

Comment

The introduction of Australian Equivalents to International Financial Reporting Standards (AIFRS) resulted in one significant change to Aurora’s result from ordinary activities before taxation, an increase in the Superannuation liability movement of $7.271m. This was caused by the new standards requiring an actuarial re-assessment of Aurora’s superannuation liability in 2004-05. The liability increased mainly due to the application of a discount rate applied by the State Actuary in accordance with AASB 119 *Employee Benefits*. It is noted that the full impact of the Actuarial re-assessment on Aurora’s operating results before taxation in 2004-05 was a charge of $10.971m whilst the impact in 2005-06 was only $1.121m.

The result after taxation saw a decrease of only $0.765m because the impact of the superannuation adjustment already outlined was offset by a net decrease in the taxation charge of $6.368m caused by lower deferred tax liability balances.

In 2005-06 the Result from ordinary activities before taxation decreased by $10.197m or 24% to $32.076m. There are a number of factors that contribute to this and these are detailed below. In overview, however, it is noted that in the last 2 to 3 years Aurora had a substantial capital investment program to improve reliability and to prepare for entry into the NEM. This is reflected in depreciation expense increasing by $8.181m or 15% in 2005-06. Aurora also experienced increases in other inputs including copper and aluminium used in distribution lines, and energy and transmission costs which reflect increases awarded by the independent electricity regulator. These have taken place in an environment where Aurora's revenues are capped by the independent regulator and can only be changed at specified intervals.

The 2005-06 result was brought about by a number of off-setting causes:

- Business and General sales increasing during 2005-06 by approximately 4.5%, due in part to tariff increases and increased unit sales. Aurora also changed its approach to estimating the amount of unbilled electricity sales at year-end which had the effect of increasing current year's sales by $7.821m although a similar adjustment was made to the unbilled energy in 2004-05 when it was increased by $9.177m;

- Other operating revenue decreasing by $5.124m due in part to losses on external work activity of $2.402m (Aurora made a small profit of $0.539m in 2004-05) and a reduction in interest received of $1.092m due to a reduction in investments;

- Energy and transmission costs increasing by $20.566m, due in part to increases in tariffs by the independent electricity regulator;

- Employee expenses increasing by $6.228m due to salary increases, employment of additional staff (mainly associated with NEM entry, additional apprentices, and additional salaries associated with external works and capital expenditure) and increased redundancy payments;

- 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*. Pursuant to this Act, increasing targets are being phased in over the period 2001 to 2010. The effect of this was increased costs of $1.269m;

- Borrowing costs increasing by $1.259m as a result of Aurora increasing its debt levels;

- Depreciation increasing by $8.181m as mentioned previously, including $2.308m resulting from the reassessment of the useful lives of certain assets; and

- Other operating expenses increasing by $4.551m due to greater activity associated with NEM related projects and bad debt costs increasing by $0.998m.

BALANCE SHEET

	2005-06 AIFRS $'000s	2004-05 AIFRS $'000s	2004-05 AGAAP $'000s
Cash	12 359	56 634	2 437
Receivables	63 367	59 143	59 143
Unbilled energy	51 251	37 882	37 882
Investments	0	0	54 197
Inventories	6 700	6 579	6 579
Energy contracts accrued	6 888	43 994	43 994
Other	4 416	1 594	1 594
Total Current Assets	**144 981**	**205 826**	**205 826**
Payables	106 272	130 009	130 009
Borrowings	62 325	19	19
Provisions - leave and other	20 346	18 721	11 436
Provisions - superannuation	9 588	8 112	7 633
Current tax payable	0	4 680	0
Other	13 493	10 601	10 601
Total Current Liabilities	**212 024**	**172 142**	**159 698**
Working Capital	**(67 043)**	**33 684**	**46 128**
Property, plant and equipment	922 675	841 147	849 133
Investments	52	318	318
Deferred tax assets	23 197	22 583	16 913
Intangible assets	14 622	8 093	55
Other	1 010	0	0
Total Non-Current Assets	**961 556**	**872 141**	**866 419**
Borrowings	399 081	436 856	436 856
Provisions - leave and other	1 594	1 317	13 564
Provisions - superannuation	40 595	41 528	26 195
Deferred tax liability	119 310	114 543	31 646
Other	788	0	0
Total Non-Current Liabilities	**561 368**	**594 244**	**508 261**
Net Assets	**333 145**	**311 581**	**404 286**
Capital	201 555	201 555	201 555
Reserves	86 652	75 478	99 858
Retained profits	44 938	34 548	102 873
Total Equity	**333 145**	**311 581**	**404 286**

Comment

Aurora's Net assets dropped by $92.705m upon the introduction of the new accounting standards in 2004-05 due primarily to:

- The increase in the provision for employee superannuation by $15.813m, caused by adoption of accounting policies specified by AASB 119 resulting in restating the balance at beginning of the year;
- An increase in the deferred tax liability by $82.897m, caused mainly by Aurora's policy of recording its non-current assets at valuation which gives rise to significant differences between the book and tax values of these assets; offset by

- An increase of $5.670m in Deferred tax assets, which predominantly relates to the higher superannuation liability.

Net assets increased from $311.581m at 30 June 2005 to $333.145m at 30 June 2006. The main factors contributing to this were:

- Unbilled energy increasing by $13.369m due partly to a new enhanced methodology;
- Payables decreasing by $23.737m, due primarily to the timing of the first NEMMCO payment due on 30 June 2005. This is offset to a degree by the energy contracts accrued of $6.888m as mentioned below;
- Property, plant and equipment increasing by $81.528m. The valuation methodology applied to 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 represent 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 last two years under review, Aurora has paid $236.389m in capital expenditure; and
- Intangible assets increasing by $6.529m for computer software associated with NEM entry.

The effects of the foregoing were offset in part by:

- Cash decreasing due to a reduction of $50.000m in Investments. This original investment was made to ensure Aurora met Australian Financial Services Licence (AFSL) requirements. This has now been replaced by an "eligible undertaking" of $150.000m through the Tasmanian Public Finance Corporation;
- Decreases in energy contracts accrued due to timing issues. 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; and
- Borrowings increasing by $24.528m in response to the expanded capital expenditure program associated with NEM entry.

Aurora recorded negative working capital in 2005-06. This was primarily due to the repayment of $50.000m of investments as mentioned above, an increase in current employee leave provisions due to changes in accordance with AASB 119 and an increase in current borrowings to $62.325m.

As at 30 June 2006, Aurora had the following significant guarantee facilities:

- $140.000m to NEMCO as a requirement for NEM entry; and
- $150.000m to meet requirements of the AFSL.

CASH POSITION

	2005-06 AIFRS $'000s	2004-05 AIFRS $'000s	2004-05 AGAAP $'000s
Receipts from customers	828 016	780 042	780 042
Payments to suppliers and employees	(710 305)	(653 827)	(653 827)
Interest received	3 273	3 107	3 107
Borrowing costs	(27 776)	(24 824)	(24 824)
Taxation expense	(17 104)	(23 850)	(23 850)
Cash from operations	**76 104**	**80 648**	**80 648**
Payments for intangible assets	(12 679)	(4 499)	0
Payments for property, plant and equipment	(121 757)	(97 454)	(101 953)
Proceeds from sale of property, plant and equipment	1 505	1 038	1 038
Cash (used in) investing activities	**(132 931)**	**(100 915)**	**(100 915)**
Proceeds from borrowings	197 833	161 910	161 910
Repayment of borrowings	(173 304)	(90 409)	(90 409)
Dividends paid	(11 977)	(13 942)	(13 942)
Cash From financing activities	**12 552**	**57 559**	**57 559**
Net increase/(decrease) in cash	**(44 275)**	**37 292**	**37 292**
Cash at the beginning of the period	56 634	19 342	19 342
Cash at end of the period	**12 359**	**56 634**	**56 634**

Comment

The adoption of the new accounting standards had no impact on the cash position of Aurora.

Aurora benefits from a regular supply of income from its electricity customers to meet its obligations to both suppliers and employees, which is the main reason for the strong cash from operations result of $76.104m. However, Aurora's cash position at 30 June 2006 has deteriorated due to:

- Its ongoing capital investment program and its investment in information technology (referred to in the table as intangible assets) which totalled net $132.931m in 2005-06;
- These investments were funded by new borrowings of only $24.529m with the remainder funded from existing cash reserves and from cash generated from operations; and
- The payment of a dividend of $11.977m.

Based on the 2005-06 results, Aurora will find it increasingly difficult to maintain similar levels of capital investment without resorting to higher levels of borrowings.

FINANCIAL ANALYSIS

	Bench Mark	2005-06	2004-05
Financial Performance			
Result from operations ($'000s)		31 288	49 826
EBIT ($'000s)		60 445	69 383
EBITDA ($'000s)		121 471	122 228
Operating margin	>1.0	1.04	1.07
Return on assets		5.5%	7.0%
Return on equity		6.9%	8.6%
Financial Management			
Debt to equity		138.5%	140.2%
Debt to total assets		41.7%	40.5%
Interest cover - EBIT	>3	2.1	2.6
Interest cover - cash from operations	>3	3.7	3.9
Current ratio	>1	0.68	1.20
Leverage Ratio		107%	121%
Cost of debt	7.5%	6.3%	6.8%
Debt collection	30 days	29	28
Creditor turnover	30 days	10	16
Capex/Depreciation		1.94	1.89
Returns to Government			
Dividends payable ($'000s)		9 585	11 977
Dividend payout ratio	50%	42.9%	40.7%
Dividend to equity ratio	6%	3.0%	3.5%
Income tax paid ($'000s)		17 104	23 850
Effective tax rate	30%	53.3%	56.4%
Government guarantee fees		1 492	1 393
Total return to the State ($'000s)		28 181	37 220
Total return to equity ratio		8.7%	10.8%
CSO Funding		11 198	11 513
Other Information			
Staff numbers (FTEs)		1 042	981
Average staff costs ($'000s)		61	59
Average leave balance per FTE ($'000s)		19	19

Comment

Aurora's Result from operations decreased in the current financial year to $31.288m from $42.660m in 2004-05 due to costs increasing at a greater rate than revenues as mentioned previously. This is also reflected in decreases in EBIT, Return on assets and Return on equity.

The Current ratio decreased in 2005-06 due primarily to increases in current borrowings and a reduction in investments as mentioned earlier.

Previously, under AGAAP, in 2004-05 Aurora's Debt to equity ratio was 108.1%. This ratio increased to 138.5% in 2005-06 under AIFRS due to the equity reduction outlined previously. Aurora's Interest cover is now only marginally above 2.

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 2005-06 is approximately 42 days (2004-05, 40).

FTE numbers increased during 2005-06 due to entry into the NEM, an increased capital works program and a greater level of external contracting.

