Tasmanian Audit Office

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Report of the Auditor-General

Volume 3 - Government Business Enterprises, State Owned Companies and Superannuation Funds 2009-10

THE ROLE OF THE AUDITOR-GENERAL

The roles and responsibilities of the Auditor-General, and therefore of the Tasmanian Audit Office, are set out in the *Audit Act 2008* (the Act).

Our primary responsibility is to conduct financial or 'attest' audits of the annual financial reports of State entities. As defined by the Act, State entity includes all public sector entities and those established under the *Local Government Act 1993*. Specifically, the definition covers an agency, council, Government Business Enterprise, State-owned Company, State Authority, Corporations established by the *Water and Sewerage Corporations Act 2008* and the governing body of any corporation, body of persons or institution that are appointed by a Minister or by the Governor.

We also audit those elements of the Treasurer's Annual Financial Report which report on financial transactions in the Public Account, the General Government financial report and the Whole of Government financial report.

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

In the main accountable authorities prepare financial reports consistent with Accounting Standards and other mandatory financial reporting requirements in Australia. On occasion reports are "special purpose financial reports" such as the Public Account Statements. In all cases our audits are conducted in accordance with Australian Auditing Standards.

Following a financial audit, we issue a variety of reports to State entities and Responsible Ministers, and we report periodically to the Parliament. In combination these reports give opinions on the truth and fairness of financial reports, and comment on 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, compliance audits and carry out investigations. Performance audits examine whether a State entity 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 a State entity's operations, or consider particular issues across a number of State entities.

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

Investigations can relate only to public money or to public property.

Performance and compliance audits and investigations are reported separately and at different times of the year, whereas outcomes from financial statement audits are included in one of the regular volumes of the Auditor-General's reports to the Parliament normally tabled in May and November each year. In doing so the Auditor-General is providing information to the Parliament to assist both the Legislative Council and the House of Assembly in their review of the performance of Executive Government.

Where relevant, the Treasurer, a Minister or Ministers, other interested parties and accountable authorities are provided with opportunity to comment on any matters reported. Where they choose to do so, their responses, or summaries thereof, are detailed within the reports.

TASMANIA

2010
PARLIAMENT OF TASMANIA

REPORT OF THE AUDITOR-GENERAL

Volume 3

Government Business Enterprises, State Owned Companies and Superannuation Funds 2009-10

November 2010

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18 November 2010

President
Legislative Council
HOBART

Speaker
House of Assembly
HOBART

Dear Madam President

Dear Mr Speaker

In accordance with the requirements of Section 29 of the *Audit Act 2008*, I have pleasure in presenting my Report on the audit of the financial statements of Government Business Enterprises, State Owned Companies and Superannuation Funds for the year ended 30 June 2010.
The requirement of section 29(3) relating to describing the basis on which audit fees are calculated was met in my Report No 1 of 2010.

Yours sincerely

H M Blake
Auditor-General

FOREWORD

This Report is the third Volume of our revised reporting arrangements regarding outcomes of our annual financial audit work. It summarises the results of audits, and the financial performance, of those State entities comprising the Public Non-Financial Corporation and Public Financial Corporation Sectors for the year ended 30 June 2010. It covers the audits of the financial statements of the State's seven Government Business Enterprises, eight State-owned Companies and of the Retirement Benefits Fund Board (RBFB) and the Local Government owned Water Corporations.

In the financial year ended 30 June 2010, entities making up the PNFC sector generated $2.843bn in revenue and incurred $2.702bn in expenditure including asset write downs. They managed total assets of $12.079bn and $6.439bn in liabilities which included borrowings from TASCORP of $2.764bn, superannuation obligations of $0.633bn and other liabilities of $2.760bn mainly comprising deferred tax provisions and financial liabilities.

There are two entities making up the PFC sector; TASCORP and the Motor Accidents Insurance Board whose major assets comprised cash, investments and loans with liabilities being borrowings and provisions for outstanding and unreported claims.

There are four entities making up Local Government Water Corporations whose assets total $2.059bn.

The RBFB manages the State's defined benefit and other superannuation schemes but not the Judges' Superannuation Fund which is managed by Finance-General. Net assets under management by the RBFB totalled $3.422bn at 30 June 2010. Investment returns improved to $0.255bn in 2009-10 as world economies started to recover from the global financial crisis. The financial results of the RBFB are not included in the State's financial statements because its assets are not available for the State's benefit.

All audits were completed with unqualified audit opinions issued and all of these entities satisfied their statutory financial reporting obligations.

Where relevant, individual chapters in this Report draw attention to internal control weaknesses and other matters drawn to the attention of those charged with governance. This included my view that the State's GBEs, SOCs and the water entities should be regarded as publicly accountable entities for financial reporting purposes. If this were the case, they would not be able to take advantage of the exemption in accounting standards making it unnecessary for them to comply with those accounting standards calling for disclosure about their operating segments and additional disclosures about senior management remuneration.

HM Blake
Auditor-General
18 November 2010

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INTRODUCTION

SCOPE OF THIS REPORT

This Report deals with the outcomes from audits completed of the financial statements prepared by Government Business Enterprises, State Owned Companies, Tasmanian Water and Sewerage Corporations and Superannuation Funds, together with comments on other audit findings.

STATUS OF AUDITS

All audits for the year ended 30 June 2010 have been completed. Statutory financial reporting requirements are detailed in the Chapter headed "Timeliness and quality of financial statements".

Appendix 2 provides details of the status of all 30 June 2010 audits.

FORMAT OF THE REPORT

Unless specifically indicated, comments in this Report are current as at 31 October 2010.

In addition to this Introduction, this report includes:

- an Executive Summary
- Energy Businesses – comparative summary
- Water Businesses – comparative summary
- Timeliness and Quality of Financial Statements
- Government Business Enterprises
- State Owned Companies
- Tasmanian Water and Sewerage Corporations
- Superannuation Funds.

EXECUTIVE SUMMARY

This Chapter summarises significant matters identified from our audits and analysis of financial statements of Government Businesses, Superannuation Funds and local government owned Water and Sewerage Corporations for the financial year ended 30 June 2010. Further detail can be found in the "At a Glance" summaries in this Report and in individual Chapters for each entity.

Included are details of matters raised with entity management during the course of audits but only where the matter(s) raised warrant it. The rationale for inclusion rests on our perception of the "public interest" in each point.

MATTERS RAISED FOR THE ATTENTION OF THOSE CHARGED WITH GOVERNANCE

Included in individual Chapters of this Report are brief outlines of matters reported to those charged with governance, for example, Boards of Directors.

Compliance with accounting standards

Our audits confirmed that all of the State's Government Businesses and the local government Water and Sewerage Corporations complied with accounting standards when preparing their financial statements. However, because their equity instruments are not traded, they are currently exempt from complying in full with Australian Accounting Standard AASB 8 *Operating Segments* and all of AASB 124 *Related Party Disclosures*. It is our view that all of these entities should be regarded as "publicly accountable entities" as defined in Australian Accounting Standards. Doing so would require compliance with these two standards in full resulting in better reporting and assessment of their performance by owners.

Internal control and other audit findings

These included:

- Aurora – opportunities were noted for improvements in their general computer systems environment and application controls as they relate to finance systems
- Metro – the need to address, review and update its risk register and better management of staff leave entitlements
- Tasports – the need for improved management of staff leave entitlements
- Tasrail – the need for management to implement suggestions related to segregation of duties, review and authorisation of payments, monthly subsidiary ledger reconciliations, compliance with payment delegations, and year-end stock-take procedures
- Transend – the need to control excess leave balances and to better document matters associated with decommissioning assets and the regularity of asset valuations
- TT-Line –a number of opportunities were identified to further enhance the internal control environment over the recently implemented reservations system
- Port Arthur Historic Site Management Authority – the Authority does not recognise the value of its collection and archives which may result in an understatement of the value of Property, plant and equipment
- Forestry Tasmania financial statements could be more user friendly if they included a reconciliation of its operating profits and operating cash flows.

Timeliness of Financial Statements

All SOCs met the statutory financial reporting deadlines. However, most SOC's will need to shorten their financial statement preparation times to comply with the Audit Act's requirement of submitting signed financial statements to us by 15 August 2011.

FINANCIAL ANALYSIS – STATE OWNED COMPANIES

Audits of the financial statements of the eight SOC's, and where relevant their subsidiary companies, were completed with unqualified audit opinions issued in each case.

Tasmania's SOCs collectively had net assets of $1.600bn (2008-09, $1.443bn), employed 3 045 (2 636) people, and generated profits of $32.039m ($30.725m) after taxation in 2009-10.

Aurora Energy Pty Ltd (Aurora) recorded a total net loss of $12.462m compared to a net profit of $9.100m for 2008-09. This loss was primarily due to lower margins on sales, driven by higher energy sourcing costs, higher borrowing costs and the direct expensing of $20.643m spent in 2009-10 on a customer care and billing system. Also, a significant decline in cash generated from operating activities occurred on the back of the poor profitability and was a concern.

Significant initiatives to aid Aurora's future sustainability were an agreement with Hydro relating to the non-contestable load within Tasmania and the Regulator's draft pricing report which is likely to provide greater assurance on retail margins.

Aurora's ongoing capital expenditure program, including completion of the Tamar Valley Power Station, all funded by borrowings, stretched its resources and resulted in a debt to equity ration of 207.5%. The power station was commissioned in late 2009. At 30 June 2010 Aurora's debt increased from $0.933bn to $1.030bn.

Metro Tasmania Pty Ltd (Metro) recorded a net profit of $0.189m compared to a net loss of $0.146m for 2008-09. It remained economically dependent on the State Government with contractual contributions totalling $29.719m in 2009-10, $29.148m in 2008-09.

Tasmanian Ports Corporation Pty Ltd (Tasports) reported a net profit before tax of $1.484m for 2009-10, compared to $7.604m for 2008-09. The lower net profit resulted from a decline in net revenue, $5.201m or 6.8%, caused by the continued downturn in freight activity and a number of customers no longer utilising Bell Bay.

Tasracing Pty Ltd reported a net loss of $0.414m in its first year of operations and is anticipating losses over the next five years. For continued operations Tasracing is dependent upon a funding deed with the State government providing base funding of $27m per annum plus CPI less 1% over 20 years and a $40m debt facility to be serviced by Treasury. Once legislation is passed, it is intended that Tasracing will earn income from race fields and promotion of Tasmanian races overseas. These sources of revenue are essential to Tasracing's ability to continue as a going concern in its current form.

Tasmanian Railway Pty Ltd (Tasrail), in its first seven months of operations, recorded a net loss of $10.008m. The Company has secured State Government funding over the next four years to meet future operating losses, $70.832m, and capital investment, $244.250m. Net assets at 30 June 2010 of $71.857m included cash, $32.705m, and property, plant and equipment, $41.523m.

During 2009-10, the Company held negotiations with DIER to finalise a rail corridor lease and also held discussions with the State Government over concerns related to possible environmental liabilities and responsibilities that may have existed prior to it commencing operations in December 2009.

TOTE Tasmania Pty Ltd posted an operating net profit before tax of $15.043m compared to $28.577m in 2008-09. The lower net profit was caused by a decline in wagering income, $5.781m or 5.7%, and higher expenditure, $7.305m, or 9.5%. As a result of the 1 July 2009 amendments to the *Gaming Control Act 1993,* TOTE is required to hold a Tasmanian Gaming License and must comply with specific requirements under the Act. One of the new requirements included payment of a license fee, a new cost during 2009-10, of $6.255m.

TOTE also made a distribution to Tasracing of $5.126m during 2009-10. TOTE's financial statements include Note 29, Economic dependency, which draws attention to risks associated with its continued membership of the Supertab pool. This is a risk that the directors are managing as Tabcorp is licensed to operate the Supertab pool until 14 August 2012, at which time a competitive tender process will be finalised.

Transend Networks Pty Ltd posted a net profit after tax of $26.358m compared to $11.911m in 2008-09. The improved profit was due to higher revenues derived from its prescribed (regulated) electricity transmission services. Transend's significant capital investment program contributed to a growth in net assets to $563.911m ($524.796m in 2008-09).

TT-Line Company Pty Ltd recorded an operating profit of $13.725m, an improvement of $6.936m compared to $6.789m in 2008-09. This improvement was driven by higher revenue due to increased passenger numbers and freight volumes.

During the current financial year, TT-Line suffered a downward valuation of its two ships of $50.642m which arose largely as a result of the stronger Australian dollar at 30 June 2010 in comparison to 2009. The ships' annual valuations are provided in Euros.

FINANCIAL ANALYSIS – GOVERNMENT BUSINESS ENTERPRISES

The audits of the financial statements of all seven GBEs were completed with unqualified audit opinions issued in each case.

Tasmania's GBEs collectively had net assets of $2.548bn (2008-09, $2.560bn), employed 1 579 people (1 565), and generated $59.047m ($335.441m) in after tax profits in 2009-10.

Forestry Tasmania adopted an integrated business approach for valuing its forest estate which resulted in land previously reported at $277.127m written down to nil. The integrated business approach also resulted in the first time recognition of Forestry's obligations to manage non-commercial forest zones in the amount of $65.800m. Other valuation changes saw the carrying values of its biological assets reduce by $86.183m.

At an operating level, Forestry reported a $1.265m profit before costs attributable to non-commercial zones and other non-operating items which was significantly lower, $17.081m, than the prior year's result. The primary reason for the poor operating result in 2009-10 was lower forest sales of $22.637m, or 17%, compared to 2008-09, which was not matched by equivalent decreases in costs other than a 9% decline in contractor expenses.

Of concern is that Forestry's ability to generate cash from its operations declined significantly over the four year period covered by this Report.

Hydro's earnings before interest improved by $27.926m from $125.297m in 2008-09 to $153.223m in 2009-10. Sales of goods and services increased by $108.005m, or 17.73%, primarily due to additional revenues generated by Momentum Energy and stronger water inflows into storages.

Hydro's net profit after financing costs improved by $34.273m from $38.613m to $72.886m with financing costs decreasing by $6.347m. Hydro repaid $68.700m in borrowings this financial year.

Hydro's liquidity and Balance Sheet position improved in the current year however working capital continued to be tight as it invested strongly in property, plant and equipment and business acquisition.

MAIB's performance was strongly influenced by positive returns generated by financial and equities markets in 2009-10. For the year ended 30 June 2010 MAIB generated a profit before tax of $101.796m. Investment revenue was a positive return of $86.448m verses last year's negative $68.519m. Net assets increased by $51.196m to $271.436m.

Port Arthur Historic Site Management Authority remains economically dependent on funding from the State Government. It operated at a profit of $0.205m this year compared to a profit of $1.008m in 2008-09 before recognition of the actuarial superannuation expense and asset revaluation adjustment.

Rivers and Water Supply Commission's operating profit increased from $1.721m in 2008-09 to $3.844m in 2009-10. Overall, the Commission reported a net profit after tax of $0.737m. Its financial position improved due to an equity contribution from Government of $20.790m which was aimed at enabling the Commission's subsidiary companies to progress irrigation developments.

Tasmanian Public Finance Corporation earned a net profit after tax for the year ended 30 June 2010 of $11.353m (2008-09, $14.461m). The decline in profit after tax was driven by a net loss arising from financial instruments of $29.226m (2008-09, $16.507m gain). This was partly offset by improved net interest revenue (Interest revenue less Interest expense) of $49.490m (2008-09, $8.305m) and a lower income tax expense of $4.866m (2008-09, $6.198m). TASCORP's total equity increased by $7.353m in 2009-10, being its net profit after tax for the financial year less dividends paid.

During 2009-10 **Public Trustee** experienced a further decline in its net operating profit, which was $0.427m, a reduction of $0.523m, 55%, compared to the prior year.

FINANCIAL ANALYSIS – TASMANIAN WATER AND SEWERAGE CORPORATIONS

The audits of all four Corporations were completed with unqualified audit opinions issued in each case.

The Corporations comprise **Southern Water, Ben Lomond Water** and **Cradle Mountain Water** with a fourth company, **Onstream**, providing shared services support to these three regional Corporations.

Collectively the corporations had net assets of $1.728bn, employed over 700 people, and reported a profit of $18.431m after taxation in 2009-10.

Returns on assets ranged from 1.3% to 3.1% and are considered low and not sufficient to assure long-term sustainability.

Full transfer of water and sewerage assets, liabilities and staff from local councils took place on 1 July 2009. At that date, the regional Corporations undertook valuations for all capital assets transferred to determine opening balances. As part of the valuation process, the Corporations identified those assets that were optimised on a local and regional level. Optimisation applied when, if theoretically deprived of an asset, the asset's capacity would be replaced with an asset of similar capacity or no asset at all. Assets therefore did no necessarily agree with balances transferred from councils. The valuations also provided information for the Treasurer's review of his final Allocation Order for Water and Sewerage Returns that will determine the ownership percentage of individual councils.

Based on this valuation process, the Corporations will be heavily reliant for future profitability, maintenance and asset replacement on price increases to be determined by the Regulator.

We also recommended the Boards of these Corporations give consideration to reporting financial performance by operating segment. This information would assist readers to better assess and understand the regional Corporations' financial performance.

FINANCIAL ANALYSIS – SUPERANNUATION FUNDS

The audits of all seven funds/schemes managed by the Retirement Benefits Fund Board (RBFB) were completed with unqualified audit opinions issued in each case.

Collectively the RBFB had $3.435bn in net assets under management, earned $255.1m in investment revenues, received $773.2m in contributions from members and paid benefits of $637.3m. Following the effects of the global financial crisis in previous years the RBFB recorded positive investment returns in all funds/schemes. Over the four year period to 30 June 2010, Net Assets increased by $53.352m, 1.58%.

For defined benefit schemes, vested benefits increased by $897.1m, 18.1%, to $5.864bn at 30 June 2010. Accrued benefits were $5.694bn and the net unfunded superannuation liability was $4.210bn at year end. The RBFB is not responsible for the whole of Government unfunded superannuation liability. That liability is met on an emerging cost basis by the State.

TIMELINESS AND QUALITY OF FINANCIAL STATEMENTS

STATUTORY FINANCIAL REPORTING AND AUDITING TIMING REQUIREMENTS

Under section 17 of the *Audit Act 2008* (the Audit Act) specific dates are set by when accountable authorities of State entities are to provide financial statements to the Auditor-General to formally allow the audit process to commence. The requirement is that financial statements are submitted for audit within 45 days after the end of the financial year. Transitional provisions apply to a number of entities whereby the provisions of the Audit Act will not apply until the year ending 30 June 2011.

Our responsibility under section 19 of the Audit Act is to complete our audit within 45 days of receiving financial statements from State entities.

In most cases, entities have a 30 June financial year-end making 15 August the statutory date by which financial statements are to be submitted making our deadline 30 September.

These dates were set to allow sufficient time for audits to be completed and for the reporting entities to prepare annual reports for tabling in Parliament by 31 October each year.

Government Businesses Enterprises

All GBEs, and their subsidiary entities, must submit financial statements for audit by 15 August. Signed financial statements for all GBEs were received prior to this statutory deadline and we completed all audits prior to 30 September.

State Owned Corporations other than Water and Sewerage Corporations

Other than for Tasmanian Railway Pty Ltd (Tasrail) and Tasracing Pty Ltd, transitional provisions apply to SOCs whereby the provisions of the Audit Act will not apply until the year ending 30 June 2011 when these entities will be required to submit signed financial statements to the Auditor-General by 15 August 2011.

Until the transitional provisions start, SOCs must, under the *Corporations Act 2001*, submit their financial statements to the Australian Securities and Investments Commission by no later than 30 November. SOCs provided their signed financial statements to us at various dates with audits being completed soon thereafter.

For Tasracing and Tasrail, because these SOCs were established after the commencement of the Audit Act, the 45 day rule applied from 30 June 2010.

Table 1 summarises the performance of SOCs in meeting their statutory financial reporting deadlines.

Table 1: Financial and auditing timeframes achieved for SOCs

SOC	Date signed financial statements received	Date audit report issued
Aurora Energy Pty Ltd	30 September 2010	1 October 2010
Metro Tasmania Pty Ltd	12 August 2010	12 August 2010
Tasmanian Ports Corporation Pty Ltd	16 September 2010	16 September 2010
Tasracing Pty Ltd	13 August 2010, *re-signed:24 September 2010*	28 September 2010
Tasmanian Railway Pty Ltd	15 August 2010, *re-signed 2 September 2010*	10 September 2010
TOTE Tasmania Pty Ltd	26 August 2010	27 August 2010
Transend Networks Pty Ltd	26 August 2010	3 September 2010
TT-Line Company Pty Ltd	19 August 2010	20 August 2010

The above table shows that all SOCs met the statutory financial reporting deadlines. However, most SOC's will need to shorten their financial statement preparation times to comply with the Audit Act's requirement of submitting signed financial statements to us by 15 August 2011.

Steps taken by Audit to facilitate earlier financial reporting

We continue to assist State entities to achieve early financial reporting. This is done in a number of ways including:

- where possible early planning of audits. As part of planning audits discussions are held with management, and where relevant those charged with governance, and agreements reached on financial reporting and auditing timeframes. These agreements are always aimed at completion within statutory reporting deadlines
- in the case of entities to which the transitional arrangements apply, audit plans have been proposed with gradual tightening of completion timeframes so that by 2011 the revised deadlines can be achieved
- preparation of detailed completion timeframes for components of the financial statements
- where financial systems allow, conducting audit testing of selected balances prior to balance date thus minimising work post balance date.

Water and Sewerage Corporations

These four entities were given no transitional relief and had to complete signed financial statements for audit by 15 August. This was achieved by submitting signed financial statements on 13 August 2010 with audit reports issued for all four on 18 August 2010.

Superannuation Funds

Transitional provisions apply to Superannuation Funds whereby, as is the situation for SOCs, the provisions of the Audit Act will not apply until the year ending 30 June 2011 when they will be required to submit signed financial statements to the Auditor-General by 15 August 2011.

The Retirements Benefits Fund Board signed its financial statements, covering all funds under its management, on 23 September 2010 with our audit reports issued on 27 September 2010. Steps have been taken to assist earlier preparation of the Board's financial statements in 2011.

COMPLIANCE WITH FINANCIAL REPORTING STANDARDS

The Audit Act requires all of these entities to prepare financial statements in accordance with Australian Accounting Standards. Our audits confirmed this was achieved in all cases.

QUALITY OF FINANCIAL REPORTING

Section 17 of the Audit Act also provides for the Auditor-General to determine whether the signed financial statements submitted are complete in all material respects. Upon receipt of signed financial statements we immediately review and evaluate them, utilising a checklist, to ensure they are complete and presentation complied with Australian Accounting Standards. We also confirm the accuracy of comparatives, cross references, and ensure the statements are arithmetically correct.

Following audits, two SOC financial statements had to be re-signed and four out of seven GBE's and one out of eight SOC's required many amendments generally relating to technical or complex financial disclosures.

ENERGY BUSINESSES 2009–10

INTRODUCTION

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 Chapter of this Report. This Chapter summarises their performance on a comparative basis. Readers should take care in drawing conclusions from comparisons such as this due to the differing nature of each entity's business and their differing corporate structures.

At the same time, however, there are many similarities and comparative assessment is again provided to assist in evaluating relative financial performance and financial position.

The three entities are Hydro-Electric Corporation (Hydro Tasmania or Hydro), Aurora Energy Pty Ltd (Aurora) and Transend Networks Pty Ltd (Transend). For further detail regarding the financial performance of each utility, refer to individual Chapters in this Report.

This Chapter concludes with a comparison of Tasmanian wholesale and regional price averages paid to the National Electricity Market with that of other participating States.

INCOME STATEMENTS

	Hydro	**Aurora**	**Transend**
	$'000s	$'000s	$'000s
Electricity sales/transmission/distribution	717 246	1 149 050	165 848
Other operating revenue	9 687	47 964	17 747
Total Revenue	**726 933**	**1 197 014**	**183 595**
Depreciation and amortisation	77 681	90 418	58 031
Labour	100 763	94 665	31 676
Energy generation, acquisition and transmission	0	844 990	0
Other operating expenses	395 266	131 382	24 277
Total Expenses	**573 710**	**1 161 455**	**113 984**
Profit before interest and tax	**153 223**	**35 559**	**69 611**
Borrowing costs	80 337	65 919	32 589
Profit before tax and fair value movements			
Movements in fair value	259 194	0	0
Net profit (loss) before taxation	**332 080**	**(30 360)**	**37 022**
Income tax (expense) benefit	(95 646)	10 381	(10 664)
Net profit (loss) after taxation	**236 434**	**(19 979)**	**26 358**
Net Profit after taxation in 2008-09	**291 206**	**9 100**	**11 911**
Net Profit after taxation in 2007-08	**158 921**	**27 071**	**18 727**
Net Profit after taxation in 2006-07	**79 367**	**32 335**	**21 132**

Comment

These entities made a combined profit after tax of $250.330m (2008-09, $312.217m) with Hydro contributing 94% (2008-09, 93%), Aurora negative 5% (positive 3%) and Transend 11% (4%).

Hydro's sales revenues grew by 17.73% mainly because strong water inflows made it less reliant on imported power and due to higher sales by its subsidiary Momentum Energy. Aurora's increased by 18.38% mainly associated with commissioning the Tamar Valley power station (TVPS) and Transend's increased by 14.99% due to higher revenues from prescribed electricity transmission.

Aurora's energy generation, acquisition and transmission costs of $844.990m ($715.523m) related to generation costs including TVPS, power acquired from Hydro via the National Energy Market and transmission costs paid to Transend and resulted in electricity sales to its retail and business customers. These costs increased by $129.467m, 18.09%, between 2008-09 and 2009-10 due primarily to commissioning the TVPS. Its other operating expenses increased for two primary reasons – expensing $20.643m of costs associated with the new customer care and billing system and additional costs associated with running the new TVPS.

Hydro's Other operating and non-operating revenues represented 27% of its total revenues (Aurora, 6%, and Transend, 10%). The main component was Hydro's Movement in fair value, $259.194m comprising:

- $232.207m (2008-09, $173.790m gain) earned from fair value movements in electricity derivatives
- $15.599m (2008-09, $12.377m gain) from net favourable movements in re-assessment of Basslink financial assets and liabilities
- $16.622m gain from inventory valuations, due to environmental energy products now carried at fair value
- $12.905m provision for the demolition of the Bell Bay plant.

Hydro's other operating expenses increased primarily due to energy purchases by Momentum Energy and increases in Hydro generation costs.

Labour costs increased for all businesses primarily due to:

- Hydro (18% of total Expenditure) – 62 additional full time equivalents (FTEs),
- Aurora (8%) – 122 additional FTEs employed to deliver an increased program of work for the Distribution Business and change in nature of the its Energy business, including the addition of TVPS
- Transend (28%) – 29 additional FTEs mainly due to increased capital work for network assets.

Each utility made significant annual provisions for depreciation because of their strong assets base.

Financing costs, comprising borrowing costs, guarantee fees and niminal interest on superannuation liability, represent differing percentages of total costs as noted below:

	2009-10	**2008-09**	**2007-08**	**2006-07**
Hydro	12.28%	14.76%	18.12%	19.21%
Aurora	5.37%	4.50%	4.43%	4.31%
Transend	22.23%	22.71%	9.56%	6.67%

Hydro's total Borrowing costs decreased by $6.347m in 2009-10 (2008-09, $8.979m) reflecting the lower levels of debt. Hydro's borrowings costs declined in 2008-09 due to the debt swap with Transend leading to the reverse effect for Transend.

Aurora's Borrowing costs increased by $16.307m in 2009-10 (2008-09, $4.702m) in-line with additional borrowings to fund capital expenditure programs including completion of TVPS.

Transend's Borrowing costs only increased $0.176m (2008-09, $21.914m). The significant increase in 2008-09 was due to the $220m debt/equity swap with Hydro and additional borrowings to finance on-going capital investment programs.

STATEMENT OF FINANCIAL POSITION

	Hydro	**Aurora**	**Transend**
	$'000s	$'000s	$'000s
Cash and investments	2 791	37 584	4 632
Receivables	82 657	111 285	17 575
Unbilled energy	0	64 496	0
Inventories	57 168	27 204	3 567
Financial assets	74 522	48 598	0
Financial assets – Basslink	42 813	0	0
Other	2 071	36 513	4 463
Total Current Assets	**262 022**	**325 680**	**30 237**
Payables	69 935	143 954	44 256
Borrowings	206 835	39 682	0
Financial liabilities	150 142	75 548	0
Provisions	36 017	28 315	7 883
Tax (assets) liabilities	11 392	0	1 178
Other	0	18 321	26 157
Total Current Liabilities	**474 321**	**305 820**	**79 474**
Working Capital	**(212 299)**	**19 860**	**(49 237)**
Property, plant and equipment	4 161 631	1 609 393	1 355 476
Investments	121 790	0	0
Intangible assets	0	54 372	2 525
Financial assets – Basslink	383 305	0	0
Deferred tax assets	0	128 779	0
Goodwill	47 796	0	0
Other financial assets	154 063	214 532	0
Total Non-Current Assets	**4 868 585**	**2 007 076**	**1 358 001**
Borrowings	666 029	990 235	518 000
Provisions	327 444	109 541	44 918
Financial liabilities	1 043 176	206 104	0
Deferred tax liabilities	737 707	220 750	181 935
Other non-current liabilities	0	3 890	0
Total Non-Current Liabilities	**2 774 356**	**1 530 520**	**744 853**
Net Assets	**1 881 930**	**496 416**	**563 911**
Capital	271 100	309 355	66 549
Reserves	(7 965)	112 483	405 685
Retained profits	1 618 795	74 578	91 677
Total Equity	**1 881 930**	**496 416**	**563 911**
Total Equity at 30 June 2009	**1 665 482**	**518 228**	**524 796**
Total Equity at 30 June 2008	**1 396 440**	**410 482**	**591 366**
Total Equity at 30 June 2007	**958 190**	**403 162**	**764 619**

Comment

In previous years, all three entities reported negative working capital suggesting that, before adjusting for employee and other provisions, and subject to available credit, liquidity was tight. However, that assumed all short-term borrowings were to be paid rather than re-negotiated. At 30 June 2010, Hydro reported $206.835m and Aurora $39.682m of Borrowings as having to be settled within the next 12 months. In all likelihood, these borrowings will be re-negotiated suggesting that all three utilities had sufficient liquidity at 30 June 2010 to meet short-term commitments. Only Hydro has demonstrated a capability to retire a portion of its debt as noted in the Cash Flows section of this Chapter. Aurora's additional Borrowings were classified as non-current at 30 June 2010, rather than current, which impacted on its Working Capital position, improving it to a positive $19.860m (2008-09, $130.638m negative).

As expected, Property, plant and equipment, resulting in relatively high depreciation charges, dominate each entity's Statement of Financial Position.

Other major assets and liabilities included:

- Net deferred tax liabilities – these primarily arise from offsetting effects of asset revaluations giving rise to deferred tax liabilities and the establishment of provisions, in the main for unfunded superannuation liabilities, giving rise to deferred tax assets
- In the case of Hydro and Aurora, financial assets and liabilities related primarily to major electricity contracts and, based on an established Tasmanian yield curve, enabled the value the financial impacts on both assets and liabilities to be quantified and reported. Hydro's financial assets and liabilities also included quantification of its Basslink obligations and benefits
- Provisions covering annual and long service leave and unfunded superannuation obligations.

The table below details each utility's borrowing obligations at 30 June:

	Hydro	**Aurora**	**Transend**
	$'000s	$'000s	$'000s
Borrowings at 30 June 2007	1 192 200	505 373	118 059
Borrowings at 30 June 2008	971 374	555 212	408 677
Borrowings at 30 June 2009	941 235	932 705	488 000
Borrowings at 30 June 2010	872 864	1 029 917	518 000
Increase (decrease) in borrowings	(319 336)	524 544	399 941
Percentage change in borrowings	(26.79%)	103.79%	338.76%

Total Borrowings of all three entities grew by $605.149m over the four years under review. This was primarily due to their on-going capital investment programs, asset purchases and development of new systems. Other observations include:

- Hydro's debt decreased:
    - o by $270m following the debt/equity swap with Transend in 2007-08 and an equity injection by the State in that year
    - o in 2009-10 due to stronger cash flows enabling it to retire debt.
- Aurora's debt increased due to its extensive capital works program, including the completion of TVPS in October 2009
- Transend's debt increased in the period 2006-07 to 2009-10 due to extensive capital works programs and also by the $270m debt/equity swap with Hydro, previously mentioned.

CASH FLOWS

	Hydro	Aurora	Transend
	$'000s	$'000s	$'000s
Receipts from customers	795 910	1 314 916	200 789
Payments to suppliers and employees	(555 463)	(1 210 888)	(66 818)
Interest received	652	1 450	455
Borrowing costs	(58 103)	(41 650)	(22 577)
Income tax equivalents paid	0	(7 733)	(10 326)
Government guarantee fee paid	(4 954)	(6 756)	0
Cash from operations	**178 042**	**49 339**	**101 523**
Payments for investments	(5 000)	0	0
Proceeds from financial assets	800	0	0
Payments for assets and intangibles	(94 748)	(233 808)	(147 472)
Business acquisition	(34 500)	0	0
Proceeds from investments and asset sales	1 335	1 276	422
Cash (used in) investing activities	**(132 113)**	**(232 532)**	**(147 050)**
Proceeds from borrowings	101 300	464 693	30 000
Repayment of borrowings	(170 521)	(367 482)	0
Dividend paid	(5 332)	(10 124)	(3 616)
Proceeds from equity issue	1 100	4 900	0
Cash from (used in) financing activities	**(73 453)**	**91 987**	**26 384**
Net increase (decrease) in cash	**(27 524)**	**(91 206)**	**(19 143)**
Cash at the beginning of the year	30 562	128 790	23 775
Cash at end of the year	**3 038**	**37 584**	**4 632**

Comment

The three entities continue to generate significant cash from operations, which totalled $328.904m in 2009-10, an improvement on the previous three years (2008-09, $229.963m, 2007-08, $164.683m, and 2006-07 $205.267m).

Hydro's Cash from operations improved to $178.042m in 2009-10 from $43.843m in 2008-09. This was an increase of $134.199m primarily due to additional revenue generated by Momentum Energy and stronger water inflows into storages.

Aurora's Cash from operations decreased from $126.480m in 2008-09 to $49.339m in 2009-10, its lowest level ever. This was mainly driven by losses incurred during the year and the cost of supplying electricity growing at a faster rate than the increase in receipts from customers and increased borrowing costs associated with the finalisation of TVPS.

All three utilities continued to invest strongly in capital expenditure with $476.028m expended in 2009-10 ($634.824m in 2008-09, $232.042m in 2007-08 and $236.281m in 2006-07).

FINANCIAL ANALYSIS

	Bench Mark	Hydro	Aurora	Transend
Financial Performance				
Net profit (loss) after tax ($'000s)		236 434	(12 462)	26 358
EBIT ($'000s)		153 223	35 559	69 611
EBITDA ($'000s)		230 904	125 977	127 642
Operating margin	>1.0	1.47	0.98	1.46
Return on assets		3%	1.4%	5.2%
Return on equity		13.3%	(2.5%)	4.8%
Financial Management				
Debt to equity		46.4%	207.5%	91.9%
Debt to total assets		17.0%	44.2%	37.3%
Interest cover – EBIT		0.91	0.5	1.8
Interest cover – cash from operations		4.06	1.60	5.5
Current ratio	>1	0.55	1.06	0.38
Cost of debt	6.9%%	7.0%	6.7%	7.6%
Debt collection	30 days	42	51	6
Creditor turnover	30 days	18	73	10
Capital expenditure/depreciation		122%	259%	254%
Returns to Government				
Dividends paid or payable ($'000s)		10 204	3 921	13 179
Dividend payout ratio	50%	4.3%	(31.5%)	50.0%
Dividend to equity ratio	6%	0.6%	0.8%	2.4%
Income tax paid or payable ($'000s)		0	0	10 326
Effective tax rate	30%	0.0%	0.0%	28.8%
Government guarantee fees		4 954	6 756	0
Total return to the State ($'000s)		15 158	10 677	23 505
Total return to equity ratio		0.9%	2.1%	4.3%
CSO funding		6 900	23 150	0
Other Information				
Staff numbers (FTEs)		894	1 353	274
Average staff costs ($'000s)		113	70	116
Average leave balances per employee ($'000s)		23	23	32
Average Superannuation balance per employee ($'000)		362	62	161

Comment

Aurora's Return on equity declined from positive 2.0% in 2008-09 to negative 2.5% in 2009-10 and its Return on assets decreased from 3.6% to 1.4%, primarily due to its net loss.

Hydro's Debt to equity ratio improved for the reasons previously outlined. The Debt to equity ratios of Aurora and Transend indicated they rely to a greater extent on debt funding than does Hydro. Aurora's Debt to equity ratio increased from 125.4% in 2006-07 to 207.5% in 2009-10 and Transend's from 15.4% to 91.9% over the same period.

All three entities continued to invest strongly in capital expenditure as indicated by their Capital expenditure to depreciation ratios, especially Aurora and Transend.

In total these three entities returned $49.340m (2008-09, $54.321m; 2007-08, $57.832m; 2006-07, $117.647m) to the State in 2009-10.

ENERGY PRICES

Since connecting to the National Electricity Market (NEM) in 2005, Tasmania has been participating in one of the world's longest interconnecting power systems from Port Douglas in Queensland to Port Lincoln in South Australia. The wholesale (spot) price of electricity has been subject to volatility since the inception of the NEM in 1997. Despite this volatility, average spot prices remained reasonably consistent.

Electricity wholesale prices in the NEM for Tasmania decreased in 2009-10. The average spot price for 2009 in Tasmania was $29.37 per megawatt hour, a fall of 49.7% from the 2008-09 average of $58.40.

Under the existing market rules for the NEM, average spot prices can range between a minimum of negative $1 000 to a maximum of $12 500 per megawatt hour. This price volatility initially impacted the valuation of generation assets by introducing uncertainty to cash flows and returns to investors. In response, larger market participants manage the impact of price volatility through the use of electricity fixed price contracts (derivative financial instruments).

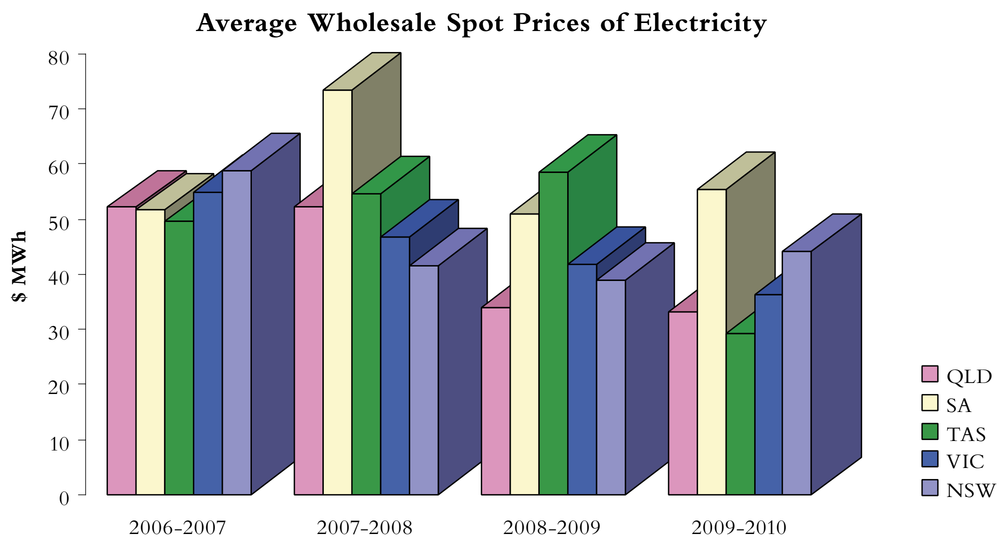
The following table presents the average annual wholesale spot prices of electricity:

Average Annual Prices (per financial year)

Year	NSW	QLD	SA	TAS	VIC
2006-07	58.72	52.14	51.61	49.56	54.80
2007-08	41.66	52.34	73.50	54.68	46.79
2008-09	38.85	34.00	50.98	58.48	41.82
2009-10	44.19	33.30	55.31	29.37	36.28

Source: AEMO price statistics average annual prices per financial year.

The graph below shows these movements graphically.

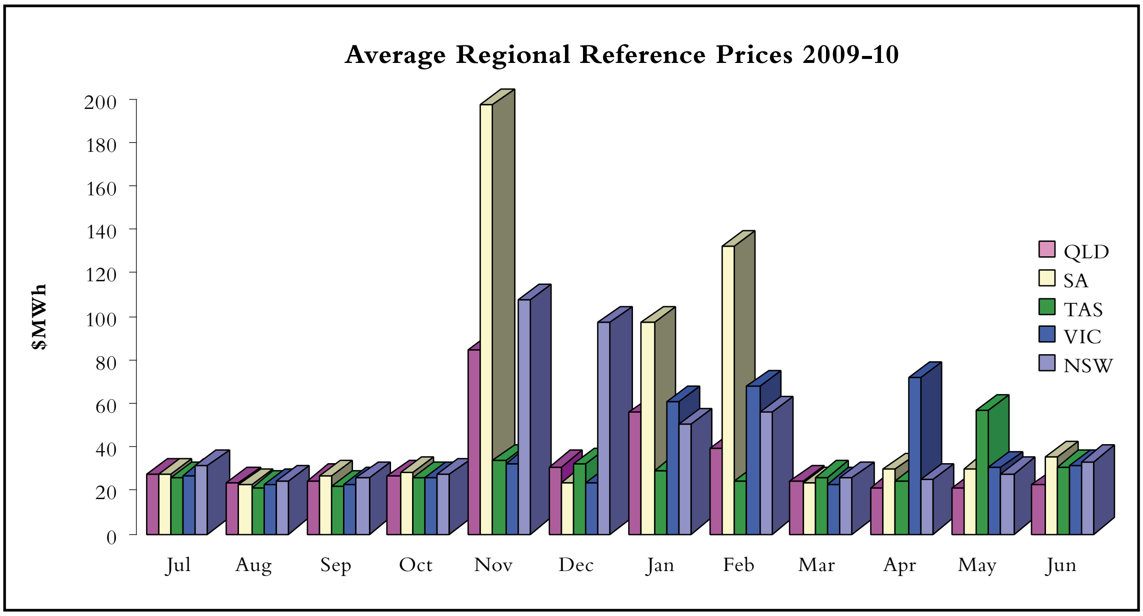


Source: AEMO: NEM Data

The NEM is a wholesale market. Additional charges are added to retail accounts for network usage, service fees, market charges, retail charges and GST. As the capacity of available generation to meet demand diminishes, the relative scarcity of electricity will lead to an increase in the spot price. Tasmania's hydro and gas turbine generators are in an advantageous position to more rapidly respond to such market conditions, given they are more able to fire-up their generators at short notice compared to mainland coal generators who make-up 81.1% of the total market.

In Tasmania the average price per megawatt hour for June 2010 was $30.89, just slightly above the monthly average for the entire year of $29.37.

The average regional reference prices for each month per region over the financial year is shown in the following graph.



Source: AEMO: NEM Data

Whilst the Tasmanian market fluctuates, it does not appear to be as volatile as other States.

The highest and lowest electricity prices recorded in Tasmania for 2009-10 were:

- lowest average daily price was negative $77.12MWh on 3 February 2010
- highest average daily price was $497.89MWh on 22 May 2010
- lowest half-hour price was negative $999.64MWh at 3pm and 3:30pm on 2 February 2010
- highest half-hour price was $3 747.20MWh on 22 May 2010 at 6pm.

Negative prices occur where generators are not able to reduce their output when demand declines.

Whilst the supply to households and small business customers is currently regulated, how Tasmanian electricity entities are able to respond to the domestic and national markets will be a determining factor in their profitability in future years.

WATER AND SEWERAGE CORPORATIONS

INTRODUCTION

Tasmania's three regional water and sewerage corporations (the Corporations) were established in 2008 under the *Water and Sewerage Corporations Act 2008* (the Act). The Corporations are separate legal entities each responsible for its financial performance. The information provided in this Chapter is to enable comparison of the relative performance of each Corporation with the comparative tables including a combined column for illustrative purposes only. Details for each Corporation are provided in individual Chapters later in this Report.

The Corporations are owned in equal shares by councils in their respective regions. At the time of this Report, final percentages for distribution of returns to constituent councils had yet to be established by the Treasurer. This will be done through a Final Allocation Order for Water and Sewerage Returns.

The Corporations provide bulk, distribution and retail water and sewerage services. A fourth company, in which the Corporations have equal ownership interests, was established to provide a range of shared services aimed at supporting their operations. These include centralised secretariat, payroll, human resources, information and communications technology, billing, financial and accounting services.

The Corporations' and the Common Services Corporation's, trading names and operational commencement dates were:

- Tasmanian Water and Sewerage Corporation (Southern Region) Pty Ltd – trading as Southern Water (SW): 13 November 2008
- Tasmanian Water and Sewerage Corporation (Northern Region) Pty Ltd – trading as Ben Lomond Water (BLW): 13 November 2008
- Tasmanian Water and Sewerage Corporation (North-Western Region) Pty Ltd – trading as Cradle Mountain Water (CMW): 13 November 2008
- Tasmanian Water and Sewerage Corporation (Common Services) Pty Ltd – trading as Onstream: 9 December 2008.

The Corporations have a common Chairman as well as three common Directors. Onstream's Board comprises the Corporations' Chairman, three regional corporation CEOs and two additional Directors, the latter appointed in August 2009 on the Treasurer's approval.

The Act required the transfer of water and sewerage assets, rights, liabilities and employees of councils and bulk water authorities to the Corporations and to Onstream. This occurred on 1 July 2009, though some staff took up positions before that date.

The Corporations service approximately 201 000 customer connections across the State and maintain 88 water treatment plants, 111 wastewater treatment plants, 5 890 kms of water pipes and 4 641 kms of sewer mains.

The major task faced by the Corporations and Onstream was absorbing and managing over 620 staff, over $2.000bn in assets and over $300m in liabilities transferred from councils and bulk water authorities on 1 July 2009, and developing plans to meet the expectations of communities, public health and environmental regulators under the *Water and Sewerage Corporations Act 2008*.

FINANCIAL RESULTS

The financial information detailed below compares the results of the Corporations in their first full year of operation ended 30 June 2010 and their financial position at that date. Onstream's revenue and costs are reflected in the results of the Corporations and is not included in the comparison.

More details can be found in each of the Chapters for the Corporations and Onstream which follow.

COMPREHENSIVE INCOME STATEMENT

	Combined	SW	BLW	CMW
	$'000s	$'000s	$'000s	$'000s
Sales revenue	198 516	101 879	51 785	44 852
Other operating revenue	12 636	7 273	2 312	3 051
Share of Net Profit(Loss) of Associate-equity method	65	33	16	16
Total Revenue	**211 217**	**109 185**	**54 113**	**47 919**
Depreciation	50 509	25 829	12 551	12 129
Employee and related expenses	49 933	25 717	13 471	10 745
Other operating expenses	74 141	34 658	19 826	19 657
Total Expenses	**174 583**	**86 204**	**45 848**	**42 531**
Net Operating Profit before:	**36 634**	**22 981**	**8 265**	**5 388**
Interest income	991	500	312	179
Finance costs	(11 945)	(6 417)	(1 089)	(4 439)
Net Profit (Loss) before taxation	**25 680**	**17 064**	**7 488**	**1 128**
Income Tax Equivalents (Expense) Benefit	(7 249)	(4 812)	(2 231)	(206)
Net Profit (Loss) after Taxation	**18 431**	**12 252**	**5 257**	**922**

Comment

The Corporations generated combined Net Profit after taxation of $18.431m of which Southern Water contributed 66.5%, Ben Lomond Water 28.5% and Cradle Mountain Water, 5.0%.

Sales revenue for the three corporations was $198.516m of which Southern Water generated 51.3%, Ben Lomond Water 26.1% and Cradle Mountain Water 22.6%.

As expected, Property, plant and equipment, and associated depreciation charges, dominate each Corporation's Statements of Financial Position and Net Profit Before Tax. On a combined basis, Depreciation represented 28.9% of Total Expenses, ranging from a low of 27.4% for Ben Lomond Water to a high of 30.0% for Southern Water.

Total Employee expenses were $49.933m of which Southern Water incurred 51.5%, Ben Lomond Water 27.0% and Cradle Mountain Water 21.5%.

Total Finance costs were $10.954m of which Southern Water incurred 54.0%, Ben Lomond Water 7.1% and Cradle Mountain Water 38.9%.

STATEMENT OF FINANCIAL POSITION

	Combined	SW	BLW	CMW
	$'000s	$'000s	$'000s	$'000s
Cash	25 540	17 522	6 480	1 538
Receivables and prepayments	52 278	25 531	15 139	11 608
Inventories	5 154	3 253	1 297	604
Assets Held for Sale	3 008	0	0	3 008
Current tax assets	304	304	0	0
Total Current Assets	**86 284**	**46 610**	**22 916**	**16 758**
Payables	20 796	10 108	5 123	5 565
Borrowings	47 096	32 636	5 211	9 249
Provisions employee entitlements	10 684	4 863	3 153	2 668
Unearned Income	2 671	2 504	44	123
Current Tax Liability	2 289	0	1 230	1 059
Total Current Liabilities	**83 536**	**50 111**	**14 761**	**18 664**
Working Capital	**2 748**	**(3 501)**	**8 155**	**(1 906)**
Property, plant and equipment	1 939 619	1 034 254	504 705	400 660
Net deferred tax assets	33 278	22 421	5 825	5 032
Intangibles	2 814	1 814	70	930
Investment in Associate (Onstream)	57	29	14	14
Total Non-Current Assets	**1 975 768**	**1 058 518**	**510 614**	**406 636**
Borrowings	156 531	75 392	11 833	69 306
Provisions employee entitlements	11 882	6 145	4 329	1 408
Unearned Income	20 057	16 433	1 583	2 041
Deferred tax liabilities	61 782	41 215	13 410	7 157
Total Non-Current Liabilities	**250 252**	**139 185**	**31 155**	**79 912**
Net Assets	**1 728 264**	**915 832**	**487 614**	**324 818**
Contributed Capital	1 718 758	909 547	484 103	325 108
Retained earnings	9 506	6 285	3 511	(290)
Total Equity	**1 728 264**	**915 832**	**487 614**	**324 818**

Comment

Total Equity mainly represented transfers from owner councils and Net profits for the year, offset by dividend distributions.

Working capital for Ben Lomond Water was positive indicating it was well placed to meet short-term commitments. Southern Water's and Cradle Mountain Water's working capital was slightly negative due to their higher payables and short term borrowings, the latter being mainly as a result of transfers from constituent councils. However, it is expected that both Corporation's current borrowings will be renegotiated within the next twelve months.

Combined Receivables were $52.278m, representing 26.3% of combined Sales revenue which was relatively consistent with the Corporations' quarterly billing cycles.

The Corporations revalued all assets as at 1 July 2009. Fair value of assets contributed by owners and bulk water authorities was determined by an independent valuation based on depreciated replacement cost as at 1 July 2009. Subsequent to determining their fair value, the assets were then tested for impairment by applying a cash-generating unit test to determine recoverable amount, which represents value in use. The cash-generating unit test calculates the discounted present value of the net cash inflows that the Corporation expects to be generated from its assets, operating together within separately identified cash-generating units, over their expected useful lives. Two cash-generating units were identified for the Corporations, water and sewerage. Recoverable amount was lower than depreciated replacement cost and this amount was used for the initial recognition of the asset values. No impairment loss was recorded as this was the initial recognition of asset values. The valuation process determined opening property, plant and equipment balances for accounting, taxation and regulatory purposes. The impaired amount was significantly lower than the value of assets previously recognised on a replacement cost basis by councils and bulk water authorities. This also resulted in most councils having to reduce the value of their investments in the respective corporations.

Borrowings for the Corporations totalled $203.627m and were with Tasmanian Public Finance Corporation as required under the Act. Southern Water's proportion of the borrowings was 53.1%, Ben Lomond Water 8.4% and Cradle Mountain Water 38.5%.

STATEMENT OF CASH FLOWS

	Combined	**SW**	**BLW**	**CMW**
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	158 221	83 853	38 233	36 135
Receipts from other Sources	21 638	15 011	3 677	2 950
Payments to suppliers and employees	(129 613)	(65 245)	(33 263)	(31 105)
Interest received	1 007	487	341	179
Borrowing costs	(10 562)	(5 950)	(990)	(3 622)
Income tax paid	(8 980)	(7 057)	(1 481)	(442)
Cash from operations	**31 711**	**21 099**	**6 517**	**4 095**
Payments for property, plant and equipment	(68 459)	(34 203)	(15 867)	(18 389)
Proceeds from sale of property, plant and equipment	1 938	1 491	136	311
Cash (used in) investing activities	**(66 521)**	**(32 712)**	**(15 731)**	**(18 078)**
Owner cash contributions	53 057	21 526	18 989	12 542
Proceeds from borrowings	135 255	69 803	16 187	49 265
Repayment of borrowings	(121 262)	(57 939)	(17 492)	(45 831)
Dividends paid	(5 662)	(4 255)	(952)	(455)
Dividends Paid (Esk Water)	(1 038)	0	(1 038)	0
Cash from financing activities	**60 350**	**29 135**	**15 694**	**15 521**
Net increase in cash	**25 540**	**17 522**	**6 480**	**1 538**
Cash at the beginning of the year	0	0	0	0
Cash at end of the year	**25 540**	**17 522**	**6 480**	**1 538**

Comment

The Corporations generated a combined $31.711m in Cash from operations. This, together with net borrowings, $13.993m, Proceeds from sale of property, plant and equipment, $1.938m, and Owner cash contributions, $53.057m, enabled the Corporations to invest $68.459m in capital expenditure. After payment of a total of $6.700m in dividends, combined Cash at the end of the year was $25.540m.

FINANCIAL PERFORMANCE

	Bench Mark	SW	BLW	CMW
Financial Performance				
Net profit after tax ($'000s)		12 252	5 257	922
EBIT ($'000s)		22 981	8 265	5 388
Operating margin	>1.0	1.27	1.18	1.13
Return on assets		2.1%	3.1%	1.3%
Return on equity		1.3%	1.1%	0.3%
Financial Management				
Indebtedness ratio		127.5%	57.6%	166.8%
Debt to equity		11.8%	3.5%	24.2%
Debt to total assets		9.8%	3.2%	18.6%
Interest cover	>2	3.6	8.4	1.3
Current ratio	>1	0.9	1.6	0.9
Cost of debt	6.9%	5.9%	5.8%	5.2%
Debt service ratio		27.9%	11.9%	79.1%
Debt collection	30 days	77	53	60
Creditor turnover	30 days	17	19	27
Capital expenditure/depreciation	>100%	132%	126%	151.6%
Returns to Owners				
Dividends paid or payable ($'000s)		6 110	1 961	922
Dividend payout ratio	50%	49.9%	37.3%	100.0%
Dividend to equity ratio		0.7%	0.4%	0.3%
Income tax paid or payable ($'000s)		7 057	1 481	442
Effective tax rate	30%	41.4%	19.8%	39.2%
Total return ($'000s)		13 167	3 442	1 364
Total return on equity ratio		1.4%	0.7%	0.4%
Other Information				
Staff numbers (FTEs)		320	166	137
Average staff costs ($'000s)		73	81	77
Average leave balance per FTE ($'000s)		16	18	20

Comment

The Financial Performance ratios show Operating margin was above benchmark reflecting operating profits in each Corporation. However, returns on assets of 1.3% to 3.1% are considered low and not sufficient to assure long-term sustainability.

Current ratio was marginally below benchmark of one for both Cradle Mountain Water and Southern Water due mainly to the Corporations' level of short term debt.

Debt to equity and Debt to assets ratios for Cradle Mountain Water were the highest of the Corporations at 24.2% and 18.6%, respectively. Interest cover was lowest for Cradle Mountain Water at 1.3. These reflected the relatively high level of debt transferred from its constituent councils and bulk water authority and government policy to extend credit arrangement following the introduction of the 5% cap.

Debt collection days were higher than benchmark for all Corporations because of delays in billing caused by the absence of an integrated billing system. The Corporations plan to install a new billing system in the next twelve months.

Capital expenditure/depreciation ratio represents capital expenditure divided by depreciation. The benchmark is 100% suggesting that the Corporations should be investing in assets annually at least to the extent of the annual depreciation charge. The ratio for all Corporations exceeded benchmark due to the high level of capital expenditure projects, as discussed further in the individual Chapters for the Corporations.