OVERALL COMMENT

Aurora is trading in a more competitive environment at a time when its liquidity is tightening. Management will need to manage carefully the risks associated with this.

Based on Aurora's 2005-06 financial performance, the Tasmanian Government will receive $33.624m comprising income tax equivalent, $17.104m, proposed dividend, $9.585m, and debt guarantee fees, $1.492m.

The Tasmanian Government has a Community Service Agreement with Aurora to provide discounts to pensioners. In 2005-06 reimbursements for this community service, plus administration costs, were $11.198m.

The 2005-06 audit was completed satisfactorily with no major issues outstanding.

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 under service contracts with the Tasmanian Government. It also provides passenger transport services to a number of regional centres around Hobart through a series of individual route contracts.

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. On 30 June 2005, Metro acquired the business of its subsidiary Metro Coaches, with assets and liabilities being purchased at their fair value at acquisition date. Metro Coaches did not trade during 2005-06.

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

AUDIT OF THE 2005-06 FINANCIAL STATEMENTS

Signed financial statements of Metro were received on 2 October 2006 and an unqualified audit report was issued on 10 October 2006.

FINANCIAL RESULTS

Every three years the Government Prices Oversight Commission (GPOC) undertakes a review of Metro's pricing policies with the most recent review being carried out in 2005-06. This review highlighted a number of prospective changes in fare levels, ticket types, service design and the ticketing system, in addition to changes in the Metro funding model. 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 (via the Department of Infrastructure, Energy and Resources), with contract payments designed to enable it to achieve a break-even operating result. The agreement includes provision for concession travel and the provision of non-commercial services. Metro receives the majority of its revenue, which amounted to $24.939m in 2005-06 (2004-05, $22.618m) 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. Metro state in the Notes to its financial statements that, for the purposes of applying Australian Equivalents to International Financial Reporting Standards (AIFRS), it is a "Not for Profit" entity as its principle objective is not the generation of profit. This classification of Metro's status for financial reporting purposes is supported by Audit. As a result its financial statements are prepared on the basis that it is a "Not for Profit" entity. However, the impact on the financial statements is minor.

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

- Stabilising the average age of its vehicle fleet at around 12 years;
- Meeting the requirements of the Commonwealth *Disability Discrimination Act 1992*; 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.

INCOME STATEMENT

	2005-06 AIFRS	**2004-05 AIFRS**	**2004-05 AGAAP**
	$'000s	$'000s	$'000s
Government contribution	24 939	22 816	22 816
Fare revenue	9 490	8 095	8 095
Other operating revenue	1 412	2 565	2 565
Non-operating revenue	58	126	126
Total Revenue	**35 899**	**33 602**	**33 602**
Borrowing costs	173	192	192
Depreciation	3 131	3 391	3 391
Administration	3 793	3 691	3 814
Employee expenses	21 679	19 418	19 418
Other operating expenses	7 093	7 004	6 740
Total Expenses	**35 869**	**33 696**	**33 555**
Result From Ordinary Activities	**30**	**(94)**	**47**
Income tax expense	0	0	0
Result After Taxation	**30**	**(94)**	**47**

Comment

Some variations occurred between 2004-05 Australian Generally Accepted Accounting Principles (AGAAP) and AIFRS results. Metro recorded a positive result from ordinary activities of $0.047m under AGAAP, which changed to a loss of $0.094m under AIFRS. The main change was an additional superannuation expense of $0.141m due to an actuarial re-assessment of its superannuation liabilities resulting from a change in the discount rate applied by the State Actuary in accordance with AASB 119 *Employee Benefits*.

In respect to the 2005-06 Income Statement, the Result from ordinary activities improved by $0.124m to a profit of $0.030m. This result was brought about by:

- The Government contribution increasing by $2.123m. 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 69% (2004-05, 68%) of Metro's total revenue. A major reason for the increase in the Government contribution was to meet increased labour costs – see further comment below;
- Fare revenue growing gradually, despite some small declines in patronage. Metro fares are periodically adjusted in line with movements in the Metro Index, although student fares have remained fixed at 1996 levels in line with Government policy; and

- Depreciation reducing by $0.260m due to some assets being classified as held for sale and no longer attracting depreciation.

The effects of the foregoing were offset in part by:

- Other operating revenue decreasing by $1.153m due to a reclassification of revenue items; and
- Employee expenses increasing by $2.261m, primarily due to recent salary increases of up to 8% awarded to bus drivers.

Non-operating revenue relates to sales of Property, plant and equipment and can vary from year to year. Without the Non-operating revenue of $0.058m in 2005-06, Metro would have made an overall loss of $0.028m.

BALANCE SHEET

	AIFRS	**AIFRS**	**AGAAP**
	$'000s	$'000s	$'000s
Cash	11 246	11 684	2 347
Receivables	635	980	980
Investments	0	0	9 337
Inventories	853	861	861
Assets classified as held for sale	242	505	0
Other	571	461	461
Total Current Assets	**13 547**	**14 491**	**13 986**
Payables	3 501	3 496	2 809
Borrowings	0	35	35
Provisions - leave and other	2 580	2 761	3 685
Provisions - superannuation	3 720	3 291	3 291
Total Current Liabilities	**9 801**	**9 583**	**9 820**
Working Capital	**3 746**	**4 908**	**4 166**
Property, plant and equipment	33 076	29 477	30 149
Intangible assets	166	230	63
Other	0	193	193
Total Non-Current Assets	**33 242**	**29 900**	**30 405**
Borrowings	2 792	2 792	2 792
Provisions - leave and other	900	894	657
Provisions - superannuation	12 579	15 026	9 684
Total Non-Current Liabilities	**16 271**	**18 712**	**13 133**
Net Assets	**20 717**	**16 096**	**21 438**
Capital	15 503	15 503	15 503
Reserves	8 081	5 373	5 373
Retained profits/(Accumulated losses)	(2 867)	(4 780)	562
Total Equity	**20 717**	**16 096**	**21 438**

Comment

Metro's Net Assets decreased by $5.342m upon the introduction of the new accounting standards in 2004-05 due primarily to an increase in the provision for employee superannuation.

Net assets increased from $16.096m at 30 June 2005 to $20.718m at 30 June 2006. The main factors contributing to this were:

- Property, plant and equipment increasing by $3.599m due primarily to the revaluation of land and buildings, $2.566m, purchases of additional buses, $3.326m, offset by depreciation, $3.067m. Revaluation adjustments are reflected in increases to the Asset revaluation reserve, which is reported in the Reserves amount; and
- The favourable movement in the provision for staff superannuation caused by changes in discounts rates and an increase in the value of contributory scheme assets, which resulted in a reduction of the liability of $2.018m. This change was adjusted directly against Retained profits and was not reflected in the Income Statement.

The effects of the foregoing were offset in part by:

- Cash decreasing by $0.437m due to funds generated from operations being expended principally for bus purchases; and
- Receivables decreasing by $0.345m due to a reduction in accrued income and GST receivables.

CASH POSITION

	2005-06 AIFRS	**2004-05 AIFRS**	**2004-05 AGAAP**
	$'000s	$'000s	$'000s
Receipts from customers	37 355	34 589	34 589
Payments to suppliers and employees	(34 644)	(29 756)	(29 756)
Interest received	660	546	546
Borrowing costs	(173)	(234)	(234)
Cash from operations	**3 198**	**5 145**	**5 145**
Payments for investments	0	(3 347)	(3 347)
Payments for property, plant and equipment	(4 024)	(2 310)	(2 310)
Proceeds from sale of property, plant and equipment	423	448	448
Restatement of investments to cash	0	9 337	0
Cash from/(used in) investing activities	**(3 601)**	**4 128**	**(5 209)**
Proceeds from borrowings	0	2 792	2 792
Repayment of borrowings	(35)	(2 826)	(2 826)
Dividends Paid	0	0	0
Cash (used in) financing activities	**(35)**	**(34)**	**(34)**
Net increase/(decrease) in cash	**(438)**	**9 239**	**(98)**
Cash at the beginning of the period	11 684	2 445	2 445
Cash at end of the period	**11 246**	**11 684**	**2 347**

Comment

The adoption of new accounting standards had the impact of restating investments of $9.337m as part of Metro's cash balance at 30 June 2005.

The significant cash holdings represent funds committed for future bus purchases. It should also be noted that there were some delays in delivery of buses during the financial year which has delayed cash outflows.

Based on the 2005-06 results, projected operating results and cash flows, Metro's cash balance is expected to decrease significantly in the future.

Reasons for variations in cash flow receipt and payment amounts reflect the comments made previously in the Income Statement and the Balance Sheet sections of this chapter.

FINANCIAL ANALYSIS

	Bench Mark	2005-06	2004-05
Financial Performance			
Result from operations ($'000s)		(28)	(220)
EBIT ($'000s)		203	98
Operating margin	>1.0	1.00	0.99
Return on assets		0.4%	0.2%
Return on equity		0.2%	(0.5%)
Financial Management			
Debt to equity		13.5%	17.6%
Debt to total assets		6.0%	6.4%
Interest cover	>3	1.2	0.5
Current ratio	>1	1.38	1.51
Leverage ratio		225.8%	275.8%
Cost of debt	7.5%	6.2%	6.8%
Debt collection	30 days	5	5
Creditor turnover	30 days	31	42
Returns to Government			
Dividends paid or payable ($'000s)		0	0
Income tax paid or payable ($'000s)		0	0
Total return to the State ($'000s)		0	0
CSA funding ($'000s)		24 939	22 816
Other Information			
Average staff numbers (FTEs)		361	366
Average staff costs ($'000s)		60	53
Average leave balance per FTE ($'000s)		10	10

Comment

Metro had a negative Result from operations in both years.

As mentioned previously, due to the CSA 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 a commercial undertaking. 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 Interest cover ratio has remained relatively low as a result of low levels of profitability.

Average staff costs have risen during 2005-06 due to significant salary increases granted to bus drivers.

OVERALL COMMENT

As Metro receives 69% of its revenue as a Government contribution, it is economically dependent on the State Government for its continued operations.

The 2005-06 audit was completed satisfactorily with no major issues outstanding.

3.3 TOTE TASMANIA PTY LTD

INTRODUCTION

The former Totalizator Agency Board was incorporated as TOTE Tasmania Pty Ltd (TOTE or 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.

AUDIT OF THE 2005-06 FINANCIAL STATEMENTS

Signed financial statements were received on 18 October 2006 and an unqualified audit report was issued on 20 October 2006.