The Corporations provided returns of $17.973m to their council owners, with Southern Water's $13.167m representing 73.2% of this amount. This comprised dividends of $6.110m and tax equivalence payments of $7.057m.

In addition to these returns, Government guarantee fee payments of $1.604m were also paid to owners.

Of the total 623 FTEs, 51.4% were employed by Southern Water. Average staff costs over the period ranged from $0.073m to $0.081m and Average leave balances ranged from $0.016m to $0.020m. The majority of employees who transferred to the Corporations carried forward their leave balances.

GOVERNMENT BUSINESS ENTERPRISES

AT A GLANCE

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).

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

The GBE Act is 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
- 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.

KEY FINDINGS AND OUTCOMES FROM AUDITS

Key findings and developments included:

- The audits of the financial statements of all seven GBEs were completed with all audit opinions unqualified
- All audits were completed satisfactorily with no major issues outstanding
- All GBEs, submitted financial statements within the statutory deadline being 45 days following the end of the financial year.
- Internal control and other findings from audits included:
    - o **Forestry Tasmania** – we recommended Forestry make additional disclosures, which again while not required of it by Australian Accounting Standards, would provide users with better information, as follows:
        - A reconciliation of its operating profits and operating cash flows. This would enable readers to better understand Forestry's results from operations and the extent to which these translate into cash
        - Financial performance by operating segment. This information would assist readers to better assess and understand Forestry's financial performance
        - Quantification and disclosure of community service obligations it incurs relating to commercial forest zones.

- o **Hydro** – consistent with Australian Accounting Standards, Hydro does not comply with standard AASB 8 *Operating Segments* and all of standard AASB 124 *Related Party Disclosures*. We reported to Hydro our view that GBE's should be regarded as "publicly accountable entities" as defined in Australian Accounting Standards. Doing so would require compliance with these two standards in full. GBE's and SOC's are currently exempt from complying in full with these standards as their equity instruments are not publically traded
- o **Port Arthur Historic Site Management Authority** – the Authority had in its possession several historic collections and archives, parts of which were catalogued; however these are not recognised as assets. While it is acknowledged that the capacity to establish a value of the collections and archives has several constraints, not recognising these assets may result in an understatement of the value of Property, plant and equipment. Heritage buildings and ruins are also not recognised due to difficulty in determining an appropriate value

SUMMARY FINANCIAL PERFORMANCE

Tasmania's GBEs collectively had net assets of $2.548bn (2008-09, $2.560bn), employed 1 579 people (1 565), and generated $59.047m ($335.441m) in after tax profits in 2009-10. Other summary financial information included:

- The following three GBEs made up 92% of the net assets controlled by all GBEs:
  - o Forestry Tasmania
  - o Hydro-Electric Corporation (Hydro)
  - o Motor Accidents Insurance Board (MAIB).

  They contributed $46.851m profit after tax in the current year compared to $309.451m in the prior year. The primary reason for the decrease was the current year being affected by negative returns and asset write downs by Forestry Tasmania.

- In 2009-10 **Forestry Tasmania (Forestry)** took action to revisit the manner in which it values its assets adopting an integrated business approach which resulted in land previously reported at $277.127m written down to nil. The integrated business approach also resulted in the first time recognition of Forestry's obligations to manage non-commercial forest zones in the amount of $65.800m. Other valuation changes saw the carrying values of its biological assets reduce by $86.183m.

  At an operating level, Forestry reported a $1.265m profit before costs attributable to non-commercial zones which was significantly lower, $17.081m, than the prior year's result. After accounting for costs attributable to Forestry's management of non-commercial forest zones, it incurred an operating loss of $7.997m (profit of $9.256m in 2008-09). This was the first year that Forestry separately reported costs associated with these obligations. The primary reason for the poor operating result in 2009-10 was lower forest sales of $22.637m, or 17%, compared to 2008-09, which was not matched by equivalent decreases in costs other than a 9% decline in contractor expenses.

  The low operating profit, combined with the asset valuation changes and recognition of the non-commercial zone obligations saw Forestry report an after tax loss of $305.869m versus a profit of $33.214m in 2008-09 and its equity reduce from $581.526m to $275.072m, a decline of $306.454m.

  Of concern is that Forestry's ability to generate cash from its operations declined significantly over the four year period covered by this Report – from a high of $13.249m in 2006–07 to an operating outflow of $12.117m in the current financial year. It is not sustainable for Forestry to generate negative cash from its operating activities, a situation management and the Board must address. Management are keenly aware of this position and are monitoring operations closely. We are advised that management is developing longer term strategies to maintain future cash flows.

- **Hydro's** storage rebuild program, commenced in the 2008-09 year, continued in 2009-10. Water inflows for 2009-10 were well above the 8 700GWh rating of the system with storages at 30 June 2010 at 36.3%, significantly higher than last year, 27.7%. Because of above average inflows to storages in the 2009-10 year the net level of import over Basslink was reduced from 2 560GWh to 1 056GWh.

  On an earnings before interest basis, Hydro's results improved by $27.926m from $125.297m in 2008-09 to $153.223m in 2009-10. Total operating expenses represented 78.92% of total revenue, an improvement from 79.98% in 2008-09. Sales of goods and services increased by $108.005m, or 17.73%, primarily due to additional revenues generated by Momentum Energy and stronger water inflows into storages.

  On after finance cost basis, Hydro's net profit improved by $34.273m from $38.613m to $72.886m with financing costs decreasing by $6.347m. Hydro repaid $68.700m in borrowings this financial year.

  From 1 July 2009 Hydro changed its accounting treatment of Environmental Energy Products (EEP) to record them at fair value. This reflected the balancing of the inventory of EEP against future sales commitments under the asset backed trading policies of Hydro and gave rise to a $16.622m gain on inventory valuation. There was volatility in EEP prices during the year because of the renewable energy certificates (REC) attached to solar hot water installations supported by Commonwealth Government policy.

  Hydro's liquidity and Balance Sheet position improved in the current year with equity increasing by $0.216bn from $1.665bn in 2008-09 to $1.882bn and its borrowings decreasing by $0.068bn from $0.941bn to $0.873bn. Incoming operating cash flows improved significantly from $43.843m to $178.042m but working capital continued to be tight as it invested strongly in property, plant and equipment and business acquisition. Hydro's challenge continues to be determining 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 maintaining its borrowings at a sustainable level.

- **MAIB's** performance was strongly influenced by positive returns generated by financial and equities markets in 2009-10. For the year ended 30 June 2010 the MAIB generated a profit before tax of $101.796m, which included an unrealised investment gain of $38.345m. Investment revenue was a positive return of $86.448m verses last year's negative $68.519m. Net assets increased by $51.196m to $271.436m. The major component of the MAIB's total assets was its investment portfolio (including cash), which at 30 June 2010 represented 90.80% of total assets (2008-09, 90.86%). MAIB's provision for outstanding and unreported claims totalled $706.655m at 30 June 2010, an increase of $27.435m on the position at 30 June 2009.

- In recent years Government has provided additional support to **Port Arthur Historic Site Management Authority** 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. It operated at a profit of $0.205m this year compared to a profit of $1.008m in 2008-09 before recognition of the actuarial superannuation expense and asset revaluation adjustment. Total Equity decreased by $0.651m in 2009-10 to $14.232m due to the Net Comprehensive loss for the year.

- During 2009-10 **Public Trustee** experienced a further decline in its net operating profit, which was $0.427m, a reduction of $0.523m, 55%, compared to the prior year. The main reasons for the decrease were lower Commissions and fees income of $0.459m, combined with increased Employee benefits expenditure of $0.194m.

  Net Assets decreased in 2009-10 by $1.131m, primarily due to an increase of $1.410m in the provision for the superannuation liability based on actuarial advice.

- **Rivers and Water Supply Commission** in the current year continued to improve its equity position, mainly due to equity injections from Government over the last two years. These equity contributions minimised the Commission's need to borrow from external sources to fund its new projects. Total debt, which increased in 2007-08 as the Commission borrowed to fund the construction of Meander Dam, slightly decreased over the last two years.

  The Commission's operating profit increased from $1.721m in 2008-09 to $3.844m in 2009-10. Overall, the Commission reported a net profit after tax of $0.737m. However, its financial position improved by much more than this net profit of $0.737m due to an equity contribution from Government of $20.790m which was aimed at enabling the Commission's subsidiary companies to progress irrigation developments. In 2009-10 $19.471m was invested in irrigation with $19.534m in the Commission's bank account at year end.

- **Tasmanian Public Finance Corporation's** (TASCORP) role is to meet the non-transactional banking needs of Government and State entities and to manage the market risks associated with those banking needs. Its core objective is to raise funds for the Tasmanian Government and its business enterprises at a price reflective of the rating held by the State of Tasmania. This has been achieved within a clearly defined capital at risk and an appropriate risk management system approved by the Board.

  Economic conditions recovered in 2009-10 after the impact of the global financial crisis in 2008-09 and this resulted in better operating conditions for TASCORP. Its net profit after tax for the year ended 30 June 2010 was $11.353m (2008-09, $14.461m) a decline on the prior year. The decline in profit after tax was driven by a net loss arising from financial instruments of $29.226m (2008-09, $16.507m gain). This was partly offset by improved net interest revenue (Interest revenue less Interest expense) $49.490m (2008-09, $8.305m) and lower Income tax expense $4.866m (2008-09, $6.198m).

  TASCORP's total equity increased by $7.353m in 2009-10, being its net profit after tax for the financial year less dividends paid.

RESPONSIBLE MINISTER

The Ministers responsible at 30 June 2010 for Government Business Enterprises were:

Entity	Responsible Minister
Forestry Tasmania	Minister for Energy and Resources
Hydro-Electric Corporation	Minister for Energy and Resources
Motor Accidents Insurance Board	Minister for Infrastructure
Port Arthur Historic Site Management Authority	Minister for Environment, Parks and Heritage
Public Trustee	Attorney-General
Rivers and Water Supply Commission	Minister for Primary Industries and Water
Tasmanian Public Finance Corporation	Treasurer

FORESTRY TASMANIA

INTRODUCTION

Forestry Tasmania (Forestry) was established under the *Forestry Amendment (Forestry Corporation) Act 1994*, which amended the *Forestry Act 1920*. Forestry 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. Consistent with requirements of other Government Business Enterprises, its principle objectives under the *Government Business Enterprises Act 1996* (GBE Act) are to perform its functions by operating in accordance with sound commercial practice and achieve a sustainable commercial rate of return.

Forestry holds a 100% interest in Newood Holdings Pty Ltd (Newood) and a 50% share in a softwood joint venture with Grantham, Mayo and Osterloo (GMO). All figures in the following tables and analysis are based upon consolidated figures. Refer to the final page of this Chapter for further information on Newood.

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

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Signed financial statements were received on 13 August 2010 and an unqualified audit report was issued on the same day.

KEY FINDINGS AND DEVELOPMENTS

The audit was completed satisfactorily with no major items outstanding. However, we recommended the Board give consideration to the following matters:

1. Including in its financial statements additional disclosures, which while not required of it by Australian Accounting Standards, would provide users with better information, as follows:
    a. A reconciliation of its operating profits and operating cash flows. This would enable readers to better understand Forestry's results from operations and the extent to which these translate into cash
    b. Financial performance by operating segment. This information would assist readers to better assess and understand Forestry's financial performance
2. Quantification and disclosure of community service obligations it incurs relating to commercial forest zones.
3. The methodology and frequency of future valuations of biological assets and obligations for non-commercial forest zones.

The Auditor-General's Report No. 2 to Parliament, tabled in November 2009, included recommendations that the Board:

- Give consideration to restructuring Forestry's Income Statement to separately identify community service obligation costs and other costs not directly associated with forestry activities. The disclosure of such information may assist a reader to better understand the impact of such costs on Forestry's financial performance.

  Forestry took action on this recommendation, in part. The 2009-10 Statement of Comprehensive Income reported Profit before 'community service' costs attributable to non-commercial zones, valuation outcomes, capital grant income and tax. Costs attributable to non-commercial zones are further explained later in this section.

  We say 'in part' because Forestry has still to implement recommendation 2 above.

- Review and document its policies concerning the allocation of costs to the model used to determine the valuation of its Biological assets.

  As a result of this recommendation, and from matters raised in a performance audit into Forestry's financial and economic performance, which is yet to be finalised, the Board engaged an independent valuer with expertise in the forestry industry to value its biological and forest estate assets (roads and land).

  The valuer concluded that Forestry's biological and forest estate assets should be valued as an integrated forestry business (or, in other words, an enterprise wide and integrated production unit approach). This approach resulted in significant changes to the valuation with consequent impacts on Forestry's financial statements. It also quantified, for the first time, Forestry's obligations as they relate to managing the State's formal reserves and special timber zones, collectively referred to as 'obligations for non-commercial forest zones'. Special timber zones are those which grow speciality timbers including sassafras, leatherwood, blackwood, and huon pine to name a few.

The impact of the approach recommended by the valuer is detailed in Table 1 below.

Table 1 Component parts of integrated forest valuation

Asset type	*Note*	**Jun-10**	**Jun-09**	**Change***
		$'000	$'000	$'000
Biological	2	247 846	293 997	(46 151)
Land	3	0	277 127	(277 127)
Roads	4	114 654	115 295	(641)
Sub-total		362 500	686 419	(323 919)
Less obligations relating to non-commercial forest zones	5	(65 800)	0	(65 800)
Sub-total	1	296 700	686 419	(389 719)
Add GMO joint venture timber resource	6	70 891	110 923	(40 032)
Net biological and forest estate assets		367 591	797 342	(429 751)

* *These changes have no cash flow impacts. They are discussed in the notes following and the Comprehensive Income Statement and Financial Position sections later in this Chapter.*

Note 1 Net biological and forest estate assets

The total impact of the revised valuation approach was to decrease the carrying amount of Forestry's net biological and forest estate assets by $389.719m compared to 30 June 2009.

Note 2 Biological assets

The approach adopted to valuing biological assets remained fundamentally unchanged.
The decrease in the valuation of Forestry's native forest and plantation commercial forest zones of $46.151m (2008-09, increase of $51.093m), primarily related to changes in the discount rate applied, updated costs in the valuation model and the price impact of difficult trading circumstances being experienced in both domestic and international markets.

Note 3 Land

The most significant impact of the revised valuation approach related to Forestry's land.

The carrying amount for land in 2008-09, $277.127m, was based on the Valuer-General's assessment in 2004 (deemed a cost in accordance with Accounting Standards at that time). However, an important conclusion reached by the valuer was that the 'soil expectation value' (SEV), a measure of underlying land value, was in fact negative for each of the general, special timbers and formal reserve zones, and therefore the fair value for land reported by Forestry could be zero. The Board resolved to adopt a nil value.

This conclusion was supported by the fact that Forestry does not own the land and, importantly, the proceeds of any sale would accrue to the State and not to Forestry.

Note 4 Roads

In previous years roads were reported at depreciated cost. Roads are essential to enabling Forestry to access forests and provide a revenue stream in the form of road tolls. The Board concluded depreciated cost remained an appropriate basis to recognise road assets. This conclusion was consistent with the integrated valuation approach adopted by the valuer.

Note 5 Obligations relating to non-commercial forest zones

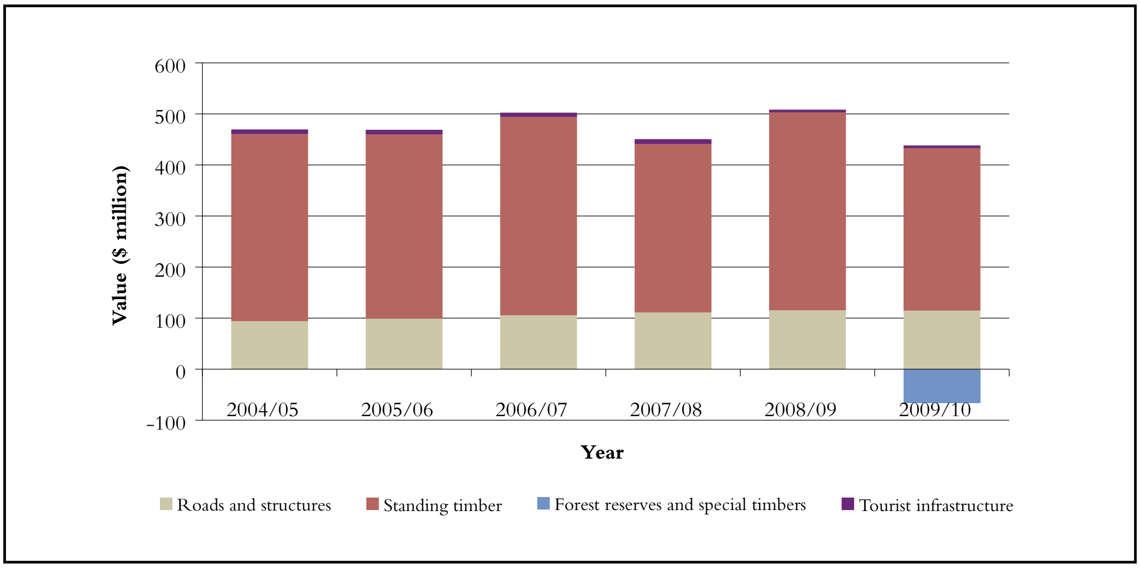
The valuer concurred with our view that the requirements the Forestry Act imposes on Forestry give rise to a number of previously unquantified long term (community service) obligations. The valuer quantified obligations related to Forestry's responsibility for managing the State's non-commercial forest zones, using a discounted cashflow model, at $65.800m at 30 June 2010. Forestry concluded these obligations should be recorded as a separate liability on its Statement of Financial Position.

Note 6 GMO joint venture timber resource

The valuation of Forestry's share of the GMO Softwood Joint Venture plantations decreased $40.032m (2008-09, increase $4.450m), primarily due to movements in discount rate, costs and prices used in the valuation model.

Figure 1 provides a comparative analysis of the composition of Forestry' integrated forest assets, excluding land.

Figure 1



Source: Forestry Tasmania, unaudited.

This figure demonstrates the variability of Forestry's standing timber assets and shows the impact in 2009-10 of the forest reserves and special timber zone obligations.

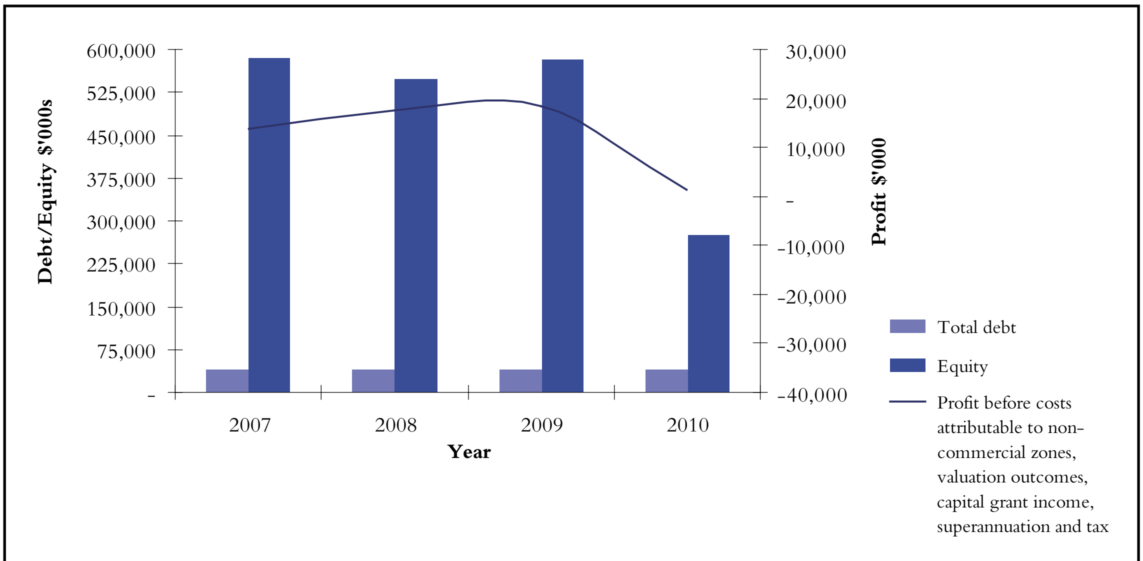
Other Key Findings and Developments

During the year, it was noted Forestry was in breach of a financial leverage covenant detailed in its Master Loan Facility Agreement with TASCORP. The Treasurer provided TASCORP with a letter of comfort, provided to allow sufficient time for Forestry and TASCORP to negotiate a revised set of loan covenants suitable to both parties.

The audit of Newood's special purpose financial statements was completed satisfactorily. However, we recommended the Board give consideration to a more detailed impairment review of its property, plant and equipment. Refer to the final page of this Chapter for further information on Newood and this matter.

FINANCIAL RESULTS

The graph below shows movements in Forestry's equity, debt and profitability over the past four years:



Note: The Profit line for 2007-08 and 2008-09 was adjusted to exclude costs attributed to non-commercial zones. These costs were estimated based on a similar movement which occurred between 2008-09 and 2009-10.

The graph illustrates the level of debt has been consistently low compared to total equity. It also demonstrates profitability was improving slightly from 2006-07 to 2008-09. However decreased sales in 2009-10 had a major impact on profit.

Equity decreased significantly during 2009-10 due to the impact of the revised valuation approach, which decreased the carrying amount of Forestry's integrated biological and forest estate assets by $389.719m compared to 30 June 2009.

COMPREHENSIVE INCOME STATEMENT

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Revenue from forest sales	114 136	136 773	137 755	123 540
Share of GMO Joint Venture revenues	21 046	18 499	18 519	27 929
Forest management services revenue	5 982	7 624	10 182	11 788
Tasmanian Community Forest Agreement	4 282	3 504	3 768	4 360
Other revenue	14 673	14 068	14 474	11 712
Non-operating revenue	135	0	0	18
Total Revenue	**160 254**	**180 468**	**184 698**	**179 347**
Employee benefits	26 377	25 901	32 037	30 049
Contractors expenses	78 363	85 726	85 469	76 795
Share of GMO JV expenses	16 689	15 674	17 680	26 581
Net finance costs	917	807	2 410	1 224
Depreciation	11 797	14 279	12 470	10 220
Other expenses	24 846	19 720	25 818	29 317
Non-operating expenses	0	15	247	49
Total Expenses	**158 989**	**162 122**	**176 131**	**174 235**
Profit before:	**1 265**	**18 346**	**8 567**	**5 112**
Costs attributable to non commercial forest zones#	9 262	9 090	0	0
Profit (Loss) before tax and other items	**(7 997)**	**9 256**	**8 567**	**5 112**
Income tax benefit (expense)*	4 009	(2 784)	(2 603)	0
Profit (Loss) after tax on above items, but before:	**(3 988)**	**6 472**	**5 964**	**5 112**
Biological asset valuation adjustment	(74 630)	43 449	(73 889)	11 997
Establishment of obligations for non-commercial zones	(65 800)	0	0	0
Tasmanian Community Forest Agreement – capital grant income	5 836	9 484	15 670	17 931
Superannuation investment market value adjustment	1 299	(2 217)	(2 885)	3 933
Superannuation liability movement	(19 404)	(14 950)	(2 198)	(15 828)
Impairment of non-current assets	(1 736)	(773)	(508)	(3 723)
Impairment of non current assets – land	(217 198)	0	0	0
Profit (Loss) before tax on these items	**(375 621)**	**41 465**	**(57 846)**	**19 422**
Income tax benefit (expense) on these items*	111 739	(9 179)	(19 389)	(4 781)
Net Profit (Loss)	**(263 882)**	**32 286**	**(38 457)**	**14 641**
Other Comprehensive Income				
Increase (decrease) in the revaluation of land and buildings	(59 631)	1 291	0	0
Income tax on revaluation of land and buildings	17 844	(363)	0	0
Total Comprehensive Profit (Loss)	**(305 669)**	**33 214**	**(38 457)**	**14 641**

 # Costs attributable to non-commercial zones not calculated for 2007-08 and 2006-07 due to availability of information.

** Income tax expense/benefit split in three most recent years only due to availability of information.*

Comment

At an operating level for 2009-10 Forestry recorded a $1.265m Profit before costs attributable to non-commercial zones, valuation outcomes, capital grant income, superannuation movements and taxation. This result was significantly lower, $17.081m, than prior year's profit.

This was caused by major declines in revenues not matched by equivalent decreases in costs other than the 9% decline in contractor expenses. Also, the 2009-10 profit of $1.265m (2008-09, $18.346m) included a net surplus on the GMO joint venture activities of $4.357m ($2.825m) meaning that on its own activities Forestry made an 'operating' loss of $3.092m (2008-09, profit of $16.321m).

Reasons for declines in revenues and movements in costs are discussed further below.

Revenue

Total revenue from forest sales decreased $22.637m, or 17%, compared to 2008-09.

Forestry generated more than 70% of its revenue through forest sales, which comprised revenue from sawlogs, pulpwood, export sales, road-tolls, and harvesting and haulage. The lower levels of sales was primarily driven by declines in volumes including a decline in the harvest and haulage component for mill door sales.

Forestry has four major customers for the sale of forest products, being Gunns Ltd, 52% of total forest sales, Artec Pty Ltd, 17%, Ta Ann, 8%, and Norske Skog Boyer, 2%.

Sales Product	**Note**	**Movement 2008-09 to 2009-10**
		$'000s
		Increase (Decrease)
Pulpwood	1	(12.394)
Sawlog	2	(1.494)
Sawlog Rotary Peeler	3	0.169
Export*	4	2.108
Harvest and Transport**	5	(8.687)
Other	6	(2.339)
Total Movement		(22.637)

* *Refer note 4 for net result of exports.*

** *Movement is largely offset by corresponding decrease in related expenditure.*

Note 1: Pulpwood revenue decreased $12.394m, 34.72%, in 2009-10 due to a significant reduction in sales volume, 595 000 tonnes, 28%, down on the prior year.

Note 2: Sawlog revenue decreased $1.494m, 12.54%, in 2009-10, again, due to lower sales volume, 69 000 tonnes, 18.82%. The fall in sawlog volumes was primarily due to a fragile housing sector.

Note 3: Sawlog rotary peeler logs were processed at the Ta Ann export veneer mills. The rotary peeled veneer production is mainly exported to Malaysia for processing into ply. Revenue increased $0.169m, 2.17%, in 2009-10 due to increased volume, 18 000 tonnes.

Note 4: Export sales increased $2.108m as Forestry embarked on developing export markets directly. Towards the end of 2009-10, several shipments were made to the Chinese market. It is expected export revenue will increase further in 2010-11. The table below illustrates for 2009-10 the net export result was close to breakeven, which Forestry expected in the early stages of breaking into a new market.

Exports Margin	**2009-10**
	$'000
Export sales	6.412
Harvest and haulage costs	(2.441)
Freight costs	(3.872)
Margin	**0.099**

Note 5: Harvest and transport revenue represents the recharge of costs incurred by Forestry to deliver mill door sales. As such the decrease revenue is consistent with the decrease in expenditure as it correlates with sales volume.

Note 6: Other revenue largely comprises road tolls, which decreased as a result of a decrease in volumes.

Forestry's share of revenue from its joint venture with GMO (also referred to as the Taswood Growers JV) increased $2.547m, 13.77%, from 2008-09. After deducting joint venture expenses (refer below), Forestry recorded a profit from the joint venture operation of $4.357m (2008-09, $2.825m). The operations of the joint venture are managed independently of Forestry, with financial information provided on a monthly basis.

Forest management services revenue decreased $1.642m, 21.54%, in 2009-10 due to reduced plantation establishment on State forest by external parties and a consequent reduction in the requirement for forest management services. There were consequential reductions in some operating expenses as a result of lower demand.

The TCFA is a significant source of revenue for Forestry. However, this revenue is matched by the balancing expenditure incurred under the agreement. Expenditure primarily related to projects associated with the establishment of new hardwood plantations, increased forest management activities, road construction for Special Timber Management Units and various other research related tasks. The majority of funds expended were on capital programs. The TCFA is designed to increase plantation establishment, enhance the productivity of the forest and improve timber value recovery in future years.

Expenditure

Total expenses decreased $3.133m, 1.93%, in 2009-10 compared to the prior year primarily due to lower Contractor expenses and Depreciation.

Contractor expenses decreased $7.363m, 8.59%, as a result of lower sales volumes. The major items which comprised Contractor expenses are analysed below:

	2009-10	**2008-09**	**2007-08**	**2006-07**
	$'000s	$'000s	$'000s	$'000s
Total Contractors Expenses	78 363	85 726	85 469	76 795
The major components include:				
Harvesting and Transport Costs (excluding exports)	57 996	66 419	59 950	44 688
Export Harvesting Costs	3 228	1 085	3 710	9 708
External Plant Hire	6 757	8 777	10 813	11 630

** 2009-10 and 2008-09 exclude non commercial zones costs.*

Depreciation decreased $2.482m, 18.83%. The depreciation expense for 2008-09 was unusually high due to the impairment of Tarkine Forest Adventures (formerly Dismal Swamp) and an additional one-off depreciation charge to offset unearned grant revenue of $1.839m.

The lower contractors costs and depreciation was partially offset by increased Other operating expenses, $5.126m, 25.99%. The increased Other operating expenses included additional freight costs associated with exports, $2.453m and an increase in doubtful debts of $0.965m relating to the write back of a "take or pay" invoice raised for a major customer, that will not be collected.

As noted previously, Forestry's share of revenue and profit from its joint venture with GMO increased from 2008-09. However, there was a corresponding increase in joint venture expenses $1.015m, 6.48%. As indicated previously, the joint venture activities made a contribution to profit of $4.357m (2008-09, $2.825m).

Costs attributable to non commercial forest zones, Biological asset valuation adjustment, and Impairment of non current assets – land

The Biological asset (native forest and plantations) are accounted for under Australian Accounting Standard AASB 141 *Agriculture*. Costs attributable to non commercial forest zones, the biological asset valuation decrement and Impairment of non-current assets – land were due to a new valuation approach applied to valuing Forestry's assets based on an 'integrated forest businesses'. A detailed explanation of the these costs, valuation changes and impairments was provided within the 'Key Findings and Developments' section towards the start of this Chapter.

Tasmanian Community Forest Agreement – capital grant income

Forestry is a recipient of funds for specific projects within the agreement. The decrease in revenue in 2009-10, $3.648m, was primarily due to a reduction in forests planted during the year. Further details are noted in the Statement of Financial Position section of this Chapter.

Superannuation

The Superannuation investment net market value adjustment reflected the net gain or loss from Forestry's superannuation investment account. Forestry holds investments that are subject to financial market movements. In 2009-10 investment balances increased $1.299m in line with the improvement in the market.

The Superannuation liability movements related to Forestry's unfunded superannuation commitments which were determined by an independent Actuary. As is evident from the fluctuation between years, this movement is volatile and not within Forestry's control.

Other Comprehensive Income

As noted above, Forestry impaired its land to a nil value. Consequently, the decrease in the revaluation of land and buildings of $59.631m consists predominately of a write back of previous land valuation increments. This was offset by income tax on the revaluation of $17.844m. A detailed explanation is provided within the Statement of Financial Position section of this Chapter.

STATEMENT OF FINANCIAL POSITION

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Cash	29 546	37 043	20 919	30 450
Receivables	38 165	30 879	24 061	20 422
Inventories	12 189	10 825	10 343	9 995
Biological assets	5 559	23 864	14 620	21 655
Prepayments	375	682	795	675
Total Current Assets	**85 834**	**103 293**	**70 738**	**83 197**
Payables	20 330	17 449	18 711	21 978
Unearned Revenue – TCFA	14 191	20 154	18 798	23 197
Deferred government grants	0	0	0	110
Borrowings	19 800	19 800	19 800	19 800
Finance lease	179	164	151	0
Provisions – leave and other	5 540	5 766	6 259	6 294
Provisions – superannuation	4 187	4 685	14 849	13 338
Obligations for non-commercial forest zones	5 354	0	0	0
Total Current Liabilities	**69 581**	**68 018**	**78 568**	**84 717**
Net Working Capital	**16 253**	**35 275**	**(7 830)**	**(1 520)**
Biological assets	313 178	361 433	315 135	367 014
Forest estate	114 654	392 422	388 155	382 302
Property, plant and equipment	46 385	58 475	60 226	35 008
Intangible assets	326	560	936	1 142
Receivables	67	12	50	1 550
Investments (equity accounting)	351	216	231	0
Investment property	570	570	570	570
Other financial assets	14 066	12 680	15 181	24 233
Deferred tax assets	125 317	39 715	35 893	34 737
Total Non-Current Assets	**614 914**	**866 083**	**816 377**	**846 556**
Payables	10	10	0	0
Borrowings	21 000	21 000	21 000	21 000
Finance lease	11 706	11 885	12 049	0
Deferred government grants	45 775	35 792	11 863	3 751
Deferred tax liabilities	97 850	145 841	129 757	145 013
Provisions – leave and other	1 080	914	761	1 251
Provisions – superannuation	118 228	104 390	84 640	87 855
Obligations for non-commercial forest zones	60 446	0	0	0
Total Non-Current Liabilities	**356 095**	**319 832**	**260 070**	**258 870**
Net Assets	**275 072**	**581 526**	**548 477**	**586 166**
Contributed equity	234 457	235 457	235 457	235 457
Retained profits	33 423	58 254	26 336	65 460
Reserves	7 192	287 815	286 684	285 249
Total Equity	**275 072**	**581 526**	**548 477**	**586 166**

Comment

Forestry's Total Equity reduced by $306.454m during 2009-10 primarily due to:

- a Net loss after tax of $263.882m
- asset revaluation reserve decrements after tax of $41.787m as a result of land being impaired to nil.

The corresponding decrease in Net assets is the result of the following factors:

- the valuation adjustment related to Biological assets resulted in a $429.751m decrease in net assets. A detailed explanation of these valuation adjustments is provided within the 'Key Findings and Developments' section earlier in this this Chapter
- decreased Cash, $7.497m. Movement in Cash is commented on within the Cash Position section of this Chapter
- increased Unearned revenue and Deferred government grants liabilities related primarily to the receipt of TCFA funding, $4.020m. Forestry held $59.966m in unexpended funding at 30 June 2010, with the allocation between current and non-current estimated on expected expenditure over the next 12 months
- Property, plant and equipment decreased $12.090m during 2009-10 due to:
    - o the sale and lease-back of its motor vehicle fleet resulting in a disposal of motor vehicles, $5.500m
    - o impairment of assets, $1.535m
    - o depreciation expense, $6.012, offset by net additions of $1.100m
- Higher Superannuation liability, $13.838m, based on an independent actuarial assessment.

The above factors were partially offset by:

- higher Receivables, $7.286m, as a result of slow payment from clients as evidenced by the debtor turnover and increased GMO joint venture debtors, $2.937m
- increased Deferred tax assets, $73.131m, and a decrease in the deferred tax liability of $60.642m. The $133.773m change in tax balances was primarily due to the valuation adjustment related to Biological assets, Forest estate assets and the establishment of non-commercial zone obligations.

Other items of interest in the Balance Sheet included:

- Other financial assets, which comprised the superannuation investment account and Forestry's investment in Ta Ann Tasmania. During 2009-10 the superannuation investment account increased $1.386m
- Borrowings, from TASCORP, primarily related to funding essential capital expenditure. The level of borrowings remained unchanged from the prior year at $40.800m
- Finance lease liability relating to Newood's lease agreement with Transend Networks Pty Ltd. During 2006-07 Newood entered into a 25 year finance lease relating to the repayment of the capital contribution towards the construction of the transmission line onto the Huon Wood Centre site. As Newood was a wholly owned subsidiary from 1 July 2007 this lease, and the associated asset, was recognised in Forestry's consolidated accounts.

Tasmanian Community Forest Agreement

Funds have been received in advance under the TCFA which is an agreement signed by the State and Commonwealth to supplement the provisions of the Regional Forest Agreement. Under the TCFA the Commonwealth agreed to contribute $131.200m of funding for specific activities including the establishment of new hardwood plantations and research and development activities. The State agreed to contribute $90.000m under the agreement.

- All TCFA funds have been received by Forestry and will be used for the establishment of additional, and improvement of existing, hardwood plantations to compensate for the loss of sustainable forest due to the creation of additional conservation reserves. As at 30 June 2010, there remains $15.000m of works to be acquitted against the TCFA intensive forest management program.
- TCFA funding is acquitted by Forestry at a rate of $6 000 per hectare of plantation established. However only $3 500 is recognised as 'earned' within Forestry's financial statements upon cultivation, with $2 500 remaining as Unearned revenue until pruning and fertilisation costs have been incurred.
- As such despite the large balance of Unearned revenue, $59.966m, only part of this balance, $15.000m, is yet to be acquitted.
- The allocation between current and non current Unearned revenue for 2008-09 has been restated to more accurately reflect the annual expenditure of TCFA funds. Refer to note 2e in the financial statements for further detail.

STATEMENT OF CASH FLOWS

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	151 292	162 861	169 215	164 679
Proceeds from TCFA	0	0	0	3 150
Distributions received	1 695	1 875	625	1 250
Interest received	2 023	2 166	1 253	1 182
Payments to suppliers and employees	(165 193)	(161 633)	(163 550)	(154 555)
Finance Costs	(1 934)	(1 954)	(2 848)	(2 457)
Tax equivalents recovered (paid)	0	0	0	0
Cash from (used in) operations	**(12 117)**	**3 315**	**4 695**	**13 249**
Proceeds from investments	0	0	5 968	400
Payments for investments	0	0	0	(3 900)
Proceeds from the TCFA	21 966	41 792	13 764	29 574
Proceeds from sale of property, plant and equipment	6 176	2 069	888	450
Payments to suppliers and employees – plantations	(8 070)	(12 094)	(14 433)	(16 147)
Payments for property, plant and equipment	(14 282)	(17 775)	(19 488)	(24 515)
Cash (used in) investing activities	**5 790**	**13 992**	**(13 301)**	**(14 138)**
Equity Contribution	0	0	0	400
Proceeds from borrowings	0	0	0	5 800
Finance lease payments	(1 170)	(1 183)	(1 170)	0
Dividends paid	0	0	0	(1 297)
Cash (used in) financing activities	**(1 170)**	**(1 183)**	**(1 170)**	**4 903**
Net increase (decrease) in cash	**(7 497)**	**16 124**	**(9 776)**	**4 014**
Cash at the beginning of the year	37 043	20 919	*30 695	26 436
Cash at end of the year	**29 546**	**37 043**	**20 919**	**30 450**

* *Variance in 2007-08 Cash at the beginning of the year was due to consolidating Newood.*

Comment

The Net decrease in Cash for the year ended 30 June 2010 was $7.497m compared to a net increase in cash of $16.124m for the ended 30 June 2009, a decline of $23.621m.

A major reason for the decline was the outflow of $12.117m in Cash from operations. As noted previously, the decrease in sales, along with an increase in receivables, contributed to the net operating cash outflow position. The deficit in Cash from operations was partially offset by a surplus in cash from investing activities, which included:

- TCFA funding received during 2009-10 of $21.966m
- Proceeds from the sale of property, plant and equipment for 2009-10, which included approximately $5.000m from the sale and lease-back of Forestry's motor vehicle fleet, offset by
- Payments for new plantations $8.070m and roads and road structures, $10.069m.

It is not sustainable for Forestry to generate negative cash from its operating activities, a situation management and the Board must address. Management are keenly aware of this position and are monitoring operations closely. We are advised that management is developing longer term strategies to maintain future cash flows.

Cash expensed in financing activities represents finance lease payments for the Newood finance lease with Transend for the power substation.

Forestry did not propose a dividend for the 2009-10 financial year, and no dividend was paid during the preceding three financial years.

In summary, the closing Cash position for 2009-10 of $29.546m included TCFA funding yet to be acquitted, $15.000m, with the balance being Cash held for future investment and operating activities at Forestry's discretion. Note 27 – 'Expenditure commitments' within Forestry's financial statements recognises Forestry's intent to invest $42.559m in plantation establishment, with $9.438m to be spent within one year and $28.000m between one and five years.

FINANCIAL PERFORMANCE

	Bench Mark	2009-10	2008-09	2007-08	2006-07
Financial Performance					
Profit before valuation adjustments, capital income, tax		1 265	18 346	8 567	5 112
EBIT ($'000s)		1 297	18 467	9 750	6 336
Operating margin *	>1.0	1.01	1.11	1.11	1.08
Return on assets **		0.2%	2.0%	1.9%	1.5%
Return on equity **		0.3%	3.2%	3.1%	2.4%
Financial Management					
Debt to equity		14.8%	7.0%	7.4%	7.0%
Debt to total assets		5.8%	4.2%	4.6%	4.4%
Interest cover	>2	1	8	4	3
Current ratio	>1	1.23	1.52	0.90	0.98
Cost of debt	6.9%	4.7%	5.6%	6.5%	6.4%
Debt collection	30 days	85	63	50	41
Creditor turnover	30 days	41	38	38	42
Returns to Government					
Dividends paid ($'000s)		0	0	0	1 297
Dividend payout ratio	50%	0.0%	0.0%	0.0%	8.9%
Dividend to equity ratio		0.0%	0.0%	0.0%	0.2%
Income tax paid ($'000s)		0	0	0	0
Effective tax rate	30%	0.0%	0.0%	0.0%	0.0%
Total return to the State ($'000s)		0	0	0	1 297
Total return to equity ratio		0.0%	0.0%	0.0%	0.2%
Other Information					
Staff numbers (FTEs)		461	483	483	502
Average staff costs ($'000s)		57	54	66	60
Average leave balance per employee per FTE ($'000s)		13	12	12	12

* *Operating margin for 2007-08 and 2008-09 included an estimate for costs attributed to non-commercial zones estimated based similar rate of increase from 2008-09 to 2009-10.*
** *Based on operating result before Costs attributable to non commercial zones, tax, asset and superannuation adjustments.*

Comment

Profit, EBIT Operating margin, the Return on assets and Return on equity are calculated on the result before costs attributed to non commercial zones, accounting valuation adjustments, TCFA capital grant income, superannuation and tax. The return on equity from 2006-07 to 2008-09 would approximately double if the value of land ($277.127m) was deducted from the equity balance.

Debt to equity and Debt to total assets ratios deteriorated in 2009-10 due to the impact of biological asset valuation adjustments and impairment of land which impacted both the asset and equity balances at 30 June 2010. During the year, it was noted Forestry was in breach of a financial leverage covenant detailed in its Master Loan Facility Agreement with TASCORP. The Treasurer provided TASCORP with a letter of comfort, provided to allow sufficient time for Forestry and TASCORP to negotiate a revised set of loan covenants suitable to both parties.

Current ratio was marginally above the benchmark in the past two years. However, as noted in the Cash Flow Statement section, we have concerns over Forestry's longer term liquidity.

Debt collection days increased over the four year period due to an increase in the receivables balance offset by a reduced sales turnover in some sectors of the forest industry. Debt collection has a negative impact on Cash flows from operations, with receivables increasing $17.743m (86.88%) since 30 June 2007 despite revenues dropping by 7.6% over this period. This indicates to us that Forestry is providing short term support to elements of the forestry industry. The downturn in the forest industry has negatively impacted Forestry's clients which in turn has made timely collection of amounts owing difficult for Forestry.

Creditor turnover remained consistent over the four-year period, however it exceeded benchmark in all four years under review.

Apart from 2006-07, Forestry did not make Dividend payments over the four-year period. No dividend was proposed for 2009-10, 2008-09 or 2007-08. In addition, Forestry did not generate any taxable profits or pay any tax over the four year period. Apart from equity returns to the State in 2006-07, there has not been any return from Forestry to the government over the period of review.

Staff numbers decreased at 30 June 2007 as part of a strategy to reduce costs in response to decreased sales. Average staff costs were higher in 2007-08 because they included redundancy payments. Staff number decreased further in 2009-10 with Forestry not filling vacancies in order to control payroll expenses.

Newood Holdings Pty Ltd

Newood Holdings Pty Ltd is a wholly owned subsidiary of Forestry. The Newood group comprises 100% controlled entities Newood Huon Pty Ltd, Newood Smithton Pty Ltd, Newood Energy Pty Ltd.

Newood was established to develop the Huon Wood Centre and the Smithton saw mill sites with the intention of renting the site to users. The Huon Valley and Smithton sites are now housing interrelated forest product processing operations including Rotary Peel Veneer plants, saw mills and merchandising yards.

TCFA funding assisted Forestry with the cost of infrastructure, such as road works, sewerage, water and power, at the Newood sites. Work at the Huon Wood Centre also involved preparing a site for a wood fired power station.

The significant revenue items for Newood in 2009-10 comprised power supply revenue and site rental.

Newood reported a net loss before tax for 2009-10 of $0.470m (2008-09, loss of $0.665m) and Net assets of $0.401m ($0.731m).

Newood's Property plant and equipment as at 30 June 2010 was reported at $21.892m.

As part of the audit we noted that the directors had, as required by *AASB 136 Impairment of Assets,* made an assessment whether there was any indication that Newood's assets may be impaired. This assessment concluded that the Newood assets were not impaired.

However the impairment indicators did not include an assessment of actual profitability since commissioning the site compared to the original business case profitability. We believe this is a key indicator of impairment and we recommended the Board give consideration to a more detailed impairment review of its property, plant and equipment.

It is our understanding that the viability of Newood is dependent on an investor being found who will construct a wood fired power station on the Newood site on a lease arrangement. To date no investor has come forward.

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 a renewable electricity generator in the State of Tasmania
- operates a consulting division nationally and internationally
- is a renewable energy developer
- operated a retail business with retail licences in Victoria, South Australia, New South Wales, Queensland and ACT
- owns the electricity distribution assets on the Bass Strait Islands
- invests in renewable energy joint venture activities in Australia
- is a 50% owner of Roaring 40s Renewable Energy Pty Ltd, a joint venture with China Light and Power (CLP), which develops and invests in wind farms in Australia.

With the commissioning of the Aurora Energy Tamar Valley (AETV) power station, in October 2009, Hydro no longer has the obligation for security of electricity supply to Tasmania.

Subsidiary and Associated Companies

- **Bell Bay Power Pty Ltd** (BBP), established on 20 December 2001, owned and operated the Bell Bay power station. Under the Bell Bay Sale Agreement the land held by this entity was sold in the 2006-07 financial year. Under the Asset Sale Agreement the existing thermal plant was available to be used by Hydro until the new AETV power station was commissioned. Following AETV commissioning BBP has the responsibility for demolition of the thermal station. BBP has previously raised a provision for demolition and site restoration. This provision was increased by $12.906m during 2009-10 to $18.083m. The station ceased operations in April 2009.
- **Bell Bay Three Pty Ltd** was incorporated on 7 December 2005. Its assets have been disposed of and the company did not operate in 2009-10.
- **Lofty Ranges Power Pty Ltd** owns a 50% interest in an electricity generating joint venture in South Australia. It generated a net profit after tax of $0.068m in 2009-10 (2008-09, $0.026m).
- **Hydro Tasmania Consulting (Holding) Pty Ltd** is the holding company for Hydro Tasmania consulting activities in India undertaken through its wholly owned Indian company, Hydro Tasmania Consulting India Private Limited. The Indian subsidiary made a loss during 2009-10 of $0.598m (2008-09 $0.589m) on turnover $0.957m (2008-09 $0.955m).
- **RE Storage Project Holding Pty Ltd** has entered into joint ventures to investigate renewable energy commercial opportunities. However at 30 June 2010 it was not operating.
- **Roaring 40s Renewable Energy Pty Ltd** (R40s) is a joint venture between Hydro Tasmania and CLP. The joint venture is focussed on wind farm opportunities in Australia.
- **Momentum Energy Pty Ltd** (Momentum Energy) is an energy retailer with licences in Victoria, South Australia, New South Wales and the ACT. The second tranche of the acquisition was paid during the year. The operation will be discussed later in this Chapter.

The Auditor-General is the auditor of all wholly-owned subsidiary companies but not of R40s.

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

The Directors signed Hydro's financial statements on 12 August 2010 and an unqualified audit report was issued on the same day.

The audits of Hydro's 100% owned subsidiaries were completed at the same time, with unqualified audit opinions being issued for all by 12 August 2010.

A letter of comfort was received on 12 August 2010 from PriceWaterhouseCoopers (PWC) in respect of its audit of R40's facilitating completion of Hydro's audit on that day.

The audit was completed satisfactorily with no major items outstanding. However, the following matter was brought to the Board's attention:

- Compliance with all Australian Accounting Standards – Hydro prepared its 2009-10 financial in compliance with Australian Accounting Standards. However, Hydro is exempt from complying in full with Australian Accounting Standard AASB 8 *Operating Segments* and AASB 124 *Related Party Disclosures*. We reported to Hydro our view that Tasmanian Government Business Enterprises and State-owned companies should be regarded as "publicly accountable entities" as defined in Australian Accounting Standards. Doing so would see Hydro comply with these two accounting standards in full.

KEY FINDINGS AND DEVELOPMENTS

Agreement with Aurora Energy Pty Ltd (Aurora)

In late June 2010, Hydro negotiated a new electricity supply agreement with Aurora with respect to the non-contestable retail block. Hydro's modelling asserts that this arrangement will not negatively impact on its Corporate Plan. We concluded from reviewing these new arrangements that it will not have a material impact on the fair value models used by Hydro to support its asset and liability values in its financial statements.

Storage rebuild program

The 2009-10 year has seen the continuation of the storage rebuild program initiated in 2007-08. This strategy was implemented by Hydro by adjusting its trading and generation strategies where storage levels were supported by electricity imports via Basslink from Victoria while meeting Tasmania's energy demands. This program was projected to be completed in the current five year corporate plan period. The water inflows for 2009-10 were well above the 8 700GWh rating of the system. Storages at 30 June 2010 were at 36.3% significantly higher than last year, 27.7%.

The higher than average inflows into storages in the 2009-10 year was a factor in improved cash flows from trading.

Acquisition of Momentum Energy

On 31 August 2008 Hydro acquired Momentum Energy, an energy retailer based in Melbourne with retail licences in Victoria, South Australia, New South Wales and ACT. The acquisition was completed in two tranches. On 31 August 2008 the first settlement including costs of $17.763m occurred. The settlement of the second tranche of the acquisition was settled on 30 September 2009 for $34.500m. This settlement was $7.650m less than the anticipated present value of the final settlement taken up in the accounts at 30 June 2009. This gain was taken to the Statement of Comprehensive Income.

Other structural changes

The Bell Bay thermal plant was disconnected from the grid during the year. There were no changes to the structure of R40s during the year.

Hydro's Corporate Plan

In developing its corporate plan for 2010-11 Hydro focused its financial strategy on achieving BBB financial strength. It used this focus to build strategies around:

- improving the resilience of the business to variations in inflows and the associated impacts on cash flow
- the management of Basslink flows both north and south to assist in the optimum management of storages together with revenue opportunities created from physical connection to the NEM
- the Momentum Energy retail strategy
- funding the Corporation's capital refurbishment program
- funding continued investment in R40s.

Hydro's capital investment program

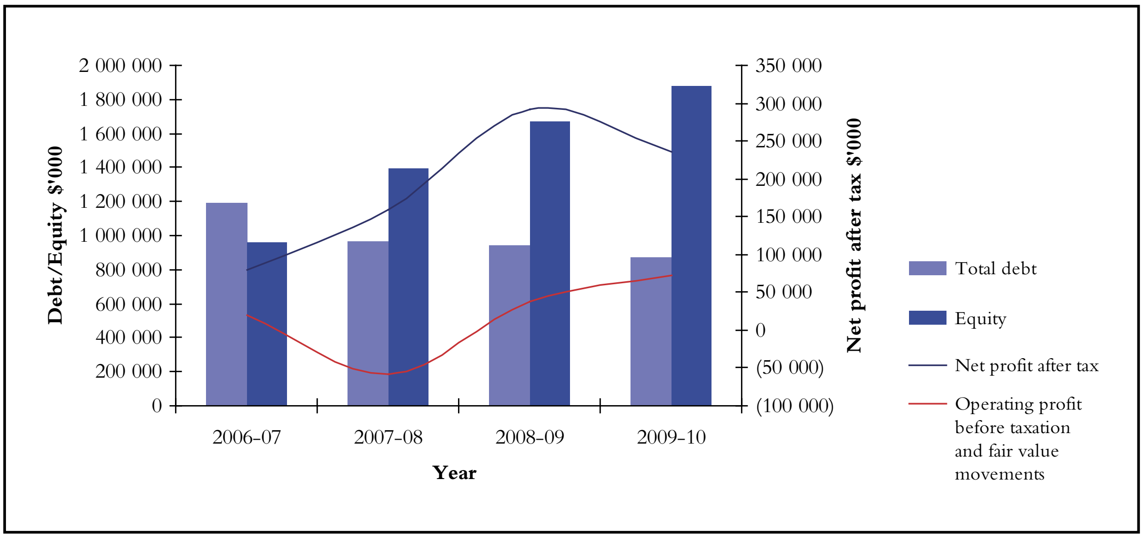
Hydro's capital investment program continued in 2009-10 and was targeted at sustaining generation assets and reducing their risks to assist Hydro to actively operate in the National Electricity Market (NEM).

FINANCIAL RESULTS

The financial information presented below summarises the consolidated financial statements of Hydro and its subsidiaries. When assessing Hydro's operating performance in 2009-10, the following matters need to be borne in mind:

1. The storage rebuild program commenced in 2008-09 continued. However, because of above average inflows to storages in 2009-10 the net level of import over Basslink was reduced from 2 560GWh to 1 056GWh
2. Environmental Energy Products (EEP). From 1 July 2009 Hydro changed its accounting treatment of EEP to record them at fair value. This reflected the balancing of the inventory of EEP against future sales commitments under the asset backed trading policies of Hydro. This gave rise to a $16.622m gain on inventory valuation. There was volatility in EEP prices during the year because of the renewable energy certificates (REC) attached to solar hot water installations supported by Commonwealth Government policy
3. Retail Sales made by Momentum Energy . This was the first full year of ownership of Momentum Energy
4. Tasmanian Energy Prices. During the year Hydro continued to negotiate new contracts with Major Industries and Aurora in advance of the expiry of existing contracts.

The following graph summarises Hydro's net profit after tax and its debt equity position over the past four years.



The graph indicates that:

- In each of 2006-07, 2008-09 and 2009-10 Hydro generated net operating profits before tax and fair value movements. However, in 2007-08 it generated a loss of $58.002m primarily due to:
  - o significant reductions in revenue associated with low inflows and Hydro's low storage situation. This lead to increased reliance on imports over Basslink to assist in maintaining storages. When electricity is imported into Tasmania over Basslink Hydro only receives the southbound Inter Regional Revenues (IRRs) associated with Basslink. There was a net import of 2 264GWh during the year
  - o the hydrological situation also resulted in increased generation from the gas fired Bell Bay power station. The cost of electricity generated by this plant is significantly higher than the cost of hydro electricity generation
  - o a reduction in energy prices since 30 June 2007. During the year ended 30 June 2008 energy prices in the Victorian region of the NEMwere lower than the prices which existed at 30 June 2007.
- It was on 30 June 2008 that Hydro participated in a $220.000m swap of debt and equity with Transend and, also in that year, the Government provided $50.000m in new equity capital to support Hydro's continued investment in R40s. The capital injection by the Government was designed to improve the credit standing of Hydro in the NEM. It was not designed to counter the impacts of low inflows into storages
- Since 30 June 2008, Hydro's equity improved mainly due to retained profits.

COMPREHENSIVE INCOME STATEMENT

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Sales of goods and services	717 246	609 241	452 987	478 056
Other operating revenue	9 687	16 496	17 021	13 525
Total Revenue	**726 933**	**625 737**	**470 008**	**491 581**
Direst operating expenses	319 018	262 518	199 648	157 720
Labour	100 763	88 822	88 574	84 868
Other operating expenses	70 204	73 242	73 060	67 234
Share of loss of joint venture	6 044	2 092	3 022	2 554
Depreciation	77 681	73 766	68 043	69 014
Total Expenses	**573 710**	**500 440**	**432 347**	**381 390**
Operating profit before interest and taxation	**153 223**	**125 297**	**37 661**	**110 191**
Finance costs	(80 337)	(86 684)	(95 663)	(90 695)
Operating profit before taxation and fair value movements	**72 886**	**38 613**	**(58 002)**	**19 496**
Share of profit of joint venture from asset sale	0	6 715	0	0
Bell Bay sale agreement	0	0	0	11 151
Movements in fair value	259 194	372 563	282 187	82 846
Profit before taxation	**332 080**	**417 891**	**224 185**	**113 493**
Income tax expense	(95 646)	(126 685)	(65 264)	(34 126)
Net Profit	**236 434**	**291 206**	**158 921**	**79 367**
Other Comprehensive income	**1 660**	**(22 327)**	**3 849**	**4 189**
Cash flow hedge fair value gain taken to equity	(24 302)	(4 446)	9 471	(31 167)
Actuarial gains (losses) on RBF provision	95	(87)	5	0
Other	6 793	8 033	(3 996)	9 219
Income tax relating to these items	(15 754)	(18 827)	9 329	(17 759)
Other Comprehensive income (loss)	220 680	272 379	168 250	61 608
Total Comprehensive Profit	**220 680**	**272 379**	**168 250**	**61 608**

Comment

Operating profits before interest and taxation

On an earnings before interest and tax basis, Hydro's results improved by $27.926m in 2009-10. Total Expenses represented 78.92% of Total Revenue, an improvement from 79.98% in 2008-09. Sales of goods and services increased by $108.005m, or 17.73%, primarily due to additional revenues generated by Momentum Energy and stronger water inflows into storages. Direct operating expenses increasing by $56.500m or 21.52%.