FINANCIAL RESULTS

INCOME STATEMENT

	2005-06 AIFRS $'000s	2004-05 AIFRS $'000s	2004-05 AGAAP $'000s
Investments from customers	321 584	303 209	303 209
Settlement from other TABs	24 907	23 034	23 034
Cost of dividends and taxes	(297 905)	(280 168)	(280 168)
Wagering Income	**48 586**	**46 075**	**46 075**
Other income from ordinary activities	12 613	9 423	9 408
Total Income	**61 199**	**55 498**	**55 482**
Employee benefits expense	(8 916)	(8 416)	(8 198)
Prizemoney, benefits and incentives	(18 226)	(13 670)	(13 670)
Wagering and pooling fees	(7 017)	(6 394)	(6 394)
Depreciation and amortisation expense	(3 804)	(3 577)	(3 648)
Borrowing and leasing costs	(1 330)	(1 224)	(1 224)
Commission expense	(7 306)	(7 070)	(7 070)
Communication and broadcasting expenses	(4 800)	(5 229)	(5 229)
Racing administration expenses	(3 010)	(3 384)	(3 384)
Administration expenses	(2 857)	(2 896)	(2 896)
Other expenses	(2 679)	(2 792)	(2 777)
Total Expenses	**(59 944)**	**(54 651)**	**(54 488)**
Result from ordinary activities	**1 255**	**847**	**994**
Income tax expense	(378)	(259)	(308)
Result after taxation	**877**	**588**	**685**

Comment

In 2005-06 wagering revenue rose by $2.511m due to increased turnover on horse and greyhound racing and also as a result of growth in Sportsbet wagering.

During 2005-06 other income from ordinary activities increased by $3.190m largely as a result of a $4.271m increase in Government Grants. The significant increase in these grants was principally due to amounts received from the Government as a result of the licensing of Betfair and the determination to direct $5.000m in funds to TOTE during the 2005-06 financial year. This increase was offset to some extent by reduced interest income as cash reserves retained at the end of the prior financial year have been applied to development of the Elwick facility.

Notwithstanding the $0.173m reduction in employee benefits expenses during 2005-06 due largely to favourable movements in employee related liabilities, particularly defined benefit obligations, these expenses have increased by $0.500m. This has been due to the increase in employee numbers from 122 in 2004-05 to 136 during 2005-06 largely due to the take-over of employment of four personnel previously employed at the Royal Showgrounds and Spreyton Park and also eight additional casual FTEs on-course staff due to the timing of race meetings in June 2006 compared to June 2005.

The funds received in respect to Betfair licensing have largely been applied to increased stakes which significantly accounts for the $4.556m increase in Prize money, Benefits and Incentives in 2005-06.

Depreciation and amortisation has increased by $0.277m due to the increased depreciable asset base.

Communication and broadcast fees were reduced by $0.429m due to compensation received from Sky Channel for loss of service during the year. This compensation was directly applied against broadcast fee expense.

BALANCE SHEET

	2005-06 AIFRS $'000s	2004-05 AIFRS $'000s	2004-05 AGAAP $'000s
Current Assets			
Cash and cash equivalents	4 419	18 870	18 870
Trade and other receivables	4 634	2 525	2 525
Consumables stores	66	34	34
Prepayments	404	333	333
Total Current Assets	**9 522**	**21 762**	**21 762**
Non-Current Assets			
Property, plant and equipment	42 941	26 634	28 757
Deferred tax assets	708	593	714
Intangibles	3 150	2 749	608
Total Non-Current Assets	**46 798**	**29 976**	**30 079**
Total Assets	**56 320**	**51 738**	**51 841**
Current Liabilities			
Telephone betting deposits	3 247	2 384	2 384
Dividends and refunds due and unpaid	630	614	614
Accruals and accounts payable	7 556	4 886	4 887
Income received in advance	16	16	0
Bonds on deposit	296	268	268
Borrowings - unsecured interest bearing	500	1 000	1 000
Income tax payable	96	222	432
Employee benefits	909	856	856
Racing industry funds	114	142	142
Total Current Liabilities	**13 363**	**10 387**	**10 582**
Non-Current Liabilities			
Borrowings - unsecured interest bearing	1 000	528	528
Income received in advance	78	94	0
Employee benefits	1 712	1 604	1 115
Total Non-Current Liabilities	**2 790**	**2 226**	**1 643**
Total Liabilities	**16 153**	**12 613**	**12 225**
Net Assets	**40 167**	**39 125**	**39 617**
Equity			
Contributed equity	22 600	22 600	22 600
Retained profits	12 922	11 837	12 183
Asset revaluation reserve	155	197	344
Equity transfer - Racing Tasmania	4 490	4 490	4 490
Total Equity	**40 167**	**39 125**	**39 617**

Comment

During 2005-06 Cash and cash equivalents decreased by $14.451m due to the application of cash reserves, generated as a result of prior year equity contribution, to develop the Elwick facility. As a result, Property, plant and equipment also increased significantly.

Key capital additions during the year were $17.097m in racecourse leasehold improvements and $1.986m in computer equipment and systems development.

The increase in Trade and other receivables at 30 June 2006 is predominantly as a result of $1.541m due from Tabcorp in respect to May 2006 activity not being received until after financial year-end. In addition, an amount receivable from Sky Channel of $0.594m in settlement for lost broadcasting of national races during the year and $0.176m in proceeds from the June 2006 sale of property located at George Town had yet to be received by year-end.

Accruals and accounts payable increased by $2.670m due primarily to costs incurred in capital works activity in respect to the leasehold improvements at Elwick.

The key AIFRS transition impact on the Net asset position at 30 June 2005 was due to a $0.489m increase in TOTE's defined benefit superannuation plan obligation under which TOTE has elected to recognise full actuarial gains and losses. This also impacted the reported financial performance in respect of the 2004-05 financial year by increasing employee benefits expense for that year by $0.218m.

CASH POSITION

	2005-06 AIFRS $'000s	**2004-05 AIFRS** $'000s	**2004-05 AGAAP** $'000s
Receipts from customers and other TABs	227 803	217 590	217 590
Other receipts	11 744	7 749	7 749
Interest received	758	1 464	1 464
Payments to customers	(179 180)	(170 849)	(170 849)
Payments to suppliers and employees	(53 533)	(52 652)	(52 652)
Borrowing costs	(88)	(98)	(98)
Other payments	(618)	(442)	(442)
Cash from operations	**6 886**	**2 762**	**2 762**
Payments for property, plant and equipment	(21 789)	(16 090)	(16 090)
Proceeds from sale of property, plant and equipme	315	32	32
Repayment of borrowings	137	(1 038)	(1 038)
Cash (used in) investing activities	**(21 337)**	**(17 097)**	**(17 097)**
Proceeds from issue of shares	0	22 600	22 600
Dividends paid	0	(249)	(249)
Cash from financing activities	0	22 351	22 351
Net increase/(decrease) in cash	**(14 450)**	**8 016**	**8 016**
Cash at the beginning of the period	18 870	10 854	10 854
Cash at end of the period	**4 419**	**18 870**	**18 870**

Comment

Changes in the cash position reflect comments made through the Income Statement and Balance Sheet.

Increased turnover has driven marginal but steady growth in operating cash inflows. Other receipts have increased due to the receipt of $5.000m in Government funds as a result of the Betfair licensing arrangement. The increased payments to suppliers are largely as a result of increased operating activity particularly dividends payable on winnings.

The reduction in cash balances is directly attributable to the application of $21.789m in cash reserves, derived principally from the $22.600m equity contribution, to the re-development of the Elwick facility.

During the year two properties (George Town and Smithton) were disposed, realising cash proceeds of $0.243m.

There were no dividends paid to shareholders during the 2005-06 financial year.

FINANCIAL ANALYSIS

	Bench Mark	2005-06	2004-05
Financial Performance			
Result from operations ($'000s)		1 255	847
EBIT ($'000s)		1 343	943
Operating margin	>1.0	1.02	1.02
Return on assets		0.0%	2.2%
Return on equity		2.2%	2.1%
Financial Management			
Debt to equity		3.7%	3.9%
Debt to total assets		2.7%	3.0%
Interest cover	>3	0.02	9.82
Current ratio	>1	0.71	2.10
Cost of debt	7.5%	5.8%	4.2%
Debt collection	30 days	53	50
Creditor turnover	30 days	100	40
Returns to Government			
Dividends paid or payable ($'000s)		0	0
Income tax paid or payable ($'000s)		492	553
Effective tax rate	30%	39.2%	65.3%
Total return to the State ($'000s)		492	553
Total return to equity ratio		1.2%	2.0%
Other Information			
Staff numbers (FTEs)		136	122
Average staff costs ($'000s)		66	69

Comment

Return on equity and assets while improving marginally, remain broadly consistent with the prior year. It is acknowledged that there has been a significant increase in the net equity and total asset position since the equity contribution of $22.600m during the 2004-05 financial year.

The Current ratio has declined due to the reduced cash reserves in acquiring Property, plant and equipment in redevelopment of the Elwick facility combined with the increase in trade creditors and accruals. This increase is due largely to outstanding amounts at 30 June 2006 payable to suppliers and contractors involved in the Elwick redevelopment.

Debt collection remains high at 53 days but is consistent with 2004-05. Creditor turnover has increased to 100 days due particularly to the significant trade payables of a capital nature that were outstanding at 30 June 2006.

Average staff costs have fallen slightly however staff numbers increased by 6 during the financial year as explained above, with a further 8 casual on-course staff due to the timing of race meetings in June 2006 compared to June 2005.

Return to the State is due solely to income tax payable as the Directors resolved that no dividends would be paid in respect of both the 2004-05 and 2005-06 financial years.

OVERALL COMMENT

The results for 2005-06 and the net asset position of TOTE are characterised by the redevelopment of the Elwick facility which was financed by the $22.600m equity contribution received in the prior year.

Growth in operating activities, in particular wagering, remains marginal but steady. The $5.000m in funds received from Government in respect of the licensing of Betfair in Tasmania has been returned to the racing industry in respect to prize-money, benefits and incentives.

The 2005-06 audit was completed with satisfactory results.

3.4 TRANSEND NETWORKS PTY LTD

INTRODUCTION

Transend Networks Pty Ltd (Transend - or the Company) 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 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. Transend ceased responsibility for System Controller at midnight on 28 May 2005 upon entry into the National Electricity Market (NEM). However Transend has an agreement with the National Electricity Market Management Company (NEMCO) 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 2005-06 FINANCIAL STATEMENTS

Signed financial statements were received on 17 October 2006 and an unqualified audit report was issued on 23 October 2006.