Finance Costs

Finance costs are lower this year reflecting the lower levels of debt resulting from the stronger cash flows from trading, cost control and efficient capital allocation.

Fair Value Movements

Under this category Hydro brought together the presentation of those items which reflect changes in the fair value of assets and liabilities:

> **Electricity Derivatives:** Accounted for at fair value in accordance with accounting standards and Hydro policy
>
> **Treasury Derivatives:** Accounted for at fair value in accordance with accounting standards and Hydro policy
>
> **Basslink Financial Asset and Liabilities:** Accounted for as a derivative and therefore recorded at fair value in accordance with accounting standards and Hydro policy.

Momentum Energy

As noted previously, on 31 August 2008 Hydro acquired Momentum Energy, an energy retailer based in Melbourne. This acquisition delivered vertical integration opportunities in those markets and therefore some natural hedging opportunities for generation capacity in Tasmania.

All contracts entered into by Momentum are subject to economic hedging arrangements with Hydro. No residual energy pricing risk is retained in Momentum. For the year ended 30 June 2010, Momentum operated at a loss after tax of $1.294m, (2008–09, $13.115m).

STATEMENT OF FINANCIAL POSITION

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Cash	2 791	4 315	1 504	1 615
Receivables	82 657	154 356	59 997	153 153
Investments	247	26 247	91 798	50 000
Inventories	57 168	51 815	18 363	1 533
Financial assets	119 159	166 005	62 975	53 695
Tax refund receivable	0	16 948	14 792	7 397
Assets held for sale	0	0	18 118	0
Total Current Assets	**262 022**	**419 686**	**267 547**	**267 393**
Payables	69 935	171 576	67 333	121 591
Borrowings	206 835	146 241	66 166	2 200
Other financial liabilities	150 142	152 916	153 941	210 126
Tax liabilities	11 392	0	0	0
Provisions	36 017	70 384	43 030	44 036
Total Current Liabilities	**474 321**	**541 117**	**330 470**	**377 953**
Working Capital	**(212 299)**	**(121 431)**	**(62 923)**	**(110 560)**
Property, plant and equipment	4 161 631	4 146 346	4 056 372	3 520 541
Investments	121 790	122 826	108 464	88 365
Other financial assets	537 368	476 245	413 224	323 081
Goodwill	47 796	47 796	0	0
Other	0	0	0	50 110
Total Non-Current Assets	**4 868 585**	**4 793 213**	**4 578 060**	**3 982 097**
Borrowings	666 029	794 994	905 208	1 190 000
Provisions	327 444	295 195	280 563	290 609
Other financial liabilities*	1 043 176	1 238 430	1 373 893	950 358
Deferred tax liabilities	737 707	677 681	559 033	482 380
Total Non-Current Liabilities	**2 774 356**	**3 006 300**	**3 118 697**	**2 913 347**
Net Assets	**1 881 930**	**1 665 482**	**1 396 440**	**958 190**
Reserves	(7 965)	(9 720)	12 694	8 838
Contributed equity	271 100	270 000	270 000	0
Retained profits	1 618 795	1 405 202	1 113 746	949 352
Total Equity	**1 881 930**	**1 665 482**	**1 396 440**	**958 190**

* *Comprises Basslink Services Agreement and Facility Fee Swap, Gas Pipe Line Capacity Agreement and energy derivatives.*

Comment

Commentary below deals with movements in the Statement of Financial Position between the 2009-10 and 2008-09 financial years.

Total Equity

Hydro's Total Equity increased in line with its Total comprehensive profit of $220.680m noted previously in the Comprehensive Income Statement section of this Chapter.

Property, plant and equipment valuation and depreciation

There was no impairment or upward valuation of the generation assets in the current year.

Financial Assets and Financial liabilities

Hydro valued all of its financial assets and financial liabilities at fair value in accordance with its policy and Australian Accounting Standards. The financial assets and financial liabilities affected are:

- Bank and investment balances
- Receivables
- Basslink financial asset
- Treasury derivatives
- Basslink Services Agreement
- Basslink Facility Fee swap
- Energy trading derivatives including Tasmanian Energy Contracts
- Environmental Energy Products (EEPs).

These assets and liabilities are subject to market price risk, cash flow interest rate risk, liquidity risk and credit risk. While Hydro has risk management strategies in place to manage these risks, changes in the underlying variables, such as energy market prices and interest rates, give rise to changes in asset and liability values. Note 17 to Hydro's financial statements details the impacts of movements in these balances between the last two financial years.

Borrowings

Hydro's borrowings totalled $872.864m at 30 June 2010 compared to $941.235m in the previous year, a decrease of $68.371m. This decrease was made possible by strong operating cash flows (see Statement of Cash Flows section later in this Chapter) and resulted in lower finance costs.

Net working capital

Hydro's net working capital position at 30 June 2010 was negative $212.299m ($121.431m negative at 30 June 2009) primarily due to short term borrowing obligations of $206.835m. While such a high level of negative net working capital might normally be a cause for concern, strong operating cash flows suggest this should not be a difficulty for Hydro, subject however to its ongoing capital expenditure program.

Superannuation

Hydro's provision for superannuation liability totaled $323.320m ($297.648m at 30 June 2009). The movement in this liability was caused by changes in discount rates, a change in the treatment of the contributions tax liability and the value of contributory scheme assets and liabilities, as determined by the State Actuary.

STATEMENT OF CASH FLOWS

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	788 460	491 430	544 130	432 234
Government grants	7 450	8 530	9 525	6 762
Payments to suppliers and employees	(555 463)	(394 779)	(453 136)	(304 505)
Interest received	652	4 252	3 657	2 178
Finance costs	(58 103)	(61 113)	(73 640)	(70 537)
Government guarantee fee	(4 954)	(4 477)	(5 579)	0
Income tax equivalent paid	0	0	0	(28 737)
Cash from operations	**178 042**	**43 843**	**24 957**	**37 395**
Payments for investments	(4 200)	(8 974)	(21 468)	(15 001)
Payments for financial assets	476	10 838	13 598	(24 499)
Payments for property, plant and equipment	(94 748)	(78 032)	(51 274)	(57 888)
Business Acquisition	(34 500)	(17 763)	0	0
Proceeds from sale of property, plant and equipment	859	15 659	33 074	1 857
Cash (used in) investing activities	**(132 113)**	**(78 272)**	**(26 070)**	**(95 531)**
Proceeds from borrowings	101 300	0	235 000	405 000
Repayment of borrowings	(170 000)	(30 000)	(242 200)	(289 800)
Equity Contribution	1 100	0	50 000	0
Cash balances acquired in business acquisition	0	7 037	0	0
Repayment of shareholder loans of acquired business	0	(5 165)	0	0
Repayment of finance lease	(521)	(183)	0	0
Dividend paid	(5 332)	0	0	(21 200)
Cash from (used in) financing activities	**(73 453)**	**(28 311)**	**42 800**	**94 000**
Net increase (decrease) in Cash	**(27 524)**	**(62 740)**	**41 687**	**35 864**
Cash at the beginning of the year	30 562	93 302	51 615	15 751
Cash at end of the year	**3 038**	**30 562**	**93 302**	**51 615**

Comment

Cash from operations in 2009-10 of $178.042m increased by $134.199m from 2008-09. This reflected the improved trading performance of Hydro during the year and in particular the impact of higher than average inflows into storages.

In the context of this we reiterate our comments of last year; the balance which Hydro has to strike is one of:

- maintaining storages at levels in line with its prudent water management principles
- undertaking a contracting strategy which protects its income streams from adverse market movements, but is cognisant of its asset backed trading position
- producing a sustainable cash flow to support the business and ensure that assets are maintained and refurbished to enable it to continue to meet the requirements of operating in the NEM
- meeting its capital commitments to its joint ventures and trading subsidiaries without compromising the needs of its core business.

FINANCIAL PERFORMANCE

	Bench Mark	2009-10	2008-09	2007-08	2006-07
Financial Performance					
Net profit after tax		236 434	291 206	100 192	268 941
EBIT ($'000s)		153 223	125 297	37 661	110 191
EBITDA ($'000s)		230 904	199 063	105 704	179 205
Operating margin	>1.0	1.47	1.47	1.50	1.57
Return on assets		3.0%	2.5%	0.8%	2.7%
Return on equity		13.3%	19.0%	13.5%	8.5%
Financial Management					
Debt to equity		46.4%	56.5%	69.6%	124.4%
Debt to total assets		17.0%	18.1%	20.0%	28.1%
Interest cover – EBIT		1.91	1.45	0.39	1.21
Interest cover – EBITDA	>2	2.87	2.30	1.10	1.98
Interest cover – operating cash flows		4.06	1.72	1.34	1.53
Current ratio	>1	0.55	0.78	0.81	0.71
Cost of debt	6.9%	7.0%	6.6%	6.5%	6.5%
Debt collection	30 days	42	85	43	80
Creditor turnover	30 days	18	36	19	29
Capital expenditure/depreciation		1.22	1.06	0.75	0.84
Capital Management					
Investment gap %	100%	122.0%	105.8%	75.4%	83.9%
Returns to and from Government					
Dividends payable ($'000s)		10 204	5 332	0	21 200
Dividend payout ratio	50%	4.3%	1.8%	0.0%	26.7%
Dividend to equity ratio		0.6%	0.3%	0.0%	2.3%
Income tax paid ($'000s)		0	0	0	28 737
Effective tax rate	30%	0.0%	0.0%	0.0%	147.4%
Government guarantee fees ('$000s)		4 954	4 477	5 579	5 105
Total return to the State ($'000s)		15 158	9 809	5 579	55 042
Total return to equity ratio		0.9%	0.6%	0.5%	5.9%
CSO funding ($'000s)		6 900	7 900	7 200	6 400
Other Information					
Average staff numbers (FTEs)		894	832	786	807
Average staff costs ($'000s)		113	107	113	105
Average leave balance per FTE ($'000s)		23	25	25	25

Comment

Hydro's Debt to equity ratio improved during the year due to the improved trading performance and the fair value adjustments made through the profit and loss. This outcome is a reflection of the BBB strategy.

Return on assets of 3.0% improved this year. This was the second improved year in a row which is an outcome of the higher than average storage inflows and the BBB strategy.

Correspondingly, Hydro's Leverage ratio continued to improve. 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 improvement is a reflection of the improved profit performance.

Debt collection and the creditor turnover days were both significantly impacted by size of the debtors and creditors balances with the Australian Energy Market Operator. These balances were significantly smaller at 30 June 2010 compared to other times during the year.

Hydro's Investment gap ratio indicated that over the four year period it invested in asset replacement and new assets at a rate consistent with benchmark.

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 Act). Its principal business is to manage all aspects of compensation awarded to persons suffering injury as a result of a motor accident as prescribed by this Act.

At 30 June 2010, the MAIB's Board of Directors comprised eight members, including the Chief Executive Officer, who are appointed by the Governor on the joint recommendation of the Treasurer and Portfolio Minister.

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Signed financial statements were received on 12 August 2010 and an unqualified audit report was issued on 19 August 2010.

BUSINESS OVERVIEW

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

Premiums are levied on classes of motor vehicles under the current Premiums Order and are collected by the Department of Infrastructure, Energy and Resources on behalf of the Board under a service level agreement.

Investment revenue consists of receipts of interest and dividends as well as realised and unrealised gains and losses on investments.

The Board adopts an investment strategy which seeks to maximise long-term growth within acceptable risk parameters to ensure sufficient funds are available to meet its claim liabilities. To achieve this outcome it invests in a mix of growth and defensive asset classes. At 30 June 2010 the Board's actual investment holdings were 57% in the growth category (including Australian and international equities, property and infrastructure) and 43% defensive (including cash and fixed interest). Given the high weighting to growth assets the investment portfolio contains an inherent volatility that may cause returns from year to year to fluctuate significantly, but over the longer term are expected to provide returns in excess of the cash rate. The Board has adopted benchmark allocations for each asset class within the investment portfolio which, based on historical returns, is expected to achieve a satisfactory level of return for an acceptable risk. Funds are transferred within asset classes to maintain target allocations or to implement tactical decisions to deviate from benchmark allocations where opportunities or material risks have been identified.

The main costs are claims expenses, which include claims payments and movements in the Provision for outstanding and unreported claims.

An independent actuary is engaged by the Board to undertake the valuation of the year end Provision for outstanding and unreported claims (claims liability). This process involves the actuary first determining 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. Determination of the central estimate 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
- movement in economic factors such as inflation and discount rates.

A claims handling expense for the future cost of managing these claims is then added to the central estimate and, finally, a prudential margin (which recognises that the estimation of future payments over an extended timeframe is inherently imprecise) is added to give the total Provision for outstanding and unreported claims.

The nature of the MAIB's business is "long-tailed" meaning that, for some claimants, benefits payments will be paid for many years. Claims costs are separated into three broad categories, each of which has different payment size and pattern characteristics. A description of these benefit types is summarised as follows:

Scheduled Benefits

Scheduled Benefits relate to all compensation provided to injured persons under section 23(1) of the Act and as detailed in the regulations. The benefits in the Act include:

- medical costs, including the services of doctors and health professionals
- funeral expenses
- death benefits
- disability allowance and benefits.

Common Law

The MAIB indemnifies motorists for common law damages awarded to persons injured as the result of a motor accident. Injured persons can take action to obtain damages under common law where the fault of another party can be established. An action must be commenced within the timeframes prescribed in the *Limitations Act 1974*.

Future Care

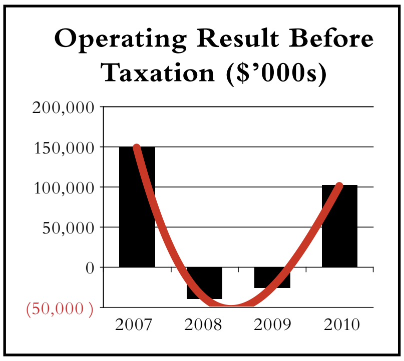
Claimants requiring 'daily care' (as defined in the Act), are classified as Future Care claims. Typically, these claimants are severely injured and are expected to require ongoing care. The MAIB's Future Care program provides accommodation and care on a respite and longer-term basis throughout Tasmania. Although relatively few in number, they represent a significant and increasing component of the MAIB's outstanding claims liability.

KEY FINDINGS AND DEVELOPMENTS

The audit was completed satisfactorily with no major items outstanding. Other than discussed under the financial results section below, there were no key developments.

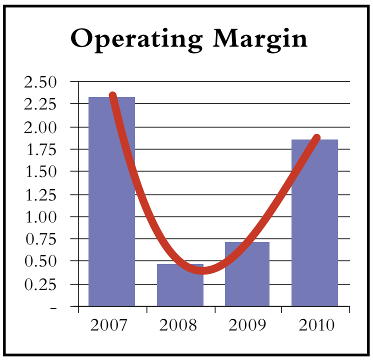
FINANCIAL RESULTS

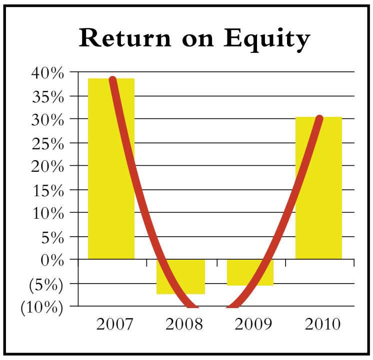
The following graphs summarise key ratios highlighting important aspects of MAIB's financial performance over the past four years.

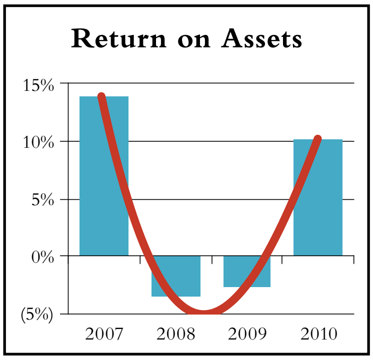


For the year ended 30 June 2010, the MAIB generated a net profit before income tax expense of $101.796m. A history of Operating results before taxation is shown in the graph. Negative results in 2007-08 and 2008-09 reflect the difficult market conditions experienced in these years. Refer further comments below.

Operating margin highlights the strong investment returns in 2006-07 and 2009-10 compared to the investment losses in 2007-08 and 2008-09 as a result of the global financial crisis.



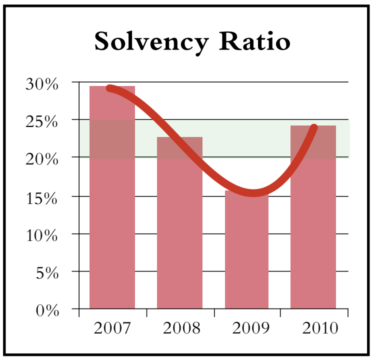




The two graphs left illustrate the volatility of net profits and losses recorded over the past four years. The graphs demonstrate that positive returns in 2006-07 and 2009-10 were higher in percentage terms than the negative returns in 2007-08 and 2008-09.

Solvency

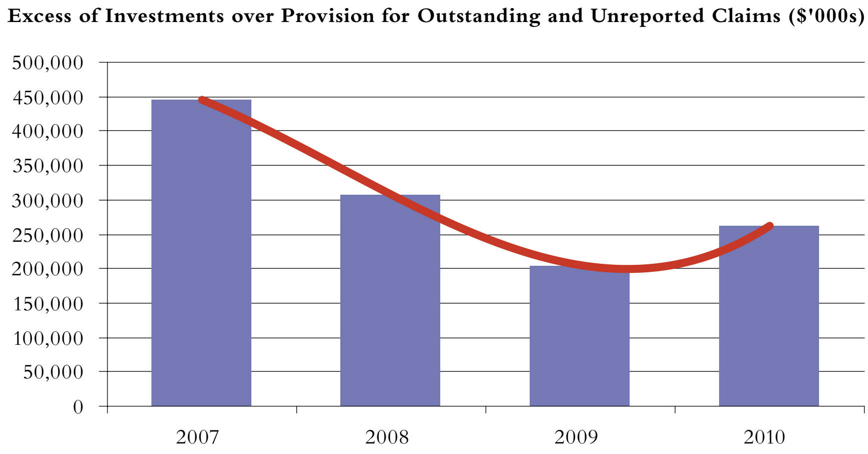
Solvency ratio is the MAIB's primary indicator of balance sheet strength (capital adequacy). A positive solvency ratio represents the additional assets held over and above the outstanding claims liabilities. These additional assets provide a buffer to the volatility that exists in claims costs and investment markets. It is usual for insurers to maintain such a buffer.



In conjunction with its external actuary, the MAIB has set a target solvency range of 20% to 25% which takes into account the claims liability profile and investment strategy along with the fact that the MAIB is a monopoly provider and government business enterprise. The target range is reviewed annually and MAIB monitors its solvency level on a monthly basis to ensure appropriate strategies are in place to maintain long-term solvency within the target range.

Following the lower solvency levels reported during the global financial crisis, a solvency ratio of 24.2% at 30 June 2010 is within the Board's target range. MAIB representatives advised that the current forecast is for long-term solvency to remain within the 20% to 25% range but that short-term volatility inherent in claims experience and/or financial markets may mean that at year end the reported solvency may fluctuate outside of that range. The Board monitors financial results and ratios on a monthly basis.

Investment compared to claims liabilities



This graph shows that, despite the unfavourable 2007-08 and 2008-09 results, total investments remained well above the Provision for outstanding and unreported claims.

COMPREHENSIVE INCOME STATEMENT

	2009-10	**2008-09**	**2007-08**	**2006-07**
	$'000s	$'000s	$'000s	$'000s
Premium revenue	130 247	126 079	123 224	120 246
Outwards reinsurance expense	(5 272)	(5 139)	(4 979)	(4 774)
Claims expense	(100 587)	(74 698)	(59 111)	(96 212)
Recovery revenue	(781)	10 786	5 339	473
Unexpired risk benefit (expense)	4 527	(1 710)	2 774	5 428
Other underwriting expenses	(2 493)	(2 427)	(2 471)	(2 395)
Underwriting result	**25 641**	**52 891**	**64 776**	**22 766**
Investment revenue (deficit)	86 448	(68 519)	(95 446)	137 309
General and administration expenses	(5 394)	(5 166)	(4 413)	(4 438)
Interest expense	0	0	0	(782)
Road Safety Initiative, Road Infrastructure and Motorcycle Safety Strategy	(3 952)	(4 606)	(3 398)	(3 690)
Injury Prevention and Management Foundation	(947)	(906)	(746)	(912)
Net Profit (Loss) before taxation	**101 796**	**(26 306)**	**(39 227)**	**150 253**
Income tax benefit (expense)	(27 497)	12 265	16 603	(37 169)
Net Profit (Loss)	**74 299**	**(14 041)**	**(22 624)**	**113 084**
Comprehensive Profit (Loss)	**74 299**	**(14 041)**	**(22 624)**	**113 084**

Comment

For the year ended 30 June 2010, the MAIB generated a Net profit before taxation of $101.796m. This result was a $128.102m improvement on the 2008-09 loss. The turnaround was principally attributable to the improved investment result, which is explained later in this Chapter.

MAIB produced positive underwriting results in all four years under review. The Underwriting result comprises two significant components, Premium revenue and Claims expense.

Premium revenue in 2009-10 increased by $4.168m, 3.31%. This increase was a result of a premium increase of 3.5% from 1 December 2009, the first since 2004, combined with an increase in the number of registered vehicles. The following table demonstrates the relationship between premium revenue and registered vehicle numbers:

	2009-10	**2008-09**	**2007-08**	**2006-07**
	$'000s	$'000s	$'000s	$'000s
Premium revenue ($m)	130 247	126 079	123 224	120 246
Total registered vehicles ($'000s)	452 893	441 476	435 595	424 052
Average premium	288	286	283	284

The other main contributor impacting on the Board's Underwriting result was the Claims expense which represents the cost of new claims incurred in the year combined with revisions to the costs of claims incurred in prior years. Variances in the annual expense are primarily due to the combined impacts of differing claims experience and revisions to the economic assumptions on prior years' claims. The 2009-10 and 2006-07 claims expenses reported are historically the more 'normal' years with 2008-09 and 2007-08 showing unusual favourable movements in the claims provision.

	2009-10	**2008-09**	**2007-08**	**2006-07**
	$'000s	$'000s	$'000s	$'000s
Claims paid	72 657	69 551	70 536	63 468
Movement in the provision for outstanding and unreported claims	27 436	4 684	(11 899)	32 306
Other claims paid	494	463	474	438
Total claims expenses	**100 587**	**74 698**	**59 111**	**96 212**

Recovery revenue decreased by $11.567m, 107%, in 2009-10 to a loss of $0.781m. The decrease is attributable mainly to the reduction in reinsurance receipts during the year from $12.074m during 2008-09 to $0.750m during 2009-10. Substantial receipts of reinsurance recoveries, resulting from the commutation of the 1991-95 accident years, were received during 2008-09. Settlement of claims with reinsurers occurs at irregular intervals resulting in substantial variances from year to year. The loss in 2009-10 results from the reassessment of reinsurance recoveries receivable by the Board's reinsurance broker.

Investment income for 2009-10 totalled $86.448m, a turnaround of $154.967m from the prior year result and represented a 10% return on the investment portfolio for the year. The Board's investment strategy of seeking to maximise long-term growth results in an inherent volatility that may cause returns from year to year to fluctuate significantly. The global financial crisis resulted in significant decreases in the value of investments held during 2007-08 and 2008-09, however these positions were largely unrealised. Financial markets recovered partially in 2009-10 resulting in a strong result for the Board.

The table below shows the Board's investment revenue over the last four years.

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Investment income	33 643	85 674	109 330	42 582
Changes in net market values				
Investments held at end of reporting period	38 345	(133 789)	(138 236)	74 879
Investments realised during the reporting period	16 372	(18 591)	(65 300)	21 387
Less investment related expenses	(1 912)	(1 813)	(1 240)	(1 539)
Total investment revenue	**86 448**	**(68 519)**	**(95 446)**	**137 309**

The MAIB continues to fund the Road Safety Task Force (RSTF), Black Spot Program and the Motorcycle Safety Strategy with total contributions in 2009-10 of $3.952m (2008-09, $4.606m).

STATEMENT OF FINANCIAL POSITION

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Cash and cash equivalents	125 193	182 084	157 916	275 825
Accounts receivable	1 349	1 358	1 767	1 968
Deferred acquisition costs	1 162	0	0	0
Reinsurance recoveries receivable	11 681	13 842	17 514	13 322
Debt securities and other investments	15 383	3 577	38 038	199 332
Listed instruments	102 116	112 396	92 456	40 670
Unlisted instruments*	710 482	570 875	678 245	603 087
Investment properties	15 730	15 345	15 510	12 920
Plant and equipment	987	449	515	527
Deferred tax asset	44 957	73 244	41 934	13 085
Other assets	15 052	27	27	31
Total Assets	**1 044 092**	**973 197**	**1 043 922**	**1 160 767**
Sundry creditors and accrued expenses	2 529	2 651	2 014	5 913
Provision for tax	0	7 897	32 892	31 887
Provision for unearned premium	56 722	53 817	53 632	52 486
Provision for injury prevention	1 164	1 104	882	1 060
Provision for unexpired risk	0	3 493	1 766	4 546
Provision for outstanding and unreported claims	706 655	679 220	674 536	686 435
Provision for employee benefits – leave	497	456	404	352
Provision for employee benefits – superannuation	3 471	2 877	2 398	2 333
Deferred tax liability	1 618	1 442	1 498	36 281
Total Liabilities	**772 656**	**752 957**	**770 022**	**821 293**
Net Assets	**271 436**	**220 240**	**273 900**	**339 474**
Retained Earnings	271 436	220 240	273 900	339 474
Total Equity	**271 436**	**220 240**	**273 900**	**339 474**

* *Unlisted instruments comprise investments in unlisted unit trusts which hold investments in various products including cash and fixed income, property, and listed instruments, including Australian, international and emerging market equities.*

Comment

The value of total investments increased from 2008-09 by $84.627m, 9.57%, and equity by $51.196m, 23.25%. These movements reflected the net effect of the Board's normal trading activities, plus the impact of dividend and tax payments to the Government.

The major component of the MAIB's Total Assets is its investment portfolio (including cash), which at 30 June 2010 represented 92.80% of Total Assets (2008-09, 90.86%).

The major component of the MAIB's Total Liabilities is its Provision for outstanding and unreported claims, which at 30 June 2010 represented 91.46 % of total liabilities (90.21%). The increase of $27.435m, 4.04%, is mainly attributable to a rise in the Future care component of $43.568m offset by reductions of $16.133m in common law and scheduled benefits claims. The Board's actuary reduced the liability for scheduled benefits and common law claims in line with the long-term downwards trend in the number of these claims reported and lower than projected payments per claim. The composition of the claims liability is provided in the table below.

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Future care	503 740	460 172	459 105	463 606
Common law	167 079	180 248	174 499	175 795
Scheduled benefits	35 836	38 800	40 932	47 034
Total Claims Liability	**706 655**	**679 220**	**674 536**	**686 435**

Actuarial review of the Provision for unexpired risk liability as at 30 June 2010 determined that there was no deficiency between the Provision for unearned premium and the expected cost of claims arising from the remainder of the periods of registration. This was primarily attributable to a reduction in claim frequency of 13% in 2009-10 compared to 2008-09. As a result, no Provision for unexpired risk liability was required at 30 June 2010.

Deferred acquisition costs, $1.162m, appear on the Statement of Financial Position for the first time at 30 June 2010. Costs incurred in collecting premiums are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the Statement of Comprehensive Income in subsequent reporting periods. In prior years, the balance had been offset against the Provision for unexpired risk.

The $15.025m increase in Other assets at 30 June 2010 was due to the prepayment of National Tax Equivalent Regime (NTER) instalments, $15.009m. NTER instalments are paid quarterly. A balancing payment was made subsequent to year end following finalisation of the tax position. Excess instalment payments are retained by the State Government and offset against the Board's future tax obligations.

The MAIB's Equity increased by $51.196m being the Net profit after tax of $74.299m less dividends paid of $23.103m.

STATEMENT OF CASH FLOWS

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Receipts from premiums	146 330	139 353	136 572	132 601
Payments for claims	(77 910)	(74 406)	(75 283)	(67 687)
Other payments	(27 922)	(27 062)	(25 730)	(25 673)
Other receipts	3 175	16 098	3 027	2 852
Tax paid	(21 941)	(44 096)	(49 262)	(28 789)
Dividends received	31 218	61 997	101 127	32 774
Interest received	764	22 857	6 413	8 509
Cash from operations	**53 714**	**94 741**	**96 864**	**54 587**
Payments for investments	(86 793)	(30 591)	(169 983)	66 665
Payments for property, plant and equipment	(731)	(511)	(1 914)	(654)
Proceeds from sale of property, plant and equipment	22	147	74	91
Cash (used in) investing activities	**(87 502)**	**(30 955)**	**(171 823)**	**66 102**
Dividends paid	(23 103)	(39 618)	(42 950)	(22 062)
Net increase (decrease) in cash	**(56 891)**	**24 168**	**(117 909)**	**98 627**
Cash at the beginning of the year	182 084	157 916	275 825	177 198
Cash at end of the year	**125 193**	**182 084**	**157 916**	**275 825**

Comment

As at 30 June 2010, MAIB held $125.193m in cash, primarily comprising direct cash investments. Cash is primarily generated from premium revenue with cash holdings in excess of those required for daily business activities being transferred into the investment portfolio. Cash holdings at year end can vary significantly and are driven largely by the Board's short to medium term financial obligations and investing activities.

FINANCIAL PERFORMANCE

	Bench Mark	2009-10	2008-09	2007-08	2006-07
Financial Performance					
EBIT ($'000s)		101 796	(26 306)	(39 227)	150 253
Net profit (loss) ($'000s)		74 299	(14 041)	(22 624)	113 084
Operating margin	>1.0	1.86	0.72	0.48	2.33
Underlying result ratio		0.46	(0.39)	(1.09)	0.57
Self financing ratio		0.24	1.42	2.70	0.21
Return on assets		10.1%	(2.6%)	(3.6%)	13.8%
Return on equity		30.2%	(5.7%)	(7.4%)	38.5%
Financial Management					
Solvency ratio	20-25%	24.2%	15.5%	22.6%	29.5%
Returns to Government					
Dividends paid or payable ($'000s)		24 690	33 103	39 618	22 951
Dividend payout ratio	50%	33.2%	(235.8%)	(175.1%)	20.3%
Dividend to equity ratio	6%	10.0%	13.4%	12.9%	7.8%
Income tax paid or payable ($'000s)		0	19 868	48 986	38 427
Effective tax rate	30%	–	(75.5%)	(124.9%)	25.6%
Total return to the State ($'000s)		24 690	52 971	88 604	61 378
Total return to equity ratio		10.0%	21.4%	28.9%	20.9%
Other Information					
Staff numbers (FTEs)		37	35	35	37
Average staff costs ($'000s)		64	63	61	55
Average leave balance per FTE ($'000s)		14	13	11	10

Comment

The Net profit achieved in 2009-10 resulted in positive Financial performance ratios in that year.

Dividends totalling $24.690m relating to 2009-10 are payable to the State Government under the dividend averaging policy agreed between the Board and Government. In accordance with the policy, dividends are based on the average of profits and losses over the current and four preceding years.

During 2006-07, the State Government announced that, subject to Parliamentary approval, the Board would be required to pay a special dividend of $30.000m in equal instalments over three financial years beginning 2007-08. Special dividends of $10m each were approved and paid in 2007-08 and 2008-09. Following advice received from the Treasurer and Portfolio Minister the Board was not required to pay the final special dividend due in 2009-10.

The Board is required under the *Government Business Enterprise Act 1995* to make taxation equivalent payments to the State Government. No tax equivalent is payable in respect of the 2009-10 financial year. Although the MAIB recorded an accounting profit for 2009-10, a taxable loss arose due to the exclusion of unrealised gains on investments and the realisation of taxable investment losses.

The combination of dividend (including special dividends in 2007-08 and 2008-09) and taxation equivalent payments produced strong Total return to equity ratios over the four year period under review.

PORT ARTHUR HISTORIC SITE MANAGEMENT AUTHORITY

INTRODUCTION

The Port Arthur Historic Site Management Authority (the Authority) is governed by the *Port Arthur Historic Site Management Authority Act 1987.* The Authority is managed by the Board, consisting of eight members. The main activities of the Authority are the conservation, maintenance, visitor management and promotion of the Port Arthur Historic Site and Coal Mines Historic Site.

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Signed financial statements were received on 13 August 2010 and an unqualified audit report was issued on 24 September 2010.

KEY FINDINGS AND DEVELOPMENTS

The Authority has in its possession several historic collections and archives, parts of which were catalogued; however these are not recognised as assets. While it is acknowledged that the capacity to establish a value of the collections and archives has several constraints, this may result in an understatement of the value of Property, plant and equipment. Heritage buildings and ruins are also not recognised due to difficulty in determining an appropriate value.

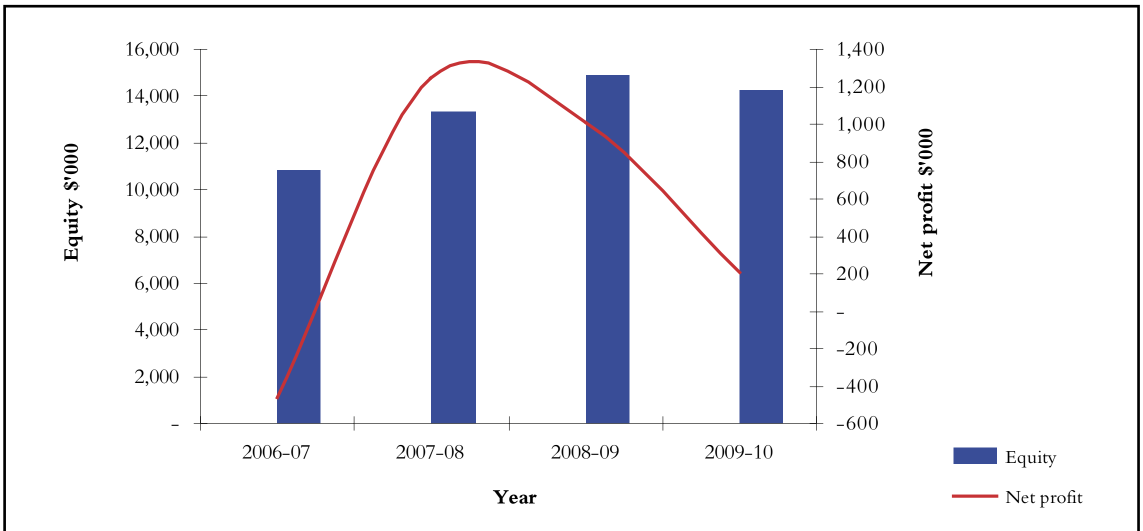
Apart from this matter, the audit was completed satisfactorily with no major issues outstanding.

FINANCIAL RESULTS

The Authority operates two distinct activities, firstly to conserve the fabric of the historic sites for posterity, and secondly to operate the sites as tourist destinations.

In recent years, both the State and Australian Governments provided additional support in recognition of the unique heritage value and economic benefits of the sites to the Tasmanian economy. The Authority remains economically dependent on funding from the State Government.

The graph below shows that Equity remained fairly stable. However, Net profit fluctuated over the past four years, mainly as a result of changes to visitor numbers and the extent of conservation works. While the Authority generates substantial revenue from its tourism operations, this is not sufficient to fulfil its obligation to ensure the conservation, maintenance and further research of the historic sites. The Authority does not have any borrowings.



COMPREHENSIVE INCOME STATEMENT

	2009-10	2008-09	2007-08	2006-07
	$'000	$'000	$'000	$'000
Entrance fees [a]	5 381	5 603	4 871	4 366
Ghost tours [b]	656	755	684	613
Food and merchandise sales [c]	3 469	3 673	3 525	3 317
Interest	226	234	222	168
Other income	236	377	567	186
Conservation funding	2 808	2 000	3 515	2 000
Total Revenue	**12 776**	**12 642**	**13 384**	**10 650**
Visitor services expenses [d]	2 844	2 623	2 522	2 385
Ghost tour expenses [e]	324	321	310	297
Food and merchandise expenses [f]	3 455	3 445	3 234	3 241
Site maintenance expenses	791	814	565	492
Conservation expenses	3 055	2 422	3 370	3 304
Corporate service expenses	1 810	1 713	1 855	1 111
Marketing expenses	292	296	280	280
Total Expenses	**12 571**	**11 634**	**12 135**	**11 110**
Net Profit (Loss)	**205**	**1 008**	**1 249**	**(460)**
Other Comprehensive Income				
Increase (decrease) in the revaluation of non-current assets	125	457	1 334	1 342
Defined benefit plan actuarial gain (loss)	(981)	114	(105)	(967)
Total Comprehensive Profit (Loss)	**(651)**	**1 579**	**2 478**	**(85)**
Entrance Fees (Net) (a-d)*	2 537	2 980	2 349	1 981
Ghost tours (Net) (b-e)*	332	434	374	316
Food and Merchandise Sales (Net) (c-f)*	14	228	291	76

* *Provided for additional information only.*

Comment

During the 2009-10 financial year, total revenue increased by $0.134m while expenditure increased $0.937m resulting in the much smaller Profit before Other Comprehensive Income. Total revenue increased as a result of higher conservation funding but revenue from tourism related operations decreased as a result of fewer visitor numbers. Expenditure increased due to additional conservation works carried out and the state service wage increases during the year.

The Authority is heavily reliant on Government support to fund its conservation efforts. Since 2000-01, the Authority received $2.000m annually from the State Government for conservation works. This commitment was extended under a new funding agreement and increased by additional $0.500m from 2010-11. The increase reflects inflationary costs since the initial arrangement was put in place and the Authority assuming responsibility for the Coal Mines Historic Site. In years where the funding exceeded $2.000m, the additional funding was provided by the Australian Government with the exception of additional conservation funding received in 2007-08 from the Tasmanian Government. Without this funding the Authority would have to curtail conservation work, as tourism activities do not generate sufficient income to cover the costs of maintaining the sites at the level they are now. Conservation grants are expended to conserve the site in accordance with the Act and the *Port Arthur Historic Sites Statutory Management Plan 2008*.

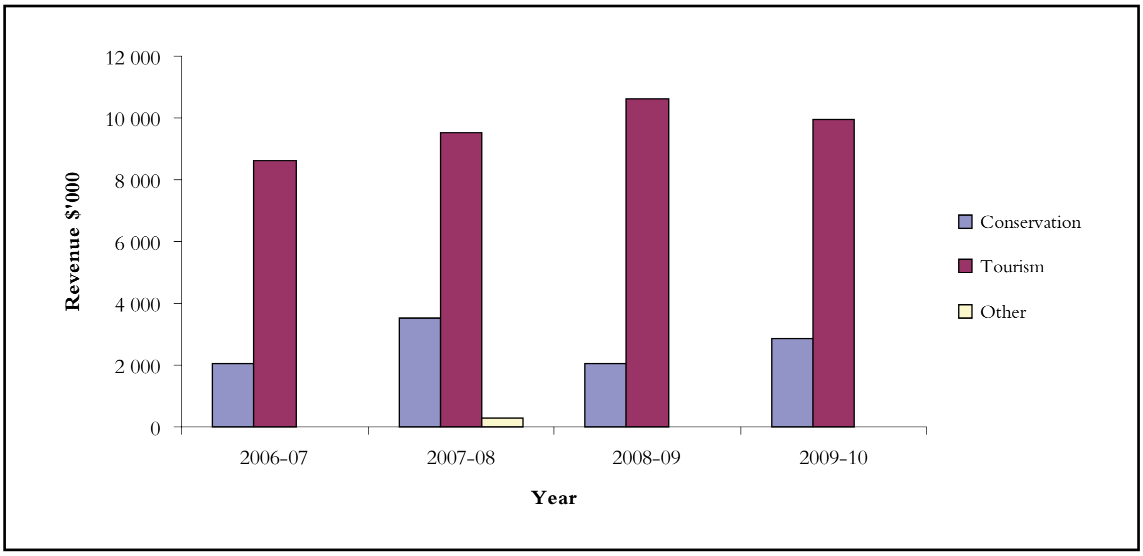
The majority of conservation works are carried out on heritage assets and ruins, which are not recognised as assets of the Authority due to difficulty in determining an appropriate value. As a result, all conservation works are shown as an operating expense and not capitalised.

The Defined benefit plan actuarial gain (loss) related to changes in discounts rates, rules applied in accounting for contributions tax and the value of contributory scheme assets and liabilities, as determined by the State Actuary. As is evident by the fluctuation between years, this movement is quite volatile and not within the Authority's control.

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

Revenue by activity

The graph below summarises revenue by activity for the past four years.



STATEMENT OF FINANCIAL POSITION

	2009-10	2008-09	2007-08	2006-07
	$'000	$'000	$'000	$'000
Cash assets	5 317	5 488	3 840	2 311
Receivables	124	105	159	110
Inventories	444	425	459	419
Other	54	23	51	15
Total Current Assets	**5 939**	**6 041**	**4 509**	**2 855**
Payables	824	1 025	761	966
Provisions	1 122	1 143	1 294	1 214
Total Current Liabilities	**1 946**	**2 168**	**2 055**	**2 180**
Working Capital	**3 993**	**3 873**	**2 454**	**675**
Property, plant and equipment	16 257	15 788	15 406	14 760
Total Non-Current Assets	**16 257**	**15 788**	**15 406**	**14 760**
Provisions	6 018	4 778	4 556	4 609
Total Non-Current Liabilities	**6 018**	**4 778**	**4 556**	**4 609**
Net Assets	**14 232**	**14 883**	**13 304**	**10 826**
Retained earnings	8 815	9 591	8 468	7 324
Reserves	5 417	5 292	4 836	3 502
Total Equity	**14 232**	**14 883**	**13 304**	**10 826**

Comment

Changes in the Authority's Financial Position since 30 June 2009 were minor. The Decrease in Retained earnings of $0.776m represents the total Net loss for the year.

The only other major change was the increase in Provisions – this relates to Employee entitlements with the higher liability primarily due to the $0.981m increase in the provision for superannuation benefits.

STATEMENT OF CASH FLOWS

	2009-10	2008-09	2007-08	2006-07
	$'000	$'000	$'000	$'000
Receipts from customers	10 459	11 408	9 949	8 486
Payments to suppliers and employees	(12 353)	(11 857)	(11 540)	(10 722)
Interest received	226	265	206	168
Cash from (used in) operations	**(1 668)**	**(184)**	**(1 385)**	**(2 068)**
Cash flow from government				
Tasmanian Government	2 000	2 000	3 142	2 000
Australian Government	448	359	0	372
Cash from operations and government	**780**	**2 175**	**1 757**	**304**
Payments for property, plant and equipment	(1 038)	(585)	(291)	(650)
Proceeds from sale of property, plant and equipment	87	58	62	66
Cash (used in) investing activities	**(951)**	**(527)**	**(228)**	**(584)**
Net increase (decrease) in cash	**(171)**	**1 648**	**1 529**	**(280)**
Cash at the beginning of the year	5 488	3 840	2 311	2 591
Cash at end of the year	**5 317**	**5 488**	**3 840**	**2 311**

Comment

The Authority's cash balance decreased by $0.171m in 2009-10 due to the net investment of $1.038m in Property, plant and equipment and increased Payments to suppliers and employees, partly due to higher salaries under the Public Service Wage Agreement. Visitor numbers decreased in 2009-10 which resulted in a decrease in Receipts from customers.

The Authority had deposits with financial institutions of $5.128m at 30 June 2010 which were to cover, in part, its superannuation liability.

FINANCIAL ANALYSIS

	Bench Mark	2009-10	2008-09	2007-08	2006-07
Financial Performance					
Result from operations ($'000s)		205	1 008	1 249	(460)
Operating margin	>1.0	1.02	1.09	1.10	0.96
Return on assets		0.93%	4.83%	6.66%	(2.69%)
Financial Management					
Current ratio	>1	3.05	2.79	2.19	1.31
Debt collection	30 days	7	6	10	8
Creditor turnover	30 days	24	32	23	32
Other Information					
Average staff numbers (FTEs)		89	87	85	85
Average staff costs ($'000s)		63	58	58	56
Average leave balance ($'000)		12	12	11	10
Daytime Visitors *		247 186	261 356	254 726	237 664
Ghost Tour Visitors *		39 898	47 122	49 406	46 765

* *Numbers are not subject to audit*

Comment

The Result from operations for 2009-10 was a profit of $0.205m compared to profit of $1.008m in 2008-09, $1.249m in 2008-09, and a loss in 2006-07 of $0.460m. These results were previously discussed under the Comprehensive Income Statement section of this Chapter.

Results for 2006-07 were lower than other reporting years mainly due to conservation expenditure relating to the Separate Prison Project, all other items remained consistent with gradual rises in line with increased visitor numbers, except for 2009-10 which saw a decrease in visitor numbers of 21 394.

The Current ratio was high in each of the four years indicating that the Authority is able to meet short term commitments.

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 is a government business enterprise responsible for the management of State Government owned irrigation schemes and progress of new water and irrigation developments.

In September 2008, the Commission established two wholly-owned subsidiaries:

- Tasmanian Irrigation Schemes Pty Ltd (TIS)
- Tasmanian Irrigation Development Board Pty Ltd (TIDB).

TIS is responsible for managing irrigation and water schemes throughout the State. TIBD is responsible for developing new water and irrigation schemes from feasibility assessment through to construction. Completed schemes are then transferred to TIS.

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Signed financial statements for each of the Commission and its two subsidiaries were received on 13 August 2010. An unqualified audit report for TIDB was issued on 24 September 2010. Unqualified audit reports for the Commission and TIS were issued on 27 September 2010.

KEY FINDINGS AND DEVELOPMENTS

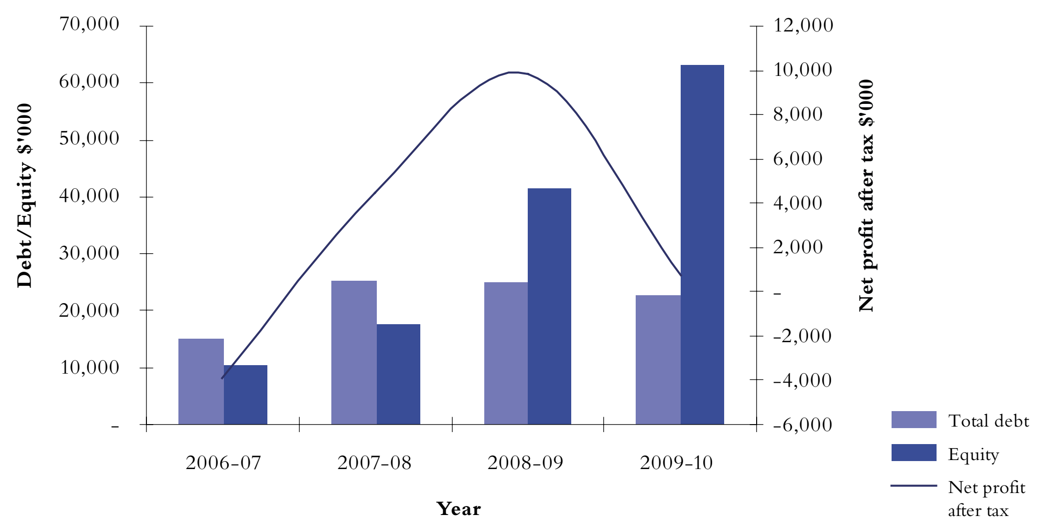
The audits were completed satisfactorily with no major issues outstanding.

The Commission is instrumental in delivering the Government's vision for the future of agriculture in the State, outlined in the Tasmanian Infrastructure Strategy. The Commission is currently pursing twelve projects to deliver irrigation water to areas in Northern, Eastern and Central parts of Tasmania. At the current time the Commission is financially viable only because of State government support.

FINANCIAL RESULTS

The analysis on the following pages is based the results of the Commission as a single entity until September 2008. Since that date, the analysis is based on the results of the consolidated entity. Nevertheless, the restructure had no impact on the analysis, as any inter-company transactions were eliminated on consolidation.

The graph below details movements in the Commission's debt, equity and net profit after tax.



The Commission continued to improve its equity position, mainly due to equity injections from Government over the last two years. These equity contributions minimised the Commission's need to borrow from external sources to fund its new projects. Total debt, which increased in 2007-08 as the Commission borrowed to fund the construction of Meander Dam, slightly decreased over the last two years. The spike in the 2008-09 profit was mainly attributed to recognition of an Income tax benefit, $8.531m. Prior to 2008-09, the Commission did not recognise its Income tax benefit due to the low probability at that time, and when it was estimated that future taxable profits would not be available against which unused tax losses could be applied. The Commission reassessed its future projections in 2008-09 and determined that it will be able to generate sufficient profits and thus utilise tax losses from prior years.

This year, profit returned to a level earned prior to 2008-09 and was affected by a write-down of the Meander Valley Irrigation Scheme by $3.207m. In total, the value of this Scheme has been impaired by $10.175m since 2007-08.

COMPREHENSIVE INCOME STATEMENT

	2009-10 Consolidated	2008-09 Consolidated	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Irrigation rights and water charges	5 821	4 400	11 629	1 812
State Government interest contribution	1 267	1 314	1 040	201
Government grants	6 993	3 700	35	0
Other revenue	1 848	1 193	914	126
Total Revenue	**15 929**	**10 607**	**13 618**	**2 139**
Employee benefits	3 305	1 979	92	396
Finance costs	1 770	1 783	53	242
Depreciation	789	626	545	683
Operational and other	6 221	4 498	1 329	1 000
Total Expenses	**12 085**	**8 886**	**2 019**	**2 321**
Profit (Loss) before other items	**3 844**	**1 721**	**11 599**	**(182)**
Impairment losses	(3 256)	(421)	(7 114)	(2 167)
Assets received at no consideration	450	0	0	0
Derecognition of deferred tax asset	0	0	0	(1 529)
Net Profit (Loss) before tax	**1 038**	**1 300**	**4 485**	**(3 878)**
Income tax benefit (expense)	(301)	8 531	0	0
Net Profit (Loss)	**737**	**9 831**	**4 485**	**(3 878)**
Other Comprehensive Income				
Increase (decrease) in the revaluation of land and buildings	0	0	965	0
Total Comprehensive Profit (Loss)	**737**	**9 831**	**5 450**	**(3 878)**

Comment

The Commission's profit, before accounting for tax, impairment losses and other non-operating items, increased from $1.721m in 2008-09 to $3.844m in 2009-10. This improvement of $2.123m was a result of:

- higher revenue from Irrigation rights and water charges, up $1.421m following an extension of the Meander Valley Irrigation Scheme to include four new regions (Quamby-Osmaston, Caveside-Dairy Plains, Rubicon and Hagley-Whitemore)
- higher Grants, up $3.293m predominantly due to additional funding to undertake feasibility studies into future irrigation projects
- higher Other revenue, up $0.692m mainly due to an increase in interest revenue, up $0.429m which reflected higher cash holdings.

The effects of the foregoing were offset in part by:

- higher Employee benefits, up $1.326m due an increase in employee numbers at TIDB and the indexation of wages across the Group
- higher Operational and other expenses, up $1.723m mainly due to increased costs for contractors and consultants, up $1.518m as there were twelve water development projects underway (TIDB) and the cost of purchasing water, up $0.555m to maintain adequate supply of irrigation water during dry summer months (TIS).

Overall, the Commission reported a Net Profit after tax of $0.737m after accounting for non-operating items, mainly Impairment losses. In the current year, the Commission impaired the value of the Meander Valley Irrigation Scheme by $3.207m and the South East Irrigation Scheme by $0.049m. The write-down reflected the sale of irrigation rights during the year. Assets received at no consideration, $0.450m represented the value of Rileys Creek Dam, Geeveston transferred from the Department of Primary Industries, Parks, Water and Environment to the Commission. The Commission will transfer the Rileys Creek Dam to TIS during 2010-11.

The table below provides a comparison of revenue and expenses of TIS and TIDB. The break down illustrates that development of new water and irrigation schemes, the responsibility of TIDB, is entirely dependent on Government funding. TIS, which is responsible for management of water and irrigation schemes, has a greater capacity to generate its own revenue, mainly from the sale of irrigation rights and water charges. However, TIS is still in need of Government support, mainly to assist with finance costs relating to borrowings for the construction of the Meander Dam.

	TIS		**TIDB**	
	2009-10	**2008-09 from October**	**2009-10**	**2008-09 from October**
	$'000s	$'000s	$'000s	$'000s
Irrigation rights and water charges	5 821	4 142	0	0
State Government interest contribution	1 267	1 314	0	0
Grants	268	0	6 725	3 116
Other revenue	1 406	931	376	0
Total Revenue	**8 762**	**6 387**	**7 101**	**3 116**
Empoyee benefits	639	417	2 666	1 465
Finance costs	2 203	1 411	0	0
Depreciation	484	363	305	202
Operational and other	2 257	1 375	3 916	1 932
Total Expenses	**5 583**	**3 566**	**6 887**	**3 599**
Profit (Loss) before tax and other items	**3 179**	**2 821**	**214**	**(483)**
Impairment losses	(3 256)	(421)	0	0
Net profit (loss) before tax	**(77)**	**2 400**	**214**	**(483)**
Income tax benefit (expense)	(107)	(719)	(54)	165
Net Profit (Loss)	**(184)**	**1 681**	**160**	**(318)**

STATEMENT OF FINANCIAL POSITION

	2009-10 Consolidated	2008-09 Consolidated	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Cash and deposits	19 534	12 024	3 095	1 700
Receivables	1 475	1 358	831	2 127
Fixed repayment plans	725	670	277	0
Water stock	511	508	491	165
Total Current Assets	**22 245**	**14 560**	**4 694**	**3 992**
Payables	3 066	3 536	803	2 631
Unearned revenue	5 929	1 803	893	6 301
Borrowings	1 112	1 814	991	4 475
Provisions	322	174	69	192
Total Current Liabilities	**10 429**	**7 327**	**2 756**	**13 599**
Working Capital	**11 816**	**7 233**	**1 938**	**(9 607)**
Property, plant and equipment	59 168	44 298	36 778	30 490
Deferred tax asset	8 231	8 531	0	0
Fixed repayment plans	4 895	4 478	2 779	0
Other	876	426	426	426
Total Non-Current Assets	**73 170**	**57 733**	**39 983**	**30 916**
Borrowings	21 457	23 027	24 088	10 546
Provisions	454	391	338	394
Total Non-Current Liabilities	**21 911**	**23 418**	**24 426**	**10 940**
Net Assets	**63 075**	**41 548**	**17 495**	**10 369**
Reserves	0	0	965	0
Accumulated losses	(11 654)	(12 391)	(23 187)	(27 672)
Government contributions	74 729	53 939	39 717	38 041
Total Equity	**63 075**	**41 548**	**17 495**	**10 369**

Comment

The Commission further strengthened its financial position as Total Equity increased from $41.548m as at 30 June 2009 to $63.075m as at 30 June 2010. The main reasons for this $21.527m increase were:

- the equity contribution from Government of $20.790m which was primarily provided to assist the Commission with the group's capital expenditure and feasibility programs
- the net profit after tax for the year of $0.737m, which resulted in the lower Accumulated losses.

The Commission's Working Capital also improved, up $4.583m compared to last year, predominantly due to its strong cash position. Cash holdings increased by $7.510m to $19.535m. This increase was partly offset by a higher Unearned revenue, up $4.126m represented mainly by prefeasibility funding, $3.138m and water entitlements deposits, $1.394m.

The increase in Property, plant and equipment, $14.870m was a result of new additions to Water infrastructure and other equipment, $3.719m and Work in progress, $15.752m, partly offset by Impairment losses, $3.256m.