FINANCIAL RESULTS

INCOME STATEMENT

	2005-06 AIFRS $'000	**2004-05 AIFRS** $'000	**2004-05 AGAAP** $'000
Transmission use of system (TUOS)	114 993	108 029	108 029
System Controller	0	9 536	9 536
Other revenue	15 179	1 736	1 930
Total Revenue	**130 172**	**119 301**	**119 495**
Borrowing costs	4 150	2 449	2 449
Depreciation and amortisation	35 461	32 955	32 955
Employee costs - other	14 938	12 539	0
Employee costs - superannuation related	1 434	5 326	0
Other operating expenses	20 542	28 899	40 027
Non-operating expenses	0	0	698
Total Expenses	**76 525**	**82 168**	**76 129**
Result from ordinary activities	**53 647**	**37 133**	**43 366**
Income tax expense	16 099	11 164	15 833
Result after taxation	**37 548**	**25 969**	**27 533**

Comment

The effect of the adoption of AIFRS on the reported financial performance for 2004-05 is a decrease in results after taxation from $27.533m reported under AGAAP to $25.969m reported under AIFRS. This decrease was principally due to:

- Changes to employee benefits following the adoption of AASB 119 *Employee Benefits*, which required the application of different actuarial factors, such as a lower discount rate. This resulted in an increase in operating expenses of $2.750m;
- Reclassification of the loss on disposal of network asset under AIFRS, previously recorded as a reduction in the asset revaluation reserve, now apportioned over the individual assets with the actual loss being identified. This resulted in an increase in other expenses of $3.419m; and
- These changes had the effect of reducing the previously reported tax equivalent charge for the period by $4.669m.

For the 2005-06 financial year, results before taxation increased by $16.514m to $53.647m. This increase was due principally to the recognition of gifted assets required to connect Basslink worth $10.047m from National Grid Australia, which was included in Other revenue. In addition, the application of a higher discount rate and strong investment performance by superannuation scheme assets had the effect of reducing superannuation related costs by almost $4.000m. Excluding these two items, the result before taxation is similar to the previous financial year.

Transmission revenue increased for the 2005-06 year by $10.871m due to higher transmission service billings in accordance with the Australian Competition and Consumer Commission (ACCC) revenue determination The increase in transmission line revenue is a continued trend from the increase in 2004-05, which was mainly due to a higher capital base allowed by the ACCC. The ACCC gave a determination of the regulated income for five and a half years from January 2004. In addition an amount of $0.939m included in Other revenue was earned from the load customers under the Network Support Agreement for the reimbursement of costs incurred.

There is no System Controller revenue for 2005-06 (nor are there related costs which totalled $8.576m in 2004-05 – see comment below) since Transend joined the NEM as a Transmission Network Service Provider (TNSP) and as such Transend no longer provides the System Controller services.

Borrowing costs increased in 2005-06 due to an increase in borrowings of $39.876m during the period.

Depreciation and amortisation expenses increased in 2005-06 compared to 2004-05 as a result of the combined net increase of 12.18% in Property, plant and equipment and intangible assets during 2005-06. This is due to asset upward revaluations and the continuing capital expenditure program that aims to provide a reliable electricity transmission service and to add capacity for forecast load growth.

The decrease in Other operating expenses in 2005-06 compared to 2004-05 is attributable to no longer providing System Controller services, which resulted in a decrease in expenses of $8.576m.

BALANCE SHEET

	2005-06 AIFRS $'000	2004-05 AIFRS $'000	2004-05 AGAAP $'000
Cash	29	23	23
Receivables	19 589	12 659	12 659
Inventories	152	153	153
Other	551	365	365
Total Current Assets	**20 321**	**13 200**	**13 200**
Payables	16 162	18 253	18 253
Borrowings	27 724	17 806	17 806
Current tax payable	7 067	7 972	7 972
Employee benefits	3 870	3 754	1 268
Superannuation	2 764	3 148	3 148
Other	17 106	1 270	1 270
Total Current Liabilities	**74 693**	**52 203**	**49 717**
Working Capital	**(54 372)**	**(39 003)**	**(36 517)**
Property, plant and equipment	761 297	676 912	679 152
Other	572	2 240	5 378
Total Non-Current Assets	**761 869**	**679 152**	**684 530**
Borrowings	65 053	35 095	35 095
Deferred tax liabilities	97 898	95 068	28 862
Employee benefits	585	603	2 758
Superannuation	15 453	15 068	9 301
Total Non-Current Liabilities	**178 989**	**145 834**	**76 016**
Net Assets	**528 508**	**494 315**	**571 997**
Capital	336 549	336 549	336 549
Reserves	125 419	115 008	158 804
Retained profits	66 540	42 758	76 644
Total Equity	**528 508**	**494 315**	**571 997**

Comment

The effect of the adoption of AIFRS on the reported financial position for 2004-05 is a decrease in equity from $571.997m reported under AGAAP to $494.315m reported under AIFRS. This decrease was principally due to:

- Adoption of AASB 119 resulted in an increase in the provision for defined benefit superannuation liabilities of $5.766m; and
- The adoption of AASB 112 *Income Tax*, which resulted in the balance sheet liability method being adopted. This resulted in an increase in the Deferred tax liability (prior to netting off the deferred tax asset) of $71.584m for 2004-05.

Total equity for 2005-06 was $528.508m, an increase of $34.193m on the 2004-05 reported equity. This increase was due to the revaluation of Property, plant and equipment, which increased the revaluation reserve by $10.411m and due to the recorded results after taxation (net of the dividend paid during the year of $13.766m) of $23.782m.

Current receivables increased by $6.930m to $19.589m in 2005-06. This increase is due to increases in the TUOS revenue and a change in the invoicing terms in the NEM, which has resulted in higher receivables at year end.

During 2005-06 additional Borrowings were required to fund the large capital expenditure program. This resulted in an increase in total borrowings of 75.3% in 2005-06. The Company's capital expenditure program is designed to improve the reliability of the State's transmission system, add capacity for forecast load growth and cater for new connections to the network.

In 2005-06 there was a substantial increase in Other current liabilities to $17.106m. This was due to the recognition of TNSP inter-regional residues totalling $12.787m received from NEMMCO and recorded as income received in advance, which will result in reduced prices in 2006-07.

Despite Transend's profitability, Working Capital continues to be negative being $54.372m at 30 June 2006, an increase of $15.369m compared to 2004-05. There are two main reasons for this:

- Higher levels of Borrowings, $27.724m of which was currently due at year end; and
- Due to NEMMCO residual and grid support of $17.078m, which is recognised as income received in advance, rather than being recognised as income in 2005-06.

In addition, Payables remained high due to the capital expenditure program (further comments are provided in the Cash Position section below).

Property, plant and equipment and intangible assets increased by 12.18% in 2005-06 primarily as a result of the capital expenditure program already referred to. The increase in these assets is also attributable to the accounting policy adopted by the Company, which provides that the assets are revalued annually by the Australian Bureau of Statistics Consumer Price Index. The inflation factor for 2005-06 year was 2.36% and 2004-05 year was 2.5%. This resulted in a likewise increase in the asset revaluation reserve.

CASH POSITION

	AIFRS $'000	AIFRS $'000	AGAAP $'000
Receipts from customers	141 824	134 986	134 986
Interest received	0	48	48
Payments to suppliers and employees	(48 148)	(51 120)	(51 120)
Borrowing costs	(4 163)	(2 464)	(2 464)
Taxation paid	(18 636)	(14 744)	(14 744)
Cash from operations	**70 877**	**66 706**	**66 706**
Proceeds from sale of property and plant	312	213	213
Payments for fixed assets and intangibles	(97 337)	(74 946)	(74 946)
Cash (used in) investing activities	**(97 025)**	**(74 733)**	**(74 733)**
Proceeds from borrowings	44 920	22 970	17 970
Payment for investments	(5 000)	(5 000)	0
Dividends paid	(13 766)	(9 924)	(9 924)
Cash from financing activities	**26 154**	**8 046**	**8 046**
Net increase in cash	**6**	**19**	**19**
Cash at the beginning of the period	23	4	4
Cash at end of the period	**29**	**23**	**23**

Comment

There are no material differences between the cash position reported under AGAAP for 2004-05 and the cash position presented for 2004-05 under AIFRS.

Transend is generating significant cash from its operations, with an increase in 2005-06 of 6.25% compared to 2004-05. The growth in Receipts from customers is consistent with the growth in revenue from TUOS and was also due to timing issues relating to income received in advance, which was offset by the reduction in revenue from the System Controller.

Borrowing costs increased due to an increase in Borrowings to help fund the capital expenditure program. Cash generated from operations was also used to help fund this expenditure program.

Payments for Property, plant and equipment 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. In effect the Company has no 'free cash flow' with cash resources being utilised as follows:

	$'000
Generated from operations	70 877
Generated from borrowings (net)	39 920
Sub total	**110 797**
Utilised on:	
Investment in property, plant and equipment (net)	(97 025)
Payment of dividend	(13 766)
Sub total	**(110 791)**
Net increase in cash	**6**

The above analysis, supported by earlier comments on Transend's net Working Capital position, indicates that its liquidity is tight and that, despite the generation of strong operating cash flows, Transend may have to continue to borrow if it is to continue its current level of capital expenditure.

FINANCIAL ANALYSIS

	Bench Mark	2005-06	2004-05
Financial Performance			
Result from operations ($'000s)		37 548	25 969
EBIT ($'000s)		57 797	39 582
EBITDA ($'000s)		93 258	72 537
Operating margin	>1.0	1.50	1.43
Return on assets		7.8%	5.9%
Return on equity		7.3%	5.4%
Financial Management			
Debt to equity		17.6%	10.7%
Debt to total assets		11.9%	7.6%
Interest cover - EBIT	>3	10.0	12.2
Interest cover - cash from operations	>3	18.0	28.1
Current ratio	>1	0.27	0.25
Cost of debt	7.5%	7.9%	7.3%
Debt collection	30 days	24	7
Creditor turnover	30 days	17	16
Capex/Depreciation		2.6	2.3
Returns to Government			
Dividend payout ratio	50%	50.0%	53.0%
Dividend to equity ratio	6%	3.7%	2.8%
Effective tax rate	30%	26.0%	36.6%
Total return to the State ($'000s)		32 708	27 354
Total return to equity ratio		6.4%	5.2%
Other Information			
Staff numbers (FTEs)		185	183
Average staff costs ($'000s)		91	97
Average leave balance per FTE ($'000s)		24	24

Comment

The adoption of AIFRS has affected the financial analysis for both years. The effects on the financial performance and position of the Company are discussed in the sections above.

Transend had good results from operations, which is consistent with 2004-05. Operating margin increased by 0.07 with improvements in the Return on assets and Return on equity as a result of increases in profitable business activity.

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 (2005-06, 0.27:1).

At the same time the Debt to equity ratio increase by 6.9% compared to 2004-05 due to a steady increase in the capital expenditure program over the past 5 years, which is resulting in further borrowings. Interest coverage shows a slight downward movement compared to 2004-05 due to higher interest costs arising from higher borrowings.

Cost of debt has increased, which reflects the increase in long-term borrowings.