The table below reports the financial position of TIS and TIDB.

	TIS		TIDB	
	2009-10	**2008-09 from October**	**2009-10**	**2008-09 from October**
	$'000s	$'000s	$'000s	$'000s
Cash and deposits	4 932	8 639	14 541	3 386
Receivables	805	1 046	657	311
Fixed repayment plans	725	670	0	0
Water stock	511	508	0	0
Total Current Assets	**6 973**	**10 863**	**15 198**	**3 697**
Payables	346	2 678	2 708	859
Unearned revenue	1 360	1 803	4 569	0
Borrowings	2 031	22 227	16 847	4 690
Provisions	77	42	245	109
Total Current Liabilities	**3 814**	**26 750**	**24 369**	**5 658**
Working Capital	**3 159**	**(15 887)**	**(9 171)**	**(1 961)**
Property, plant and equipment	41 737	36 953	1 679	595
Work in progress	7 489	5 697	8 263	1 053
Deferred tax asset	0	614	0	56
Fixed repayment plans	4 895	4 478	0	0
Other	426	426	0	0
Total Non-Current Assets	**54 547**	**48 168**	**9 942**	**1 704**
Borrowings	29 472	30 562	0	0
Provisions	357	40	97	61
Deferret tax liability	3 089	0	831	0
Total Non-Current Liabilities	**32 918**	**30 602**	**928**	**61**
Net Assets	**24 788**	**1 679**	**(157)**	**(318)**
Share capital	23 293	0	0	0
Retained earning (accumulated losses)	1 495	1 679	(157)	(318)
Total Equity	**24 788**	**1 679**	**(157)**	**(318)**

In October 2008, the Commission transferred the majority of its assets and liabilities to TIS and in turn recognised a short term loan for the net value of transferred assets, $21.200m. In the current year, the Commission forgave that loan in exchange for an equity investment in TIS. This transaction contributed to a $19.046m favourable turnaround in TIS's Working Capital and a $23.109m increase in its Net Assets. TIDB, on the other hand, borrowed further $12.157m from the Commission to fund the development of new projects. TIDB records its inter-company loans as current liabilities due to these loans being 'at call'. As a result, TIDB's Working Capital was negative $9.171m. TIDB's Total Equity was also negative, being an Accumulated Loss of $0.157m, a $0.161m improvement on last year.

STATEMENT OF CASH FLOWS

	2009-10 Consolidated	2008-09 Consolidated	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	5 883	2 974	4 965	3 447
Government grants and contributions	11 436	4 431	765	554
Interest received	934	505	203	57
Payments to suppliers and employees	(9 629)	(2 565)	(3 243)	(1 196)
Finance costs	(1 761)	(1 859)	(56)	(260)
Cash from operations	**6 863**	**3 486**	**2 634**	**2 602**
Payments for property, plant and equipment	(19 471)	(8 575)	(13 038)	(17 256)
Proceeds from sale of property, plant and equipment	518	36	66	44
Proceeds from sale of water entitlements	1 394	0	0	0
Cash (used in) investing activities	**(17 559)**	**(8 539)**	**(12 972)**	**(17 212)**
Capital contribution from Government	20 790	14 223	1 675	2 561
Proceeds from borrowings	0	824	26 195	31 295
Repayment of borrowings	(2 584)	(1 065)	(16 137)	(20 584)
Cash from financing activities	**18 206**	**13 982**	**11 733**	**13 272**
Net increase (decrease) in cash	**7 510**	**8 929**	**1 395**	**(1 338)**
Cash at the beginning of the year	12 024	3 095	1 700	3 038
Cash at end of the year	**19 534**	**12 024**	**3 095**	**1 700**

Comment

Cash at the end of the year increased by $7.510m to $19.534m at 30 June 2010. This improvement in cash position was a result of:

- higher cash generated from operations, consistent with explanations provided in the Comprehensive Income Statement section of this Chapter
- higher Capital contributions from both the State and Australian Governments. Prior to 2008-09, the majority of capital was raised through borrowings.

The effects of the foregoing were offset in part by:

- higher investments in Property, plant and equipment, up $9.020m as the Group continued to invest in new water and irrigations schemes.

The table below compares cash flows of TIS and TIDB.

	TIS		TIDB	
	2009-10	**2008-09 from October**	**2009-10**	**2008-09 from October**
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	6 060	2 447	0	0
Government grants and contributions	1 536	1 314	9 900	3 116
Interest received	519	371	365	0
Payments to suppliers and employees	(4 876)	476	(4 896)	(2 679)
Finance costs	(1 761)	(1 407)	0	0
Other				
Cash from operations	**1 478**	**3 201**	**5 369**	**437**
Payments for property, plant and equipment	(10 873)	(6 696)	(8 598)	(1 850)
Proceeds from sale of property, plant and equipment	518	37	0	0
Proceeds from sale of water entitlements	0	0	1 394	0
Cash (used in) investing activities	**(10 355)**	**(6 659)**	**(7 204)**	**(1 850)**
Capital contribution from Government				
Proceeds from borrowings	7 754	13 109	12 990	4 799
Repayment of borrowings	(2 584)	(1 012)	0	0
Cash from financing activities	**5 170**	**12 097**	**12 990**	**4 799**
Net increase (decrease) in cash	**(3 707)**	**8 639**	**11 155**	**3 386**
Cash at the beginning of the year	8 639	0	3 386	0
Cash at end of the year	**4 932**	**8 639**	**14 541**	**3 386**

Movement s between 2009-10 and 2008-09 were consistent with explanations provided in the previous sections of this Chapter.

FINANCIAL PERFORMANCE

	Bench Mark	2009-10	2008-09	2007-08	2006-07
Financial Performance					
Result from operations ($'000s)		3 844	1 721	11 599	(182)
Operating margin	>1.0	1.3	1.2	6.7	0.9
Return on assets		6.7%	6.0%	29.3%	0.2%
Total return to equity ratio		1.4%	33.3%	32.2%	(35.2%)
Financial Management					
Debt to equity		35.8%	59.8%	143.3%	144.9%
Debt to total assets		23.7%	34.4%	56.1%	43.0%
Interest cover	>2	3.2	2.0	219.8	0.2
Current ratio	>1	2.1	2.0	1.7	0.3
Returns to Government					
Dividends paid or payable ($'000s)		0	0	0	0
Income tax paid or payable ($'000s)		0	0	0	0
Other Information					
Staff numbers (FTEs)		32	21	15	12
Average staff costs ($'000s)		94	83	29	61
Average leave balance per FTE ($'000s)		7	10	5	5

Comment

Financial Performance indicators fluctuated throughout the four-year period and were largely affected by the timing of income from the sale of irrigation rights. The improved Results from Operations in 2007-08 was due to the sale of water rights from the newly constructed Meander Dam.

The decline in Debt to equity ratio reflected the capital injections from the State Government of $14.224m in 2008-09 and $12.127m in 2009-10. The Commonwealth Government contributed a further $8.663m in 2009-10. In previous years, investments were funded from Borrowings. The movement in Interest cover ratio reflected movements in Earnings before interest and tax and the quantum of interest expenses charged to the Income Statement. Capitalisation of interest expenses during the construction of Meander Dam also impacted on the Cost of debt ratio.

Current ratio improved considerably since 2007-08. The improvement was credited to an improved cash position due to Government funding and the sale of rights to water from new irrigation schemes.

The increase in Staff numbers was due the Commission progressing new irrigation and water developments. The increased Average staff costs reflected different treatment of employee related expenses in 2008-09. Staff costs attributed to the construction of Meander Dam were capitalised until the project was completed in 2007-08. Average leave balance per FTE increased mainly due to the transfer of accrued annual and long service leave of employees transferred from the Department of Primary Industries, Parks, Water and Environment.

TASMANIAN PUBLIC FINANCE CORPORATION (TASCORP)

INTRODUCTION

The Tasmanian Public Finance Corporation (TASCORP or the Corporation) was established by the *Tasmanian Public Finance Corporation Act 1985*. The TASCORP Board is comprised of six members as at 30 June 2010 (normally five members) appointed by the Governor. TASCORP'S functions include the development and implementation of borrowing and investment programs for participating authorities, including Local Government, Government Business Enterprises, Other State Authorities, State Owned Companies and inner budget agencies.

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Signed financial statements were received on 11 August 2010 and an unqualified audit report was issued on the same day. The audit was completed satisfactorily with no major items outstanding.

To enhance understanding in this report:

- Credit Margin Gains (losses) means the fair value changes attributable to change in credit risk for investments
- Liability Margin Gains (Losses) means the fair value attributable to the movement between the swap curve and the TASCORP yield curve as applied to the Corporation's borrowings and client loans.

FINANCIAL RESULTS

Economic conditions recovered in 2009-10 after the impact of the global financial crisis in 2008-09 and this resulted in better operating conditions for TASCORP. TASCORP achieved a Net Profit before tax for the year of $16.219m (200809, $20.659m) and at 30 June 2010 it had Net Assets of $38.466m (30 June 2009, $31.113m) comprising:

	June 2010	**June 2009**
	$m	$m
Investments	2 421	3 709
Advances to State entities	3 153	3 084
Deposits received from State entities	(1 660)	(2 055)
Borrowings	(3 682)	(4 440)
Net derivatives	40	4
Other	(234)	(271)
Total	**38**	**31**

Managing risk

The strength of the risk management systems in place at TASCORP provides comfort that there are no undisclosed exposures in the Balance Sheet and that the Financial Statements are fairly stated.

Note 17(g) in TASCORP's financial statements shows its Value at Risk (VaR) analysis. The VaR risk measure estimates the potential loss in pre-tax profit due to a change in benchmark interest rates and TASCORP liability risk margins over a given holding period for a specified confidence level. Note 17(g) discloses TASCORP's VaR during 200910 as follows:

	Average		Minimum		Maximum		Year end	
Historical VaR	**2009-10**	**2008-09**	**2009-10**	**2008-09**	**2009-10**	**2008-09**	**2009-10**	**2008-09**
(99% one-day)	A$'000	A$'000	A$'000	A$'000	A$'000	A$'000	A$'000	A$'000
Total VaR exposure	400	445	244	259	568	1 299	474	273

These value at risk numbers reflect TASCORP's lower risk profile compared to the position at 30 June 2009 and put the operating result in context. However, it should be noted the numbers above reflect the one day VaR and TASCORP is subject to market volatility across its differing financial assets and liabilities that can have a significant impact on its profit. This is because TASCORP generates relatively small margins on its borrowing and lending activity compared to the volume of its lending.

STATEMENT OF COMPREHENSIVE INCOME

	2009-10	**2008-09**	**2007-08**	**2006-07**
	$'000s	$'000s	$'000s	$'000s
Interest revenue	290 819	362 739	434 875	386 457
Other operating revenue	759	260	452	582
Net gains (losses) from financial instruments	(29 226)	16 507	(39 352)	7 627
Total Revenue	**262 352**	**379 506**	**395 975**	**394 666**
Interest expense	241 329	354 434	394 617	385 363
Other operating expenses	4 804	4 413	4 064	3 808
Total Expenses	**246 133**	**358 847**	**398 681**	**389 171**
Profit (Loss) before:	**16 219**	**20 659**	**(2 706)**	**5 495**
Income tax expense (benefit)	4 866	6 198	(812)	1 649
Net Profit (Loss)	**11 353**	**14 461**	**(1 894)**	**3 846**

Comment

TASCORP's Net Profit after tax for the year ended 30 June 2010 was $11.353m (2008-09, $14.461m). The decline in profit after tax was driven by a net loss arising from financial instruments of $29.226m (2008-09, $16.507m gain). This was partly offset by improved net interest revenue (Interest revenue less Interest expense), (2009-10, $49.490m; 2008-09, $8.305m) and lower Income tax expense (2009-10, $4.866m; 2008-09, $6.198m).

As TASCORP considers the presentation of its Statement of Comprehensive Income may lead to a misinterpretation of its financial performance, it presents its financial information in an alternative form, Note 4 to TASCORP's financial statements, which better reflects the profit drivers.

Set out below is an extract from Note 4 to TASCORP's financial statements, which better reflects the profit drivers. It summarises TASCORP's operating revenues as following:

	2009-10	2008-09	2007-08
	$'000s	$'000s	$'000s
Net Margin Income	15 686	20 430	11 854
Credit Margin Gains (Losses)	5 467	(11 867)	(9 039)
Liability Margin Gains (Losses)	(854)	16 332	(1 909)
Fee Income	724	177	452
Revenue from Operations*	**21 023**	**25 072**	**1 358**

* *Revenue from Operations is before accounting for other operating expenses of $4.804m (2008-09, $4.413m and 2007-08, $4.064m).*

The higher margin income through 2008-09 and 2009-10 resulted from the recovery of the mark to market losses incurred in 2007-08. Revenue from operations decreased $4.049m in 2009-10 (2008-09 $23.714m increase) occurring due to lower net margin income supplemented by current margin gains. The high net margin in 2008-09 benefited from the reversal of unrealised losses incurred in 2007-08 In 2009-10 the net margin income stabilised back to more normal levels following the reversion to a more normal economic environment.

STATEMENT OF FINANCIAL POSITION

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Cash	866	681	11 453	11 885
Investments *	2 421 327	3 708 683	3 785 282	3 985 448
Advances *	3 152 616	3 084 483	2 643 182	2 425 043
Derivative instruments receivable	110 676	130 171	50 542	54 069
Property, plant and equipment	212	155	201	273
Intangibles and other	203	187	1 104	293
Total Assets	**5 685 900**	**6 924 360**	**6 491 764**	**6 477 011**
Payables	229 931	267 049	339 321	144 698
Deposits *	1 660 065	2 054 688	1 762 773	1 786 341
Borrowings *	3 681 903	4 439 802	4 257 165	4 457 084
Derivative instruments payable	70 219	125 951	115 470	64 328
Current tax liabilities	4 866	5 386	0	1 654
Provisions	450	371	383	860
Total Liabilities	**5 647 434**	**6 893 247**	**6 475 112**	**6 454 965**
Net Assets	**38 466**	**31 113**	**16 652**	**22 046**
Reserves	10 000	10 000	10 000	10 000
Retained earnings	28 466	21 113	6 652	12 046
Total Equity	**38 466**	**31 113**	**16 652**	**22 046**

* *Consistent with the 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 (except for $277.832m (2008-09 $200.000m)) of client advances that are attributable to the banking book created in 2008-09).*

Comment

During 2009-10 TASCORP continued to maintain its level of borrowings and investments in line with:

- its liquidity policy
- available capital
- the need to be able to service client borrowing needs when they are required
- the opportunities available in the market to issue new paper.

TASCORP's Total Equity increased by $7.353m in 2009-10, being its net profit after tax for the financial year less dividends paid.

Investments decreased by 35%, or $1 287.356m (2008-09, $76.599m), which occurred in part due to the change in market value and in part due to lower borrowings as at June 2010. TASCORP repaid $736.200 million of preferred stock on 15 September 2009.

Advances to State owned entities increased by 2%, or $68.133m in 2009-10 (2008-09, $441.301m). This increase was primarily due to increases in loans to Aurora Energy of $95.621m and to local government entities of $72.773m. These increases were offset by the decrease in loans to Hydro Tasmania of $115.753m.

Deposits decreased by 19%, or $394.623m (2008-09, $291.915m increase) primarily due to decreases in funds deposited with TASCORP by the State Government, of $131.725m, and by Government Business Enterprises and State-owned companies of $217.249m.

TASCORP's borrowings decreased by 17%, or $757.899m (2008-09, $182.637m increase) primarily due to lower short-term borrowings as at 30 June 2010 in anticipation of the issue of $750.000m of new preferred stock in July 2010.

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 reflects the fair value of the amounts payable or receivable under the contracts.

STATEMENT OF CASH FLOWS

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Interest and other receipts	284366	354 884	431 255	411 979
Interest payments	(340 723)	(406 506)	(398 295)	(384 079)
Payments to suppliers and employees	(4 707)	(4 113)	(4 404)	(3 669)
Taxation expense	(5 386)	0	(1 654)	(2 947)
Net increase (decrease) in deposits	(65)	(23 791)	(238 437)	83 887
Net (increase) decrease in advances	(71 596)	(427 849)	(56 768)	(84 848)
Net (increase) decrease in investments	203 374	203 068	60 299	439 543
Cash from (used in) operations	**65 263**	**(304 307)**	**(208 004)**	**459 866**
Payments for property, plant and equip.	(182)	(138)	(114)	(21)
Proceeds from sale of property, plant and equip.	50	25	18	28
Cash from (used in) investing activities	**(132)**	**(113)**	**(96)**	**7**
Receipts from other financial liabilities at fair value through profit and loss (borrowings)	(767 080)	183 493	(198 810)	298 577
Dividends paid	(4 000)	(3 500)	(1 846)	(553)
Cash from (used in) financing activities	**(771 080)**	**179 993**	**(200 656)**	**298 024**
Net increase (decrease) in cash	**(705 949)**	**(124 427)**	**(408 756)**	**757 897**
Cash at the beginning of the year	954 119	1 078 546	1 487 302	729 405
Cash at end of the year	**248 170**	**954 119**	**1 078 546**	**1 487 302**

Comment

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

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

The repayment of borrowings during 2009-10 was the primary reason for the decrease in cash at the end of the year, which declined $705.949m (2008-09, $124.427m). This repayment of borrowings was driven by the reduction in short-term borrowings as at 30 June 2010, in anticipation of the issue of preferred stock in July 2010.

The reader's attention is drawn to Note 17 Financial Instruments and Risk Management in TASCORP's Financial Statements. It provides a comprehensive description of the financial instruments held, their risk profiles and the risk management systems in place.

FINANCIAL ANALYSIS

	Bench Mark	2009-10	2008-09	2007-08	2006-07
Financial Performance					
Profit (Loss) ($'000s)		16 219	20 659	(2 706)	5 495
Return on equity		42.2%	66.4%	(16.3%)	24.9%
Returns to Government					
Dividends declared ($'000s)		4 000	0	3 500	1 846
Dividend payout ratio	50%	35.2%	0.0%	(184.8%)	48.0%
Dividend to equity ratio		10.4%	0.0%	21.0%	8.4%
Income tax payable ($'000s)		4 866	5 386	0	1 654
Effective tax rate	30%	30.0%	26.1%	0.0%	30.1%
Total return to the State ($'000s)		8 866	5 386	3 500	3 500
Total return to equity ratio		23.0%	17.3%	21.0%	15.9%
Other Information					
Staff numbers (FTEs)		16	15	14	14
Average staff costs ($'000s)		141	140	120	112
Average leave balance per FTE ($'000s)		18	18	18	17

Comment

TASCORP is the banker to the government sector 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 noted previously, TASCORP adopts risk management strategies to operate within its capital constraint and a corresponding low appetite for risk. The objective is to structure the business so as to effectively deliver the core objective noted in the next paragraph.

In view of TASCORP's role the financial analysis is limited to the performance measures included in the table above. The core objective of TASCORP is to raise funds for the Tasmanian Government and its State entities at a price reflective of the rating held by the State of Tasmania. This has been achieved within a clearly defined capital at risk and an appropriate risk management system approved by the Board.

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:

- preparation of wills
- estate administration
- trust management and powers of attorney, and
- the protection of the financial interests of individuals under a legal, physical or intellectual disability where the Public Trustee is appointed to act on their behalf.

The Public Trustee collects fees and commissions for providing these services. In addition, it receives funding from the State Government to enable it to satisfy its Community Service Obligations.

The financial statements of the Public Trustee report the results of its provision of the above services and its management of the Common Fund and three group investment funds. Estate and other assets under administration are not included in its financial statements but are dealt with elsewhere in its annual report.

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Signed financial statements were received on 16 August 2010. An unqualified audit report was issued on the 13 September 2010. The audit was completed satisfactorily with no major items outstanding.

MAJOR DEVELOPMENTS

In 2009-10 the following major developments occurred:

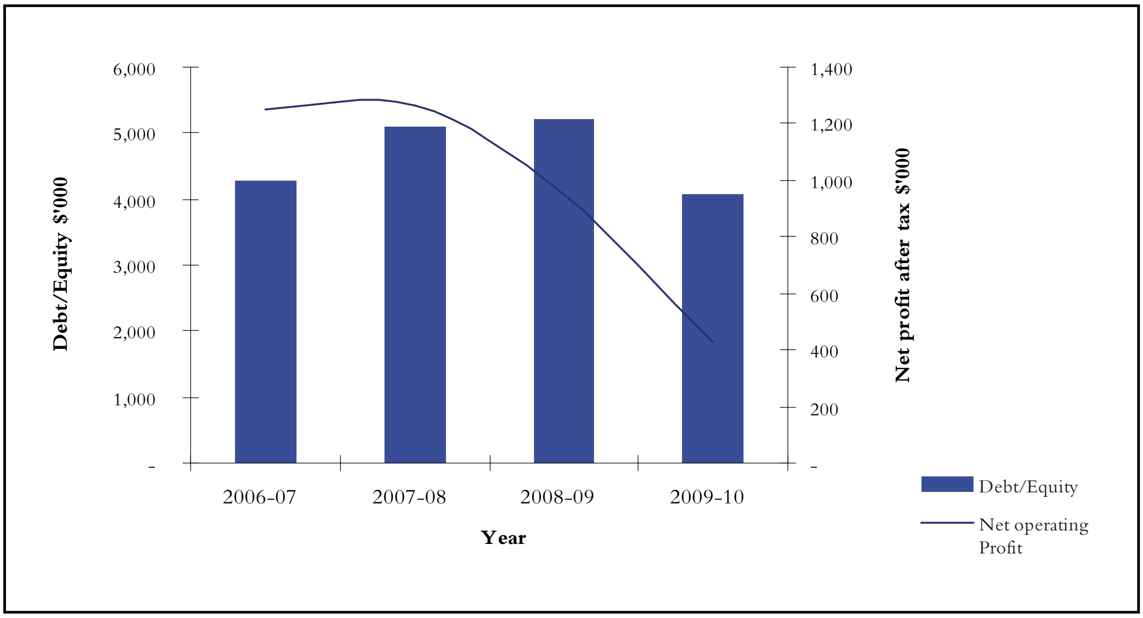
- Sale of the Murray Street building generating cash proceeds of $4.5000m. Public Trustee entered into a sale and leaseback arrangement with the new building owners
- Proceeds from the sale, combined with additional Corporate funds withdrawn from the Common fund, were used to purchase a number of managed investment products. The total invest at 30 June 2010 was $10.175m
- A major impact resulting from the use of managed investments was an unrealised loss of $0.575m which arose due to a drop in the market value of the investments at year end
- Other comprehensive losses included a $1.078m loss resulting from the actuarial valuation of the Defined benefits superannuation plan as at 30 June 2010.

Funds Held in Trust on Behalf of Clients

The Public Trustee's financial statements only recognise funds controlled by it as a body corporate. As part of its executor and trustee role, the Public Trustee also holds funds in trust on behalf of clients during the course of estate and trust administrations. These funds were not included in the financial statements as Australian Accounting Standards do not permit recognition of funds under management. However, note 24 to the financial statements disclosed four investment funds holding $122.771m of client funds at 30 June 2010. Interest earned on these funds was not treated as income of the Public Trustee.

FINANCIAL RESULTS

The graph below summarises the Public Trustee's profitability and Equity over the past four years.

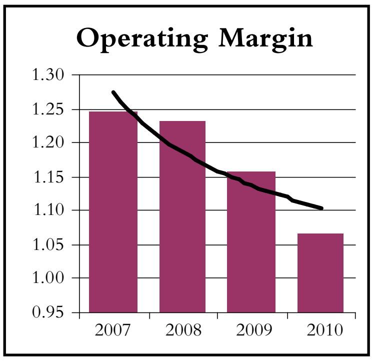


Net operating profit declined sharply since 2007-08 due to costs steadily increasing, mainly employee benefits, while Commission and fee revenue failed to keep pace, falling back to the 2007-08 level this year.

Equity in 2009-10 decreased by $1.437m due to:

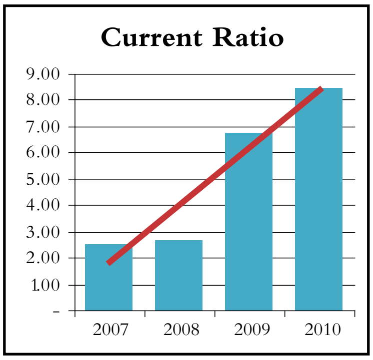
- the unrealised loss on managed investments of $0.575m
- the actuarial loss on the Defined benefit superannuation scheme of $1.078m.

Financial Results



Operating margin of 1.07, while above the benchmark, decreased since 2006-07. This was the result of falling Commissions and fee revenue, combined with rising Employee benefits expenditure.

Current ratio increased markedly from last year indicating the Public Trustee was able to comfortably meet all its short term commitments. The large improvement this year reflected the investment of the sale proceeds of $4.500m following the sale of premises in Murray Street.



COMPREHENSIVE INCOME STATEMENT

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Commission and fees	4 988	5 447	4 907	4 566
Funding of community service obligations	1 215	1 127	1 070	793
Income from investments	509	517	536	503
(Loss)Gain from asset revaluations	0	(132)	218	481
Profit (Loss) on Sale of Assets	(3)	0	0	1
Total Revenue	**6 709**	**7 091**	**6 514**	**5 863**
Employee costs	4 291	4 096	3 799	3 588
Accommodation expenses	372	253	172	148
Administration expenses	1 542	1 583	1 453	1 307
Depreciation	77	77	42	54
Total Expenses	**6 282**	**6 009**	**5 466**	**5 097**
Net operating profit	**427**	**950**	**1 265**	**1 248**
Change in value of investments	(575)	0	0	0
(Loss) Gain from asset revaluations	0	(132)	218	481
Net profit before taxation	**(148)**	**950**	**1 265**	**1 248**
Income tax expense (benefit)	(49)	260	354	320
Net Profit	**(99)**	**690**	**910**	**928**
Other Comprehensive Income				
Revaluation of land and buildings	0	(67)	123	169
Defined benefit plan actuarial gains (losses)	(1 078)	50	510	(1 219)
Transfer from RBF provision to subsequent employer	0	(134)	(103)	377
Income tax on other comprehensive income	323	45	(159)	202
Other Comprehesive Income for the Year	**(755)**	**(106)**	**371**	**(471)**
Total Comprehesive (loss) profit	**(854)**	**584**	**1 281**	**457**

Comment

Net operating profit was $0.427m in 2009-10, a reduction of $0.655m compared to the prior year. The main reasons for the decrease were a reduction in Commissions and fees income of $0.459m, combined with increased Employee benefits expenditure of $0.194m.

Total Comprehensive loss for the year, $0.854m, represents a down turn of $1.438m compared to 2008-09. The main reasons for the drop were:

- lower Net operating profit discussed previously
- unrealised loss on managed investments of $0.575m caused by valuing these investments at market prices at 30 June 2010. Prices had declined since taking out these investments
- actuarial loss on defined benefit plan superannuation of $1.078m.

STATEMENT OF FINANCIAL POSITION

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Cash	1 113	7 648	6 445	1
Receivables	568	545	429	422
Corporate investments	10 175	0	0	6 430
Assets held for sale	0	4 235	0	0
Other	0	1	45	45
Total Current Assets	**11 856**	**12 429**	**6 920**	**6 898**
Payables	645	816	722	617
Provisions	753	754	1 928	2 055
Income tax liability	2	265	(52)	41
Total Current Liabilities	**1 400**	**1 835**	**2 597**	**2 713**
Working Capital	**10 456**	**10 594**	**4 322**	**4 185**
Property, plant and equipment	364	571	2 412	2 202
Investment property	0	0	3 100	2 883
Deferred tax asset	3 503	2 932	2 791	2 982
Total Non-Current Assets	**3 867**	**3 503**	**8 302**	**8 067**
Provisions	10 238	8 816	7 272	7 818
Deferred tax liability and tax payable	2	67	267	165
Total Non-Current Liabilities	**10 240**	**8 883**	**7 540**	**7 984**
Net Assets	**4 083**	**5 214**	**5 085**	**4 268**
Retained profits	4 083	4 990	4 793	4 099
Asset revaluation reserve	0	224	292	169
Total Equity	**4 083**	**5 214**	**5 085**	**4 268**

Comment

Net Assets decreased in 2009-10 by $1.131m, primarily due to an increase of $1.410m in the provision for the superannuation fund liability based on actuarial advice.

Corporate investments, $10.175m, comprised funds generated by the sale of the property in Murray Street for $4.500m, and the re-investment of surplus cash.