The Company has paid consistent dividends to the Government.

The number of people employed by Transend remained relatively consistent compared to the 2004-05 year.

OVERALL COMMENT

Transend has a strong Net Asset position. However, its liquidity is tight due primarily to its asset replacement program and the funding thereof from internal sources and borrowings. The Company's long-term capital investment program is to upgrade and modernise Tasmania's electricity transmission system.

The 2005-06 audit was completed satisfactorily with no major issues outstanding.

3.5 TT-LINE COMPANY PTY LTD

INTRODUCTION

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

The service between Devonport and Melbourne is operated with two ships, Spirit of Tasmania I and Spirit of Tasmania II.

The service between Devonport and Sydney is operated with one ship, Spirit of Tasmania III. On 5 June 2006, TT-Line received permission from the State Government to sell Spirit of Tasmania III. The sale was finalised in September 2006.

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.

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

AUDIT OF THE 2005-06 FINANCIAL STATEMENTS

Signed financial statements were received on 26 September 2006 and an unqualified audit report was issued on 4 October 2006.

FINANCIAL RESULTS

INCOME STATEMENT

	2005-06 AIFRS $'000s	**2004-05 AIFRS** $'000s	**2004-05 AGAAP** $'000s
Operating revenue	158 882	156 350	154 793
Non-operating revenue	3	5	81
Total Revenue	**158 885**	**156 355**	**154 874**
Employee costs	33 784	33 803	33 803
Borrowing costs	12 245	16 192	16 192
Depreciation	19 824	24 006	24 006
Other operating expenses	126 477	119 265	116 915
Total Expenses	**192 330**	**193 266**	**190 916**
Result before asset increments/ (decrements) and sale costs	**(33 445)**	**(36 911)**	**(36 042)**
Ship increments/(decrements)	43 237	(43 237)	(43 237)
Spirit III sale costs	(7 110)	0	0
Result from ordinary activities	**2 682**	**(80 148)**	**(79 279)**
Income tax expense	(4 459)	0	0
Result after taxation	**7 141**	**(80 148)**	**(79 279)**

Comment

The majority of the Company's revenue is generated from ferry operations. Spirits I and II provide the service between Devonport and Melbourne and commenced operating in 2002-03. Spirit III provided the service between Devonport and Sydney and commenced operating in January 2004. All ferries were operational throughout 2004-05 and 2005-06.

As a result of the application of the new Australian equivalents to International Financial Reporting Standards (AIFRS), the 2004-05 loss increased by $0.869m to $80.148m. This was primarily due to changes in the measurement of unfunded superannuation provisions.

In 2004-05, Spirit III operated below budgeted expectations and this trend continued during 2005-06. The results for Spirit III reflect lower than expected passenger numbers, vehicle numbers and carriage of freight.

On 5 June 2006, TT-Line received permission from the State Government to sell Spirit III. The sale was finalised in September 2006.

Spirits I and 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.

Spirits I and II incurred further losses in 2005-06, as a result of lower passenger demand. The company operated fewer daylight sailings than budgeted as a cost saving measure.

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:

	2005-06	**2004-05**	**2003-04**
Passenger Numbers	440 552	451 917	505 587
% Increase/(decrease)	**(2.51%)**	**(10.62%)**	**0.25%**
Vehicle Numbers	200 306	206 014	220 608
% Increase/(decrease)	**(2.77%)**	**(6.62%)**	**4.95%**
Freight (TEU)	69 946	68 720	51 412
% Increase	**1.78%**	**33.67%**	**30.01%**

The most helpful assessment of TT-Line's financial performance for the year ended 30 June 2006 is to consider the result prior to the impact of the sale of Spirit III and prior to the ship revaluations. This is necessary in view of the Board's decision in 2005-06 to value its three ships on a fair value basis. This caused the inclusion in 2005-06 of a reversal of the 2004-05 valuation decrement of $43.237m recorded in 2004-05. The reversal of the decrement arises from the strong position of the Australian dollar against the Euro at 30 June 2006.

On a comparable basis, TT-Line operated at a loss in 2005-06 of $33.445m, an improvement of $3.466m due to:

- Operating revenues increasing by $2.532m or 1.62%;
- The lower Depreciation for the year (see further comments below);
- The lower Borrowing costs due to debt reductions funded from equity provided by the State Government; and
- A net benefit to Other operating expenses of $0.946m caused by actuarial reassessments of TT-Line's superannuation liabilities.

Offset by:

- Fuel costs, which increased by $7.956m or 27%; and
- Cyclical maintenance costs of $2.178m resulting from the decision to expense dry dock costs associated with Spirit III.

The 2005-06 profit after tax reflects a tax benefit of $4.459m, due to revaluation reserves arising from the increased fair value of the ships.

The operating loss of $33.445m was primarily due to the drop in passenger and vehicle numbers previously referred to. These losses were incurred as follows:

Devonport to Melbourne route (continuing operations)	$ 5.693m
Devonport to Sydney route (discontinuing operations)	$ 27.752m

Employee costs for 2005-06 are consistent with 2004-05, although there was a small decline in employee numbers. Salary increases were offset by almost equivalent decreases in provisions for annual and long service leave entitlements.

Depreciation charged in 2004-05 increased by $5.371m to $24.006m compared to the prior year, due to the acquisition of Spirit III. In 2005-06, depreciation decreased by $4.182m to $19.824m due to the reduction in the fair value of the ships.

BALANCE SHEET

	2005-06 AIFRS $'000s	2004-05 AIFRS $'000s	2004-05 AGAAP $'000s
Cash	3 521	2 854	2 854
Receivables	11 245	12 206	12 561
Inventories	2 229	1 738	1 738
Asset held for sale - Spirit III	109 646	0	0
Other	545	2 408	2 408
Total Current Assets	**127 186**	**19 206**	**19 561**
Payables	12 135	16 900	16 900
Borrowings	25 000	224 381	63 567
Provisions	6 368	6 522	6 522
Liabilities re sale of Spirit III	7 725	0	0
Other	8 594	8 209	8 209
Total Current Liabilities	**59 822**	**256 012**	**95 198**
Working Capital	**67 364**	**(236 806)**	**(75 637)**
Property, plant and equipment	285 615	349 972	349 972
Total Non-Current Assets	**285 615**	**349 972**	**349 972**
Borrowings	160 600	0	160 814
Provisions	3 953	4 553	3 429
Total Non-Current Liabilities	**164 553**	**4 553**	**164 243**
Net Assets	**188 426**	**108 613**	**110 092**
Capital	306 481	244 214	244 214
Asset revaluation reserve	10 405	0	0
Accumulated losses	(128 460)	(135 601)	(134 122)
Total Equity	**188 426**	**108 613**	**110 092**

Comment

As a result of the application of AIFRS, 2004-05 Net Assets decreased by $1.479m to $108.613m, compared to reporting under the superseded Accounting Standards. This was primarily due to changes in the measurement of defined benefit plan liabilities. Non-current borrowings were re-classified as current due to a breach of certain loan covenants. The re-classification was required under AIFRS but not under AGAAP. TT-Line's loan covenants with Tascorp were satisfied at 30 June 2006.

Net assets improved by $79.813m in 2005-06 due:

- The profit for the year of $7.141m;
- The injection of equity by Government of $62.267m; and
- The net upward revaluation of Spirits I and II of $10.405m.

The cash position improved from 2004-05 to 2005-06 due to monies being received from the State Government in April 2006. Liquidity will remain tight until the Devonport to Melbourne route returns to profitability.

Receivables for 2005-06 decreased by $0.961m compared to 2004-05. Receivables in the prior year included accrued interest of $1.937m compared to $0.021m in 2005-06. This was partially offset by an increase in freight debtors, which reflects the increase freight carriage.

Inventory balances have increased due to higher fuel prices. The majority of the balance comprises fuel stocks on hand.

Included in Current Assets is Spirit III, which was classified as an Asset held for sale rather than an item of Property, plant and equipment. This amount of $109.646m reflects the sale price of Spirit III less costs of sale. Similarly, Current liabilities include $7.725m for costs incurred in relation to the sale of Spirit III but not yet paid.

Payables decreased by $4.765m in 2005-06 due to a payment run having been processed just prior to year end.

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 decreased in the year. Firstly, the unfunded superannuation provision decreased and, secondly, provisions relating to Spirit III employees have been included in the Payables for Spirit III amount of $7.725m (see above).

Property, plant and equipment balance decreased by $64.357m from 2004-05 to 2005-06. Firstly, as stated earlier, Spirit III has been classified as an Asset held for sale. Secondly, depreciation of $15.909m has been charged in 2005-06. These decreases were offset by the increase in the fair values of Spirits I and II of $31.083m in total and capital expenditure in the year.

Total Borrowings decreased by $38.782m due to a repayment, which was funded by the contribution of $62.267m from the State Government.

Issued capital increased in 2005-06 being the State Government's contributions referred to previously.

CASH POSITION

	2005-06 AIFRS $'000s	**2004-05 AIFRS** $'000s	**2004-05 AGAAP** $'000s
Receipts from customers	174 776	176 025	176 025
Payments to suppliers and employees	(179 877)	(167 471)	(167 471)
Interest received	248	83	83
Borrowing costs	(14 377)	(17 570)	(17 570)
Cash from operations	**(19 230)**	**(8 933)**	**(8 933)**
Payments for property, plant and equipment	(3 683)	(7 840)	(7 840)
Proceeds from sale of property, plant and equipment	95	81	81
Cash used in investing activities	**(3 588)**	**(7 759)**	**(7 759)**
Repayment of borrowings	(38 782)	(57 178)	(57 178)
Contribution from owners	62 267	75 181	75 181
Cash from financing activities	**23 485**	**18 003**	**18 003**
Net increase in cash	**667**	**1 311**	**1 311**
Cash at the beginning of the period	2 854	1 543	1 543
Cash at end of the period	**3 521**	**2 854**	**2 854**

Comment

As discussed earlier, results for 2004-05 and 2005-06 were below expectations and this is reflected in the net cash outflow from operations of $8.933m and $19.230m, respectively.

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

Payments for property, plant and equipment in 2005-06 of $3.683m primarily represent improvements to crew accommodation in Melbourne, acquiring motor vehicles 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.

Borrowing costs are a significant item for the Company due to financing the acquisition of the ferries. There are no proceeds from borrowings for 2004-05 and 2005-06, however, principal repayments amounted to $57.178m and $38.782m for 2004-05 and 2005-06, respectively.

It is clear from this analysis that the Company continues to be dependent on the State Government for financial support.

FINANCIAL ANALYSIS

	Bench Mark	2005-06	2004-05
Financial Performance			
Result from operations ($'000s)		(33 448)	(36 916)
EBIT ($'000s)		14 927	(63 956)
Operating margin	>1.0	0.83	0.81
Return on assets		3.8%	(16.0%)
Return on equity		4.8%	(71.9%)
Financial Management			
Debt to equity		98.5%	206.6%
Debt to total assets		45.0%	60.8%
Interest cover	>3	1.22	(3.95)
Current ratio	>1	2.13	0.08
Debt collection	30 days	26	28
Creditor turnover	30 days	14	28
Other Information			
Employee costs as % of operating expenses		21%	21%
Staff numbers (FTEs)		634	636
Average staff costs ($'000s)		53	53
Average leave balance per FTE ($'000s)		10	11

Comment

The results above confirm the earlier analysis in that, for 2004-05 and 2005-06, the Company recorded losses from operations due to lower than expected passenger numbers across all three ferries.

The losses in operations for 2004-05 resulted in a negative Return on equity of 71.9%. As stated earlier, the reversal of the valuation decrements for Spirits I, II and III in 2005-06 resulted in a profit after tax of $7.141m and, therefore, the positive return on equity for the year of 4.8%.

The Debt to equity ratio has improved due to repayment of a significant proportion of borrowings, which is consistent with previous comments.

The Interest cover ratio has improved, firstly, due to the profit that has arisen from the reversal of the valuation decrements for the ships and, secondly, due to reduced interest expense, the Company having repaid Borrowings in 2005-06.

In 2005-06, the Company's Current ratio is above the benchmark . The 2004-05 ratio had been below the benchmark due to Borrowings all being classified as current.

The Debt collection and Creditor turnover ratios have been within the benchmarks over the period under review.

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 recent years. Consequently, the taxation calculations do not result in any taxation payments being required.

OVERALL COMMENT

The Company's 2005-06 results reflect increased competition from budget airlines and a continued negative impact following the introduction of Spirit III and the Devonport to Sydney operation. With a view to improving the Company's financial position, the decision was made to sell Spirit III and the sale was finalised in September 2006.

The Company's difficult financial position was acknowledged in its 30 June 2006 financial statements when a note was included reflecting its present reliance on the State Government for financial support.

The 2005-06 audit was completed with satisfactory results.

3.6 TASMANIAN PORTS CORPORATION PTY LTD

INTRODUCTION

In March 2005 the State Government announced its in principle support to restructure Tasmania's four major port companies into one single port entity.

On 1 July 2005, the Tasmanian Ports Corporation Pty Ltd (TasPorts) was incorporated, through the *Tasmanian Ports Corporation Act 2005* (the Act). The Chairmen of the four existing port companies were appointed as Directors of the new Company together with an independent Chair.

Under the Act TasPorts' principle objectives are to:

- Facilitate trade for the benefit of Tasmania: and
- Operate its activities in accordance with sound commercial practice.

Although TasPorts was created on 1 July 2005, it did not take over the existing port companies immediately. The *Tasmanian Ports Corporation Bill 2005*, passed by State Parliament on 20 September 2005, merged the four ports into TasPorts by transferring the majority of assets, liabilities and employees of the four port companies to TasPorts for no consideration on 1 January 2006. A number of buildings in Hobart were transferred directly to Finance-General.

TasPorts now undertakes all the activities that were previously operated by:

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

In addition, the following wholly owned subsidiaries form part of the TasPorts group:

- Hobart International Airport Pty Ltd;
- King Island Ports Corporation Pty Ltd;
- Flinders Island Ports Corporation Pty Ltd; and
- Port Logistics and Services Pty Ltd.

From an accounting and auditing perspective the merger of the four previous ports into TasPorts required significant policy development, system change and system integration, much of which is still on-going.

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

TasPorts' board comprised nine directors. As noted previously, five appointed on 1 July 2005 and another four directors were appointed in December 2005.

AUDIT OF THE 2005-06 FINANCIAL STATEMENTS

Signed financial statements were received on 3 October 2006 and an unqualified audit report was issued on 6 October 2006.

FINANCIAL ANALYSIS

This review of TasPorts for the year ended 30 June 2006 is based on the parent entity results and excludes the balances and transactions relating to its subsidiary companies. Separate chapters have been included for the two major subsidiaries, Hobart International Airport Pty Ltd and King Island Ports Corporation Pty Ltd.

The financial information primarily represents transaction from 1 January 2006, when TasPorts assumed control of the operations of the four major port companies, to 30 June 2006. TasPorts applied Australian equivalents to International Financial Reporting Standards (AIFRS) in the preparation of its audited financial statements.

Each of the four major port companies completed financial statements (also prepared under AIFRS) for the six months to 31 December 2005, the outcomes from which were separately report in my Report No. 1 for 2006 tabled on 22 June 2006.

INCOME STATEMENT

	2005-06 $'000s
Services revenue	24 567
Rental income	5 119
Non-operating revenue	10
Total Revenue	**29 696**
Borrowing costs	1 099
Depreciation	3 094
Employee benefit expenses	14 250
Other operating expenses	14 086
Non-operating expenses	4 411
Total Expenses	**36 940**
Result from ordinary activities	**(7 244)**
Income tax expense/(benefit)	(2 001)
Result after taxation	**(5 243)**

Comment

TasPorts reported a loss of $7.244m before tax for the six months ended 30 June 2006. However, the result was impacted by a number of unusual expenses, including:

- The cost of the merger process and of incorporating TasPorts, $1.518m;
- Maintenance dredging at Burnie, $1.311m;

- Redundancy costs paid in the period, $0.668m and provided for at balance date, $1.467m;
- Remediation costs for Macquarie Wharf in Hobart, $1.550m; and
- The impairment of a number of infrastructure assets, $4.411m.

Without these expenses, TasPorts would have recorded a profit of $3.681m before tax. The before tax profits earned by the four former port companies for the six months to 31 December 2005 was $4.908m. A major expense in that period was the impairment of airport assets at Devonport of $1.613m so more "normal" profits for that six month period was $6.521m. This comparable position is provided for information only. A detailed analysis of the differing profits between the two periods has not been conducted. There are likely to be varying reasons for differences in operating results including seasonality factors.

BALANCE SHEET

	2005-06 $'000s
Cash	26 908
Receivables	7 775
Inventories	654
Other	966
Total Current Assets	**36 303**
Payables	7 879
Borrowings	6 771
Tax liability	(366)
Provisions - employee benefits	5 311
Provisions - remediation	1 550
Total Current Liabilities	**21 145**
Working Capital	**15 158**
Property, plant and equipment	119 806
Investments	8 732
Deferred tax assets	6 477
Total Non-Current Assets	**135 015**
Borrowings	26 235
Deferred tax liabilities	3 964
Provisions - employee benefits	644
Deferred revenue	4 800
Other	206
Total Non-Current Liabilities	**35 849**
Net Assets	**114 324**
Issued capital	119 567
Accumulated losses	(5 243)
Total Equity	**114 324**

Comment

Without a comparative position it is difficult to provide a useful assessment of TasPorts' financial position at 30 June 2006. The following points are, however made:

- TasPorts net Working Capital position at 30 June 2006 was reasonable;
- As expected, it has significant Non-Current Assets representing the main port infrastructure. These assets are recorded at cost;
- The Deferred revenue of $4.800m represents the balloon payments received by Burnie Port Corporation Pty Ltd in 2001-02. This amount will be credited to income at the rate of $1.200m per annum in each of the next four years; and
- The Issued capital of $119.567m represents the net assets transferred from the four former port companies at 1 January 2006. At the date of transfer, the net assets in the audited financial statements of the four ports totalled $113.970m. To this was added $5.597m to reflect a change in accounting policy adopted by TasPorts relating to tax losses incurred by the former Burnie Port Corporation Pty Ltd. I concurred with this change.

CASH POSITION

	2005-06 $'000s
Receipts from customers	34 679
Payments to suppliers and employees	(27 527)
Interest received	733
Borrowing costs	(806)
Tax paid	(946)
Cash from operations	**6 133**
Payments for property, plant and equipment	(1 180)
Proceeds from sale of property, plant and equipment	221
Cash (used in) investing activities	**(959)**
Proceeds from borrowings	200
Repayment of borrowings	(1 226)
Cash (used in) financing activities	**(1 026)**
Net increase in cash	**4 148**
Cash at the beginning of the period	22 760
Cash at end of the period	**26 908**

Comment

TasPorts' total cash balance of $26.908m comprised cash at bank and on hand and short-term investments. During this six month period TasPorts generated $6.133m from operating activities, which was in part used to fund capital expenditure of $1.180m and to repay debt of $1.026m with the balance invested in short term investments.

FINANCIAL ANALYSIS

	Bench Mark	2005-06
Financial Performance		
Result from operations ($'000s)		(2 843)
EBIT ($'000s)		(6 145)
Operating margin	>1.0	0.91
Return on assets		(3.6%)
Return on equity		(4.6%)
Financial Management		
Debt to equity		28.9%
Debt to total assets		19.3%
Interest cover	>3	(5.59)
Current ratio	>1	1.72
Cost of debt	7.5%	6.1%
Debt collection	30 days	42
Creditor turnover	30 days	19
Returns to Government		
Dividends paid or payable ($'000s)		0
Income tax paid or payable ($'000s)		0
Total return to the State ($'000s)		0
Other Information		
Staff numbers (FTEs)		264
Average staff costs ($'000s)		46
Average leave balance per FTE ($'000s)		23

Comment

TasPorts Results from operations and EBIT were significant deficits, however the results were impacted by a number of unusual expenses as noted in the Income Statement section. The deficit results have impacted on the Operating margin and the Return on assets and equity.

TasPorts had a positive Working Capital at 30 June 2006, which indicates an ability to meet short-term commitments.

A review of the debt ratios do not indicate any items of concern.

As TasPorts recorded a loss for the financial period, there is no tax payable and it is understood that the board will not be recommending the payment of a dividend.

The Average staff costs per FTE reflect an average staff cost for six months.

OVERALL COMMENT

The audit was completed satisfactorily with no major issues outstanding.

It is noted that TasPorts has adopted a cost basis for recording non-current assets. Whilst the cost basis adopted meets the requirements of Australian Accounting Standard AASB 116 *Property Plant and Equipment*, I believe that, for long-lived assets, adoption of a fair value basis would provide a better indication of TasPorts' financial position and of the stewardship by TasPorts of these assets.

HOBART INTERNATIONAL AIRPORT PTY LTD

INTRODUCTION

The Hobart International Airport Pty Ltd (the Corporation) is a wholly owned subsidiary of the Tasmanian Ports Corporation Pty Ltd.

The principal services of the Corporation included:

- Provision of aeronautical infrastructure to accommodate:
  - International and domestic passenger services;
  - General aviation passenger services; and
  - Freight services;
- Car parking; and
- Commercial development.

During 2005-06, the board comprised six directors, whose appointment was approved by the shareholders of the Corporation. Since 1 July 2006, the board now comprises five directors.

AUDIT OF THE 2005-06 FINANCIAL STATEMENTS

Financial statements, signed by the board were received on 28 September 2006. An unqualified audit report was issued on 29 September 2006.

FINANCIAL RESULTS

INCOME STATEMENT

	2005-06 AIFRS $'000s	2004-05 AIFRS $'000s	2004-05 AGAAP $'000s
Service revenue	15 027	12 460	10 471
Other income	15	89	25
Interest revenue	317	345	327
Rental income	635	599	2 607
Total Revenue	**15 994**	**13 493**	**13 430**
Finance costs	2 139	2 205	2 205
Depreciation and amortisation	1 968	1 717	903
Employee benefit expenses	2 023	1 758	1 930
Other operating expenses	4 458	3 584	3 349
Total Expenses	**10 588**	**9 264**	**8 387**
Result from ordinary activities	**5 406**	**4 229**	**5 043**
Income tax expense	1 621	1 268	1 632
Result after taxation	**3 785**	**2 961**	**3 411**

Comment

There were significant variations between 2004-05 Australian Generally Accepted Accounting Principles (AGAAP) and AIFRS results. The impact of the adoption of AIFRS resulted in the AGAAP result after taxation, $3.411m, decreasing to $2.961m. The principle reasons for the decrease include:

- Under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* transitional arrangements, the Corporation elected to measure its Property, plant and equipment at the date of transition at depreciated replacement cost and use that value as a deemed cost. An independent market valuation was obtained, with asset values being restated as at 1 July 2004. The increase in asset values resulted in depreciation expenses increasing by $0.803m; and

- The Corporation adopted the balance sheet method of tax effect accounting, resulting in the tax expense decreasing by $0.364m.

In addition, under AIFRS the Corporation separately identifies Rental income derived from its Investment properties. Other operating lease rental income has been classified as Service revenue in the 2004-05 AIFRS Income Statement.

The 2005-06 operating Result after taxation increased by $0.824m from the 2004-05 AIFRS outcome. The major reasons for the improved result include an increase in Service revenue attributable to a 5.3% increase in domestic passengers (from 1 513 677 in 2004-05 to 1 594 405 in 2005-06) and an increase in commercial revenue.

The increase in revenue was partially offset by increased expenditure. Employee benefit expenses increased by $0.265m due to changes in staffing levels and general EBA increases.

Other operating expenses increased by $0.864m due to:

- Service and utilities cost increases due to additional requirements flowing from the completion of Stage 1 of the Domestic Terminal works and new car parking services; and

- Administration costs increased as a direct result of the changes noted above.

In addition, the Corporation recognised an expense for the impairment of trade receivables in 2005-06 of $0.398m. The impairment relates to a dispute with a customer regarding service rate charges.

FINANCIAL POSITION

	2005-06 AIFRS $'000s	2004-05 AIFRS $'000s	2004-05 AGAAP $'000s
Cash and cash equivalents	2 709	4 401	4 401
Trade receivables	1 361	765	765
Inventories	11	5	5
Other current assets	588	776	1 061
Total Current Assets	**4 669**	**5 947**	**6 232**
Payables	1 958	1 658	1 569
Current tax liability	827	961	961
Employee benefits	735	642	654
Total Current Liabilities	**3 520**	**3 261**	**3 184**
Working Capital	**1 149**	**2 686**	**3 048**
Property, plant and equipment	37 221	34 688	16 070
Investments	2 728	1 056	1 056
Investment properties	3 665	3 399	0
Goodwill	21 091	21 091	0
Other intangible assets	1 481	1 777	0
Deferred tax asset	407	338	338
Prepayments	0	0	25 869
Prepaid operating lease	2 500	2 528	0
Total Non-Current Assets	**69 093**	**64 877**	**43 333**
Long term borrowings	31 500	31 500	31 500
Deferred tax liability	3 760	4 100	275
Employee benefits	10	13	54
Other non current liabilities	1	1	0
Total Non-Current Liabilities	**35 271**	**35 614**	**31 829**
Net Assets	**34 971**	**31 949**	**14 552**
Reserves	32 657	29 657	10 657
Retained profits	2 314	2 292	3 895
Total Equity	**34 971**	**31 949**	**14 552**

Comment

The Corporation's Net Assets increased by $17.397m upon the introduction of the new accounting standards in 2004-05 due primarily to:

- As noted previously, under AASB 1 the Corporation elected to measure its Property, plant and equipment at 1 July 2004 at restated deemed cost. An independent market valuation was obtained, with asset values being restated resulting in an increase of $22.016m;
- A number of buildings were classified as Investment properties and separately disclosed. The reclassification was made to create an Investment properties balance of $3.399m, which was previously included in Property, plant and equipment;

- The transitional provisions of AASB 1 allowed the Corporation to restate the accounting treatment applied to the initial purchase of the airport operations in accordance with AASB 3 *Business Combinations*. The effect of applying AASB 3 was to reclassify the Prepayments balance of $25.869m into Other intangible assets $1.777m and Prepaid operating lease payments $2.528m. The remaining balance was recorded as Goodwill $21.091m; and

- The Corporation adopted the balance sheet method of tax effect accounting, resulting in the Deferred tax liability increasing by $3.825m arising from the differences between tax and accounting balances used for Property, plant and equipment.

There have not been significant movements in 2005-06 AIFRS balances when compared to 2004-05 AIFRS balances. Major movements include:

- Trade receivable increased by $0.596m due to the timing of invoices issued in June 2006;

- Property plant and equipment increased by $2.533m with the completion of Stage 1 of the Domestic Terminal building and car rental facility complex upgrading. At 30 June 2005, significant work in progress balances existed for these major capital works; and

- Non-current investments increased by $1.672m as the Corporation allocates funding for future maintenance of runways.

CASH POSITION

	2005-06 AIFRS $'000s	**2004-05 AIFRS** $'000s	**2004-05 AGAAP** $'000s
Receipts from customers	14 713	12 571	12 588
Payments to suppliers and employees	(5 551)	(4 737)	(4 742)
Income taxes paid	(2 163)	(1 310)	(1 310)
Cash from operations	**6 999**	**6 524**	**6 536**
Proceeds from investments	0	2 000	2 000
Payments for investments	(1 672)	(56)	(56)
Payments for property, plant and equipment	(4 591)	(5 905)	(5 900)
Interest received	311	356	339
Proceeds from sale of property, plant and equipment	163	25	25
Cash (used in) investing activities	**(5 789)**	**(3 580)**	**(3 592)**
Proceeds from borrowings	0	0	0
Repayment of borrowings	0	(600)	(7 057)
Share issue	0	0	6 457
Interest paid	(2 139)	(2 205)	(2 205)
Shares bought pack	0	(5)	(5)
Dividends paid	(763)	0	0
Cash (used in) financing activities	**(2 902)**	**(2 810)**	**(2 810)**
Net increase (decrease) in cash	**(1 692)**	**134**	**134**
Cash at the beginning of the period	4 401	4 267	4 267
Cash at end of the period	**2 709**	**4 401**	**4 401**

Comment

The adoption of the new accounting standards had no impact on the cash position of the Corporation.

Receipts from customers increased in 2005-06 primarily due to the improvement in revenue as noted in the Income Statement section and has assisted in the Corporation strengthening its Cash flows from operations. The improvement has been partially offset by an increase in Income taxes paid of $0.853m

Cash from operations have been primarily used to fund capital work at the airport and the purchase of assets, totalling $4.591m. In addition, $1.672m was transferred to a separate non-current investment account, which is not recorded as part of the Cash and cash equivalent balance.

The Corporation has not repaid any principal on its long term borrowings during the period and interest paid has remained at a consistent amount. In 2005-06, the Corporation paid Dividends of $0.763m.

Although the cash position decreased by $1.692m in 2005-06, if the $1.672m Payment for investments had not been made, the cash position would have changed by only $0.020m. This is a strong result considering the increased taxation payment and dividends paid during 2005-06.

FINANCIAL ANALYSIS

	Bench Mark	2005-06	2004-05
Financial Performance			
Result from operations ($'000s)		5 406	4 229
EBIT ($'000s)		7 545	6 434
Operating margin	>1.0	1.45	1.39
Return on assets		10.4%	10.7%
Return on equity		11.3%	12.7%
Financial Management			
Debt to equity		90.1%	98.6%
Debt to total assets		42.7%	44.5%
Interest cover	>3	3.5	2.9
Current ratio	>1	1.33	1.82
Cost of debt	7.5%	6.5%	6.5%
Debt collection	30 days	32	21
Creditor turnover	30 days	18	41
Returns to Government			
Dividends paid or payable ($'000s)		0	763
Dividend payout ratio	50%	0.0%	25.8%
Dividend to equity ratio		0.0%	3.3%
Income tax paid or payable ($'000s)		2 027	1 759
Effective tax rate	30%	37.5%	41.6%
Total return to the State ($'000s)		2 027	2 522
Total return to equity ratio		6.1%	10.8%
Other Information			
Staff numbers (FTEs)		23	20
Average staff costs ($'000s)		90	88
Average leave balance per FTE ($'000s)		33	33

Comment

The Corporation recorded strong operating margins and generated strong returns on assets and equity.

The Debt to equity and Debt to total assets ratios reflect the Corporation holding interest bearing liabilities of $31.500m at 30 June 2006 (2005, $31.500m).

It is noted that a dividend in relation to 2005-06 has yet to be determined by the Board.

Staff numbers, Average staff costs and Average leave balances have remained fairly constant over the past two years.

OVERALL COMMENT

The audit was completed satisfactorily with no major items outstanding.

KING ISLAND PORTS CORPORATION PTY LTD

INTRODUCTION

The King Island Ports Corporation Pty Ltd (the Corporation) is a wholly owned subsidiary of the Tasmanian Ports Corporation Pty Ltd.

The main services of the Corporation include:

- Owners and operators of ports and associated facilities at Grassy and Currie on King Island;
- Petroleum products importer and distributor for King and Flinders Islands;
- Freighting and transport services on King Island; and
- Provide rental facilities.

The board comprised four directors, whose appointment was approved by the shareholders of the Corporation.

AUDIT OF THE 2005-06 FINANCIAL STATEMENTS

Financial statements, signed by the board, were received on 6 October 2006. An unqualified audit report was issued on 17 October 2006.

FINANCIAL RESULTS

INCOME STATEMENT

	2005-06 AIFRS	**2004-05 AIFRS**	**2004-05 AGAAP**
	$'000s	$'000s	$'000s
Service revenue	14 121	12 502	12 502
Rental income	30	27	27
Interest revenue	53	19	19
Non-operating revenue	2	465	465
Total Revenue	**14 206**	**13 013**	**13 013**
Cost of goods sold	11 307	9 890	9 931
Finance costs	64	63	63
Depreciation	316	314	503
Employee benefit expenses	809	821	821
Other operating expenses	979	1 080	1 041
Total Expenses	**13 475**	**12 168**	**12 359**
Result from ordinary activities	**731**	**845**	**654**
Income tax expense	222	101	134
Result after taxation	**509**	**744**	**520**

Comment

The impact of the adoption of Australian Equivalents to International Financial Reporting Standards (AIFRS) resulted in the Australian Generally Accepted Accounting Principles (AGAAP) Result after taxation increasing by $0.224m. The main reasons for the increase include:

- Under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* transitional arrangements, the Corporation tested Goodwill for impairment. This resulted in a transitional impairment loss on 1 July 2004 for goodwill of $0.518m. Also, the associated accumulated amortisation recognised under AGAAP for 2004-05 of $0.190m was written off. As a result, Depreciation decreased by $0.189m; and
- The Corporation adopted the balance sheet method of tax effect accounting, resulting in the tax expense decreasing by $0.033m due to the tax effect of timing differences.

The following comments explain the variances in the Company's 2004-05 and 2005-06 Income Statement under AIFRS. The 2005-06 operating Result after taxation decreased by $0.235m from the 2004-05 amount. The major reason for the decline was a significant net gain on disposal of Property, plant and equipment in 2004-05 of $0.466m.

There was an increase in revenue in 2005-06, which was partially offset by increased expenditure. The major reason behind this was increases in Service revenue, $1.619m, and Cost of goods sold, $1.417m. These rises were both due to increases in fuel prices throughout the period, with the costs being passed onto consumers.

Finally, the increase in Income tax expense for 2005-06, $0.121m, is mainly attributable to the tax effect of timing differences, $0.158m, relating to depreciation of buildings.

BALANCE SHEET

	2005-06 AIFRS $'000s	2004-05 AIFRS $'000s	2004-05 AGAAP $'000s
Cash and cash equivalents	1 531	350	350
Trade receivables	581	542	542
Inventories	530	562	562
Income tax receivable	0	36	0
Other	82	113	113
Total Current Assets	**2 724**	**1 603**	**1 567**
Trade and other payables	812	536	560
Income tax payable	99	0	(36)
Interest bearing loans and borrowings	750	540	540
Accrued wages and on-costs	26	24	0
Employee benefits	96	83	83
Other current liabilities	277	323	0
Total Current Liabilities	**2 060**	**1 506**	**1 147**
Working Capital	**664**	**97**	**420**
Deferred tax asset	45	38	42
Property, plant and equipment	2 871	2 908	3 031
Investment properties	115	123	0
Intangible assets	0	0	327
Total Non-Current Assets	**3 031**	**3 069**	**3 400**
Interest bearing loans and borrowings	750	500	500
Employee benefits	17	11	11
Deferred tax liability	71	112	31
Other non-current liabilities	0	0	323
Total Non-Current Liabilities	**838**	**623**	**865**
Net Assets	**2 857**	**2 543**	**2 956**
Share capital	0	0	0
Reserves	2 472	2 472	2 690
Retained profits	385	71	265
Total Equity	**2 857**	**2 543**	**2 956**

Comment

The Corporation's Net assets decreased by $0.413m upon the introduction of the new accounting standards in 2004-05 due primarily to:

- As previously noted, the goodwill was impaired in full at 1 July 2004 decreasing Intangible assets by $0.327m; and
- The Corporation adopted the balance sheet method of tax effect accounting causing an increase in Deferred tax liability of $0.081m.

Other changes in the 2004-05 AGAAP to AIFRS transition were re-classifications and did not affect Total Equity. These changes included:

- A number of buildings were classified as Investment properties and separately disclosed. The reclassification resulted in the creation of an Investment properties balance of $0.123m. These assets had previously been included in Property, plant and equipment;
- Other non-current liabilities in 2004-05 AGAAP relating to an equipment lease and supply agreement, $0.323m, being classified as current under AIFRS; and

- Trade and other payables reduced by $0.024m due to the Accrued wages and on-costs being disclosed separately.

The movements in the 2005-06 AIFRS balances compared to the 2004-05 AIFRS balances comprised an increase in Net Assets of $0.314. The major movements include:

- The improvement in Retained profits being the profit for the year less dividends paid;
- Cash and cash equivalents increasing by $1.181m due to a $1.000m intercompany loan taken during the period, which has been invested with Tascorp;
- Increased trade payables of $0.276m due to high fuel costs throughout the period as mentioned previously. The majority of the creditor balance relates to inventory fuel purchases; and
- The increase in Interest bearing liabilities due to the $1.000m intercompany loan, mentioned above. Of this, $0.250m was allocated to Current liabilities and $0.750 to Non-current liabilities. Also, a Tascorp coupon bond loan of $0.500m for the prior year became current and the prior year's current intercompany loan balance, $0.540m, was repaid.

CASH POSITION

	2005-06 AIFRS	**2004-05 AIFRS**	**2004-05 AGAAP**
	$'000s	$'000s	$'000s
Receipts from customers	15 516	13 525	13 525
Payments to suppliers and employees	(14 135)	(13 016)	(13 016)
Interest received	53	19	19
Interest paid	(60)	(64)	(64)
Income tax paid	(136)	(181)	(181)
Cash from operations	**1 238**	**283**	**283**
Proceeds from investments			
Payments for investments			
Payments for property, plant and equipment	(439)	(344)	(344)
Proceeds from sale of property, plant and equipment	115	698	698
Cash (used in)/from investing activities	**(324)**	**354**	**354**
Proceeds from borrowings	1 200	800	800
Repayment of borrowings	(739)	(1 244)	(1 244)
Dividends paid	(195)	0	0
Cash from/(used in) financing activities	**266**	**(444)**	**(444)**
Net increase in cash	**1 180**	**193**	**193**
Cash at the beginning of the period	350	157	157
Cash at end of the period	**1 530**	**350**	**350**

Comment

The adoption of the new accounting standards had no impact on the cash position of the Corporation.

Receipts from customers increased by $1.991m in 2005-06, primarily due to the improvement in revenue, as noted previously in the Income Statement section of this chapter. The improvement has been partially offset by an increase in payments of $1.119m, primarily due to an increase in the expenditure as noted earlier in the Income Statement section. The balance after this offset has assisted in the Corporation improving its Cash flows from operations.

Cash from investing activities dropped significantly in 2005-06 compared to 2004-05. The $0.678m decrease is due to a significant drop in the proceeds relating to sales of Property, plant and equipment as large gains were made in the 2004-05.

Cash from financing activities increased by $0.710m due to an increase in amounts borrowed. This includes the intercompany loan of $1.000m plus a further $0.200m on the previous intercompany loan. During 2005-06 the Corporation repaid loans of $0.739m as well as dividends of $0.195m.

The Cash position at 30 June 2006 represents a strong result with an increase in $1.180m over the period, predominantly due to the improved results from operations.

FINANCIAL ANALYSIS

	Bench Mark	2005-06	2004-05
Financial Performance			
Result from operations ($'000s)		729	380
EBIT ($'000s)		795	908
Operating margin	>1.0	1.05	1.03
Return on assets		15.2%	19.4%
Return on equity		18.9%	34.3%
Financial Management			
Debt to equity		52.5%	40.9%
Debt to total assets		26.1%	32.1%
Interest cover	>3	12.4	14.4
Current ratio	>1	1.32	1.06
Cost of debt	7.5%	5.0%	5.0%
Debt collection	30 days	15	16
Creditor turnover	30 days	24	18
Returns to Government			
Dividends paid or payable ($'000s)		195	0
Dividend payout ratio	50%	38.3%	0
Dividend to equity ratio		7.2%	0
Income tax paid or payable ($'000s)		136	181
Effective tax rate	30%	18.6%	21.4%
Total return to the State ($'000s)		331	181
Total return to equity ratio		12.3%	8.3%
Other Information			
Staff numbers (FTEs)		15	18
Average staff costs ($'000s)		54	46
Average leave balance per FTE ('$000s)		8	5

Comment

The Corporation recorded an Operating margin slightly above the benchmark and has generated strong returns on assets and equity.

The Debt to equity ratio increased due to the previously mentioned intercompany loan and while the Debt to total assets ratio decreased due to the higher level of assets, mainly related to the improved cash balance at 30 June 2006.

The Dividend payout ratio and Effective tax rate are both below the benchmark, which, subject to cash flow and business development considerations, may indicate higher dividends could have been paid.

The Total return on equity is relatively strong at 12.3%

Staff numbers have remained relatively constant over the past two years.

OVERALL COMMENT

The audit was completed satisfactorily with no major issues outstanding.

AUDIT MANDATE AND STANDARDS APPLIED

MANDATE

Section 39 of the *Financial Management and Audit Act 1990* states that the Auditor-General is:

> '… the auditor of the accounts of the Treasurer, of all Government departments and public bodies and of the financial administration of each appropriation referred to in Column 1 of Schedule 2. …'

The conduct of such audits is generally known as financial auditing.

Under the provisions of section 40, the Auditor-General:

> '… (1) On performing an audit under this or any other Act of the financial statements of the Treasurer, a Government department, a public body or the financial administration of an appropriation referred to in Column 1 of Schedule 2, the Auditor-General must, except as provided by any other written law, make a report on those financial statements in accordance with this section.
>
> (2) Subject to subsection (3), a report made under subsection (1) -
>
> *(a)* is to include an opinion as to whether the financial statements have been drawn up so as to present fairly the financial transactions during the period specified in the statements and the financial position at the end of that period; and
>
> *(b)* may include particulars of any other matter arising from the audit which the Auditor-General considers should be included in the report.
>
> (3) Where, under this or any other Act, the financial statements are not required to make full disclosure of financial position, the Auditor-General's opinion as to financial position may be limited to such components of financial position as may be specified in the Treasurer's Instructions and such other components of financial position as are included in those statements. …'

STANDARDS

Section 43 specifies that:

> '… The Auditor-General shall perform the audits required by this or any other Act in such manner as the Auditor-General thinks fit having regard to -
>
> *(a)* this Act and any other relevant written law relating to the financial management of the Government department or public body concerned; and
>
> *(b)* recognised professional auditing standards and practices. …'
>
> The auditing standards referred to above are Australian Auditing Standards as produced by the Australian Auditing and Assurance Standards Board.

Phone	(03) 6226 0100
Fax	(03) 6226 0199
email	admin@audit.tas.gov.au
Web	www.audit.tas.gov.au

Address	Ground Floor, 144 Macquarie Street, Hobart
Postal Address	GPO Box 851, Hobart 7001
Office Hours	8.30am to 5pm Monday to Friday