STATEMENT OF CASH FLOWS

	2009-10 $'000s	2008-09 $'000s	2007-08 $'000s	2006-07 $'000s
Receipts from clients, Government and Common Fund	6 686	6 989	6 506	5 882
Payments to suppliers and employees	(5 334)	(5 571)	(5 585)	(4 527)
Taxation paid	(460)	(189)	(313)	(466)
Cash from operations	**892**	**1 229**	**608**	**889**
(Increase) decrease in investment in Common Fund	6 535	(1 200)	0	(100)
(Increase) decrease in investment in Corporate Investments	(10 750)	0	0	0
Payments for property, plant and equipment	(68)	(429)	(129)	(113)
Proceeds from sale of property, plant and equipment	4 500	859	0	1
Cash from (used in) investing activities	**217**	**(770)**	**(129)**	**(212)**
Dividends paid	(345)	(455)	(464)	(637)
Cash (used in) financing activities	**(345)**	**(455)**	**(464)**	**(637)**
Net increase in cash	**764**	**4**	**14**	**40**
Cash at the beginning of the year	349	345	331	291
Cash at end of the year	**1 113**	**349**	**345**	**331**

Comment

Cash at the end of the year increased $0.764m. This comprised Cash from operations, $0.892m and Cash from investing activities, $0.217m, less Dividends paid, $0.345m.

Reasons for variations in cash flow receipts and payment amounts are consistent with explanations provided in previous sections of this Chapter.

FINANCIAL PERFORMANCE

	Bench Mark	2009-10	2008-09	2007-08	2006-07
Financial Performance					
Operating Profit (Loss) ($'000s)		427	950	1 265	1 248
Operating margin	>1.0	1.07	1.16	1.23	1.24
Return on assets		2.7%	6.1%	8.4%	8.7%
Return on equity		(2.1%)	13.4%	19.5%	21.3%
Financial Management					
Current ratio	>1	8.47	6.77	2.66	2.54
Creditor turnover	30 days	64	88	54	80
Returns to Government					
Dividends paid or payable ($'000s)		345	455	464	637
Income tax paid ($'000s)		460	189	354	320
Effective tax rate	30%	107.7%	19.9%	28.0%	25.6%
Total return to the State ($'000s)		805	644	818	957
Total return to equity ratio		17.3%	12.5%	17.5%	22.0%
Other Information					
Staff numbers (FTEs)		51	49	47	49
Average staff costs ($'000s)		84	84	80	73
Average leave balance per FTE ($'000s)		12	12	13	13

Comment

Operating profit for 2009-10 was $0.427m, which was below the average result of $0.972m over the review period and has declined since 2007-08. This was reflected in expenditure, in proportion to revenue, increasing over the review period. In addition, the impact of gains and losses from asset revaluations in 2006-07 and 2007-09 need to be borne in mind when assessing financial results.

Return on assets and Return on equity also declined in line with the drop in Operating profit.

Creditor turnover was above benchmark in all years under review and reduced significantly from 2008-09 as this year included a number of large invoices for payment.

Total returns to the State comprised Dividends paid and the Income tax (equivalent) payments. Over the review period the Public Trustee returned $3.224m to the State or an average of $0.806m per annum. Return to equity averaged 17% over the review period.

Average staff costs remained constant in 2009-10 but increased progressively from 2006-07. This reflects general wage increases, rather than a material increase in staff numbers, in particular in 2006-07 and 2008-09.

STATE OWNED CORPORATIONS

AT A GLANCE

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 or State Owned Companies (SOCs).

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,* the Constitution of each SOC and in Corporate Governance Guidelines developed by the Department of Treasury and Finance.

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.

This part of the Report provides financial information on all SOC's, being:

- Aurora Energy Pty Ltd
- Metro Tasmania Pty Ltd
- Tasmanian Port Corporation Pty Ltd
- Tasracing Pty Ltd
- Tasmanian Railway Pty Ltd
- TOTE Tasmania Pty Ltd's
- Transend Networks Pty Ltd
- TT-Line Company Pty Ltd.

The shareholders for the Tasmanian Water and Sewerage Corporations, Onstream, Southern Water, Cradle Mountain Water and Ben Lomond Water, are their respective local government councils, rather than the State Government. The summary for these is presented separately in the Chapter Tasmanian Water and Sewerage Corporations, followed by their individual chapters.

The information on each SOC is summarised under the following headings:

- Audit of the 2009-10 Financial Statements
- Key Findings and Developments
- Financial Results:
  - o Comprehensive Income Statement
  - o Statement of Financial Position
  - o Statement of Cash Flows
  - o Financial Performance.

In all cases our audits concluded that SOCs completed their financial statements in accordance with Australian Accounting Standards. However, in our analysis of each SOC's financial performance we have, in some cases, reallocated certain revenue or expenditure items to better assist readers interpret financial performance.

KEY FINDINGS AND OUTCOMES FROM AUDITS

Key outcomes from audits included:

- Audits of the financial statements of the eight SOC's, and where relevant their subsidiary companies, were completed with unqualified audit opinions issued in each case
- Internal control and other findings from audits, included at:
    - o Aurora – opportunities were noted for improvements in their general computer systems environment and application controls as they relate to finance systems
    - o Metro – the need to address, review and update the its risk register and better management of staff leave entitlements
    - o Tasports – the need for improved management of staff leave entitlements
    - o Tasrail – the need for management to implement suggestions provided in an independent review of procurement. The matters raised related to segregation of duties, review and authorisation of payments, monthly subsidiary ledger reconciliations, compliance with payment delegations, and year end stock-take procedures
    - o Transend – the need to control excess leave balances and to better document matters associated with decommissioning assets and the regularity of asset valuations
    - o TT-Line – regarding the implementation of its new reservations system, we noted our conclusion that implementation of the new reservations system would result in recording and reporting complete and accurate financial transactions. However, a number of opportunities to further enhance the internal control environment were identified.

We also note our view that Australian Accounting Standard AASB 8 *Operating Segments* and AASB 124 *Related Party Disclosures* should be applied to SOC's similar to "publicly accountable entities" as defined in Australian Accounting Standards. SOC's are currently exempt from complying in full with these standards as their equity instruments are not publically traded.

SUMMARY FINANCIAL ANALYSIS

Tasmania's SOCs collectively had net assets of $1.600bn (2008-09, $1.443bn), employed 3 045 (2 636) people, and generated profits of $32.039m ($30.725m) after taxation in 2009-10.

Summary financial analysis at an entity level includes:.

- **Aurora Energy Pty Ltd** (Aurora) recorded an operating profit before tax and interest of $35.559m compared to $70.083m in 2008-09. However, it made a total net loss of $12.462m compared to a net profit of $9.100m for 2008-09. This loss was primarily due to lower margins on sales, driven by higher energy sourcing costs, higher borrowing costs and the direct expensing of $20.643m spent in 2009-10 on a customer care and billing system which were not expected to be recoverable through regulated price determinations. Also, a significant decline in cash generated from operating activities occurred on the back of the poor profitability and was a concern.

  Significant initiatives to aid Aurora's future sustainability was an agreement with Hydro relating to the non-contestable load within Tasmania and the Regulator's draft pricing report which is likely to provide greater assurance on retail margins.

  Aurora's ongoing capital expenditure program, including completion of the Tamar Valley power station, all funded by borrowings, stretched its resources and resulted in a debt to equity ratio of 207.5%. The power station was commissioned in late 2009. At 30 June 2010 Aurora's debt increased from $0.933bn to $1.030bn.

- **Metro Tasmanian Pty Ltd** (Metro) recorded a net profit of $0.189m compared to a net loss of $0.146m for 2008-09. A significant development during the year was Metro obtaining an additional $3.250m from DIER to improve its passenger bus services and to assist with Metro's long term capital replacement program.

Metro remained economically dependent on the State Government with contractual contributions totalling $29.719m in 2009-10, $29.148m in 2008-09.

Net Assets at 30 June 2010 were $32.539m, consistent with the prior year amount of $32.032m. However Metro's current ratio declined during 2009-10 to 0.80 and is being closely monitored by the Metro Board and Management.

- **Tasmanian Port Corporation Pty Ltd** reported a net profit before tax of $1.484m for 2009-10 compared to $7.604m for 2008-09. The lower net profit resulted from a decline in net revenue, $5.201m, 6.8%, caused by the continued downturn in freight activity and a number of customers no longer utilising Bell Bay. Since 2007-08 there has been a 17% reduction in freight. Net assets at 30 June 2010 remained fairly consistent, decreasing by $2.431m, or 2% during 2009-10.

  Subsequent to 30 June 2010 the Company divested its 50% equity interest in Cargo and Port Operation Logistics (CPOL).

- **Tasracing Pty Ltd** was incorporated on 1 July 2009 as a state owned company under the Department of Infrastructure, Energy and Resources with assets transferred to it from the former Tasmanian Racing Board. Tasracing reported a net loss of $0.414m in its first year of operations and is anticipating losses over the next five years. For continued operations, at present, Tasracing is dependent upon a funding deed with the State government providing base funding of $27m per annum plus CPI less 1% over 20 years and a $40m debt facility to be serviced by Treasury.

  In future once legislation is passed, it is intended that Tasracing will earn income from race fields and promotion of Tasmanian races overseas. These sources of revenue are essential to Tasracing's ability to continue as a going concern in its current form.

- **Tasmanian Railway Pty Ltd** was established under the *Rail Company Act 2009* for the purpose of acquiring, owning and operating the rail business in Tasmania. The State Government and Pacific National Tasmania (PNT) concluded a Business Sale Agreement in September 2009 enabling the State to acquire PNT's rail operations and business for $32.000 million.

  Tasrail commenced operations on 1 December 2009 and for the seven months of operations it recorded a net loss of $10.008m. It is expected to continue to record losses into the future. The Company has secured State Government funding over the next four years to meet future operating losses, $70.832m, and capital investment, $244.250m.

  Net assets at 30 June 2010 of $71.857m included cash, $32.705m, and property, plant and equipment, $41.523m.

  During 2009-10, the Company held negotiations with DIER to finalise a rail corridor lease and also held discussions with the State Government over concerns related to possible environmental liabilities and responsibilities that may have existed prior to it commencing operations in December 2009.

- **TOTE Tasmania Pty Ltd's** (TOTE) posted an operating net profit before tax of $15.043m compared to $28.577m in 2008-09. The lower net profit was caused by a decline in wagering income, $5.781m, or 5.7%, and higher expenditure, $7.305m, or 9.5%. Wagering income declined due to a fall in fixed odds sports bet turnover due to changes in the wagering pools. The decline in fixed odds sports bet turnover was offset by higher pari-mutual turnover.

  As a result of the 1 July 2009 amendments to the *Gaming Control Act 1993,* TOTE is required to hold a Tasmanian Gaming License and must comply with specific requirements under the Act. One of the new requirements included payment of a license fee, a new cost during 2009-10 of $6.255m.

  TOTE made a distribution to Tasracing of $5.126m during 2009-10 which was recorded as an expense in TOTE's Comprehensive Income Statement.

  During 2009-10, TOTE purchased a 25% share in Sports Alive, a unit trust operating as a corporate bookmaker, for $5.000m.

TOTE's financial statements include Note 29, Economic dependency, which draws attention to risks associated with its continued membership of the Supertab pool. This is a risk that the directors are managing as Tabcorp is licensed to operate the Supertab pool until 14 August 2012, at which time a competitive tender process will be finalised.

- **Transend Networks Pty Ltd** posted a net profit after tax of $26.358m compared to $11.911m in 2008-09. The improved profit was due to higher revenues derived from its prescribed (regulated) electricity transmission services. It was also Transend's first full year of operation of its telecommunications business which performed well contributing to the positive performance.

  Transend's significant capital investment program contributed to a growth in net assets to $563.911m ($524.796m in 2008-09). This was funded through the use of cash generated from operations and borrowings.

- **TT-Line Company Pty Ltd** recorded an operating profit of $13.725m, an improvement of $6.936m on the operating profit of $6.789m in 2008-09. This improvement was driven by higher revenue from passengers, $1.240m, vehicles, $5.010m, and freight, $4.422m, due to increased volume. On an after tax basis, the company's net profit was $20.200m compared to a loss of $2.436m last year.

  During the current financial year, TT-Line suffered a downward valuation of its two ships of $50.642m which arose largely as a result of the stronger Australian dollar at 30 June 2010 in comparison to 2009. The ships annual valuation is provided in Euros.

  Net assets increased $12.477m to $249.312m during 2009-10. The Company's improved results resulted in it recognising carried forward tax losses of $29.9690m for the first time and 2009-10 saw a reduction in the its fuel hedge liability from $10.014m to $7.422m.

  Net cash from operating activities totalled $25.061m enabling TT-Line to meet debt repayments of $25.000m such that at 30 June 2010 $25.000m borrowing remain.

RESPONSIBLE MINISTER

The Ministers responsible at 30 June 2010 for State Owned Corporations were:

Entity	**Responsible Minister**
Aurora Energy Pty Ltd	Minister for Energy and Resources
Metro Tasmania Pty Ltd	Minister for Sustainable Transport and Alternative Energy
Tasmanian Ports Corporation Pty Ltd	Minister for Infrastructure
Tasracing Pty Ltd	Minister for Racing
Tasmanian Railway Pty Ltd	Minister for Infrastructure
TOTE Tasmania Pty Ltd	Treasurer
Transend Networks Pty Ltd	Minister for Energy and Resources
TT-Line Company Pty. Ltd.	Minister for Infrastructure

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

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 and Resources, owns Aurora on behalf of the State of Tasmania. The Office of the Tasmanian Economic Regulator currently regulates the revenue that Aurora receives for distribution services and also sets the maximum revenues that Aurora can receive from residential and non-contestable business customers which currently represents about 29% (by consumption) of Aurora's retail business.

The parent company consisted of two core operating units:

- The Distribution Business: Responsible for the management, development and operation of the distribution system including poles, lines and substations, asset stewardship and network management. The Distribution Business includes the Network Services division which oversaw the distribution resource and response centres, designing and programming, including arranging contracts and service agreements for carrying out construction, operations and maintenance activities. The division also managed customers connections, meter reading, transmission capabilities, the Bass Strait islands and the standards and compliance group, which included the electrical inspection team and the Aurora Training Centre
- Energy Business: Responsible for the ongoing activities in retail customer service including electricity sales to business and residential customers as well as significant new activities in generation of electricity through the Aurora Energy Tamar Valley power station, wholesale energy activities, including contracting and risk management of electricity and gas.

In addition to the above operating businesses, Aurora was supported by corporate and shared services divisions, including:

- Office of the CEO: Incorporating CEO, business risk and internal audit services, corporate reception and Board
- Commercial Services: Comprises a whole-of-business corporate finance function (including the CFO) and shared services, including finance and treasury management, legal services, supply chain services (including facilities, fleet, procurement and contracts and material management), energy risk and information services management
- Strategy and Corporate Affairs: Responsible for leading whole-of-business strategic direction. This division included public affairs, external relations, internal communications, sustainability strategy, market monitoring, major business and policy development
- People and Culture: Responsible for the business' people strategy and organisational culture, incorporating change management, employee relations, safety, health and environmental management, remuneration and benefits and organisational development.

In addition to this Aurora operated a separate emerging Telecommunication Division, which provided active support for the State Government's broadband objectives and at the same time, the Australian Government's National Broadband Network (NBN) objectives by acting as an agent for NBN Tasmania for the rollout of Fibre to the Premise and as a wholesaler of optical fibre based telecommunication services.

At balance date, the consolidated entity comprised of Aurora and the following wholly owned subsidiaries:

- Ezikey Group Pty Ltd (Ezikey) (formed in 2000-01): the subsidiary is now responsible for the commercialisation of broken neutral detection technology owned by Aurora
- Auroracom Pty Ltd (formed in 2006): the subsidiary was created for the purpose of obtaining a Telecommunications Carrier Licence. To date, this subsidiary has not traded

- Aurora Energy (Tamar Valley) Pty Ltd. Alinta Energy (Tamar Valley) Pty Ltd (Alinta) was purchased in August 2008 and its name changed to Aurora Energy (Tamar Valley) Pty Ltd (AETV). The company owns gas turbines that generate power which is sold into the National Energy Market (NEM), although contracts with Aurora effectively result in all of AETV's power being acquired by Aurora via a tolling fee, which is governed by a formal agreement established by the boards of both entities. AETV's financial results are summarised later in this Chapter.

In May 2005 Tasmania joined the NEM with Aurora purchasing wholesale electricity from the Australian Energy Market Operator (AEMO) (formerly 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. Aurora continues to source the bulk of its electricity hedges from contracts with Hydro-Electric Corporation trading as Hydro Tasmania. See further comments under the Statement of Financial Position section.

The board comprised eight directors, including the Chief Executive Officer.

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Signed financial statements were received on 30 September 2010 and an unqualified audit report was issued on 1 October 2010.

The audit was completed satisfactorily with no major items outstanding. However, we noted some opportunities for improvements in Aurora's general environment and application controls as these relate to its finance systems.

KEY FINDINGS AND DEVELOPMENTS

2009-10 was a difficult financial year for Aurora in a number of respects details of which are provided in this Chapter. In summary, Aurora incurred a net loss after tax primarily due to:

- lower margins on sales (driven by higher energy sourcing costs)
- higher borrowing costs as a result of additional debt required to finalise TVPS construction
- directly expensing $20.643m of costs on a new customer care and billing system where those costs were not expected to be recoverable through regulated price determinations.

The increased scale and complexity of the business saw an increase in costs generally. Also, a significant decline in cash generated from operating activities occurred on the back of the poor profitability and was a concern.

Aurora's ongoing capital expenditure program, including completion of the construction of the Tamar Valley power station, all funded by borrowings, stretched its resources and resulted in a debt equity ratio of 207.5%.

This section summarises some major developments in 2009-10.

1. Commissioning of Tamar Valley Power Station (TVPS) and the restructure of the Energy Business (EB)

Tamar Valley Power Station

Aurora purchased the entire issued capital of Alinta Energy (Tamar Valley Power Station) Pty Ltd (acquired on 8 August 2008 for $100.000m funded via an equity injection from the State Government of the same amount) and subsequently changed the company's name. The subsidiary, on acquisition, was in the process of constructing the TVPS. The plant was progressively commissioned over the period from January to September 2009, with the plant becoming fully operational and formally opened in October 2009.

TVPS was delivered by Aurora Energy on time and under budget.

The Power Station is capable of producing approximately 390MW of electricity, comprising three generating units, a 210MW Mitsubishi combined cycle unit, a 60MW Rolls Royce open cycle gas turbine and three Pratt and Whitney 40MW gas turbines. The permanent on site workforce will number about 30 FTE.

At the time of completing the 2008-09 audit of Aurora's Group financial statements, whilst the audit of AETV remained outstanding, there was sufficient assurance to enable the Group audit to be completed. The AETV's 2009 financial statements were signed by the directors on 22 December 2009 and an unqualified Audit Report was issued the same day. A number of factors were taken into account by AETV's directors when signing the statements including, but not limited to:

- the $205.714m loan due to Aurora was supported by a letter of comfort from the State until, at that time, at least 31 December 2010 and
- loan support from Aurora.

Relevant details of AETV's financial position prior to and at 30 June 2009 were:

- At the time of acquisition, Alinta had accumulated losses of $101.272m. Other than this situation, financial results up to the date of acquisition were not made available to Aurora. However, essential to the acquisition was that any debt owing by Alinta should be written off. This was achieved with AETV's 2008-09 financial report recognising debt forgiveness
- Construction costs incurred by Alinta prior to acquisition by Aurora were not transferred on the change of ownership
- By 30 June 2009 the main plant TVPS had still to be commissioned with revenues earned and costs incurred associated with testing activities
- AETV generated an after tax operating loss of $10.936m
- At 30 June 2009 its net assets totalled $90.402m comprising assets of $335.683m less liabilities of $245.281m.

AETV began trading in 2009-10 and the following table summarises the financial transactions for AETV's operations for the year ended 30 June 2010:

	2009-10	2008-09
Income Statement	$'000s	$'000s
Total revenue	89 299	23 503
Energy purchases and operating costs	(64 752)	(35 948)
Depreciation and amortisation	(12 422)	(2 708)
Other expenses	(950)	(57)
Earnings Before Interest and Tax (EBIT)	**11 175**	**(15 210)**
Interest expense	(13 597)	(142)
Loss before tax	**(2 422)**	**(15 352)**
Income tax benefit	724	4 416
Net Loss	**(1 698)**	**(10 936)**
Balance Sheet		
Current assets	47 174	48 656
Non-current assets	367 722	287 027
Current liabilities	(14 793)	(45 989)
Non-current liabilities	(311 416)	(199 292)
Equity	**88 687**	**90 402**

AETV's earnings before interest and tax was a profit of $11.175m which was based on a formal tolling agreement between Aurora and AETV. As expected, depreciation was a major charge against profits with the amount approximating the carrying value of the power station divided by its expected future life of 30 years.

Revenue reflects the sale of electricity from the power station under tolling fee arrangements to Aurora and the sale of gas from gas contracts acquired at the same time as the power station up to 30 June 2009 (the benefit of the gas contract was sold to Aurora from 1 July 2010).

The non-current assets of $367.722m primarily represents assets and work in progress on acquisition plus further construction costs incurred in completing the power station post ownership. The construction cost of generation assets as incurred by AETV to 30 June 2010 was $326.759m.

On-going construction by AETV was funded by new borrowings. Non-current liabilities include $263.991m in debt owing to Aurora who borrowed these funds from TASCORP before on-lending them to AETV. This additional debt resulted in a debt to equity ratio at the AETV level of 297.67%. Although already a key focus of the directors and senior management, this high exposure to debt will require ongoing attention by both the Aurora and AETV boards. Developments discussed in item 5 below will, at least in the short term, address this.

Aurora's Energy Business Division

On 1 January 2010 Aurora established its Energy Business. This brought together, into one business unit and under the management of a Chief Operations Officer, the operations of the power station and wholesale and retail energy activities. The key driver for this change was to better manage the integrated energy business value chain from a commercial and risk management perspective.

The Aurora business changed significantly in scale and complexity during the 2009-10 year. In addition to this a number of key decision were made by Government that will assist Aurora to achieve ongoing sustainability which include:

- the decision following the state government election not to cap electricity prices for non contestable customers to 5% and instead allow the independent Regulator to set the revenues that Aurora can earn from these customers based on established benchmarks for retail services and electricity costs
- regulations passed by Government to facilitate the contract between Hydro and Aurora such that Aurora can reasonably expect that the cost of electricity will be no more that the regulated amount it receives from non-contestable customers.

2. National Broadband Network (NBN)

Aurora is the agent of the National Broadband Network in Tasmania. Aurora provided project management and support services for NBN build in Tasmania and is reimbursed its costs plus a commercial margin.

3. New contestable tranche of retail customers announced

In December 2009, a new contestable tranche of retail customers was announced. This next tranche will become contestable once the necessary amendments have been made to the relevant Regulations, with an indicative commencement date of 1 July 2011.

4. Customer care and billing system

As a result of delays charges being incurred for system elements that were subsequently deemed not to be recoverable through the regulated pricing determination, $20.643m of costs were directly expensed in 2009-10. At 30 June 2010 $20.354m of costs incurred on this system remained capitalised as part of software works in progress (reported as intangible assets), bringing to $40.997m the total amount spent on this project to date.

5. Events occurring post 30 June 2010 (agreement with Hydro Tasmania and draft report by Tasmania's Economic Regulator)

Two significant events occurred after 30 June 2010 and prior to completion of Aurora's financial statements.

Agreement with Hydro Tasmania

On 30 June 2010 Aurora re-negotiated an in-principle agreement with Hydro Tasmania relating to its non-contestable electrical load within Tasmania. The agreement is for three years and is aimed at enabling Aurora's energy business to operate on a sustainable basis.

Regulator's draft report

In August 2010 the Office of the Tasmanian Economic Regulator (the Regulator) released its draft report titled "Investigation of maximum prices for declared retail electrical services on mainland Tasmania". This draft report proposes a rate of $73.50 MWh (in 2009-10 dollars) for the energy component of Aurora's non-contestable load, a cost to serve allowance of $94.00 (in 2010-11 dollars) per customer and a retail margin of 3.8%.

Without these initiatives, Aurora faced the prospect of incurring significant losses in 2010-11 and future years, having to curtail its capital expenditure program and having to impair its Energy Business infrastructure assets commencing 30 June 2010.

6. Capital expenditure programs

Aurora has a substantial capital program required to support the Distribution Program of Works under the current Distribution Pricing Determination and will need to fund this from internally generated cash and further borrowings. At 30 June 2010 the Aurora Group had unused financing facilities of $179.066m. However, of concern is that:

- cash generated from operations dropped from an annual average of $97.842m in the three years to 30 June 2009 to $49.339m in 2009-10
- utilising additional borrowings will further exacerbate its heavy reliance on borrowings and interest burden
- government guarantee fee associated with borrowings to date totalled $6.756m, three times the amount paid in 2008-09.

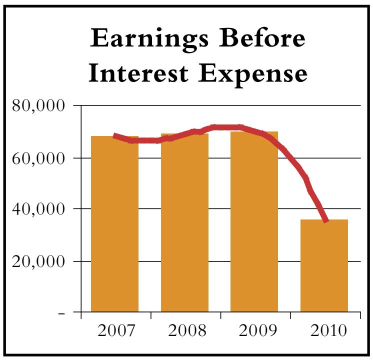
To an extent Aurora's cash flow difficulties will be helped by the Hydro agreement and an improved price determination but there seems little doubt that its debt will increase.

FINANCIAL RESULTS

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

- The results are prior to any impacts of the revised agreement negotiated with Hydro Tasmania and any changes that may arise from the Regulator's price determination due later this calendar year (see item 5 discussed earlier in this Chapter)
- Aurora faces increased competition from other retailers as the Tasmanian market has been progressively opened up through a series of annual tranches, the latest being Tranche 4 customers (fast food restaurants, service stations, large offices) in December 2009. This process initially commenced on 1 July 2006. Full retail contestability is still subject to a public benefit assessment. However, as set out later in this Chapter, Aurora's business volumes have changed little over the past few years
- All figures in the following tables and analysis are based upon the consolidated entity
- Our analysis concentrates on the 2009-10 balances and movements compared to the 2008-09 figures. Balances for 2007-08 and 2006-07 are provided for information only and are prior to the impact of the AETV acquisition.

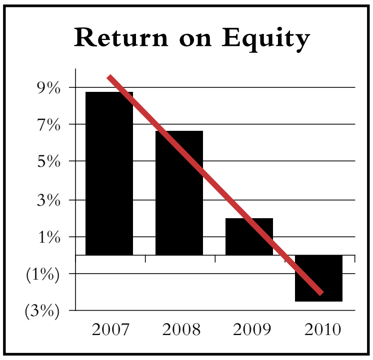
The following graphs summarise key ratios highlighting important aspects of Aurora's consolidated financial performance over the past four years. In general, the ratios indicate:

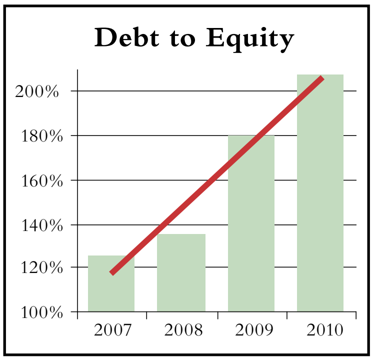


Earnings before interest expense compare Group net profits before tax and interest expense. In 2009-10 Aurora's Energy Business traded in a competitive environment with small retail margins leading to relatively low net profits based on turnover. Aurora's Distribution Business operated in a regulated environment, with revenues set by the independent Regulator. The deterioration in profit for 2009-10 was due to a combination of factors that included the direct expensing of costs incurred on the customer billing system of $20.643m, and electricity costs that were greater than the recoverable amount from regulated consumers. The high cost of sourcing energy (higher than recoverable from customers) was driven by peaks and troughs in the National Energy Market.

For the year ended 30 June 2010 Aurora's Loss after tax, but before superannuation losses, financial instrument fair value movements and customer contributions was ($19.979m), worse by $41.483m from 2009-10. For the year ended 30 June 2010 Aurora generated a Net Loss after tax of $12.462m, worse by $21.562m from 2008-09. Major movements in revenue and expenditure, which impacted the lower profit, are reported in the Comprehensive Income Statement section of this Chapter.

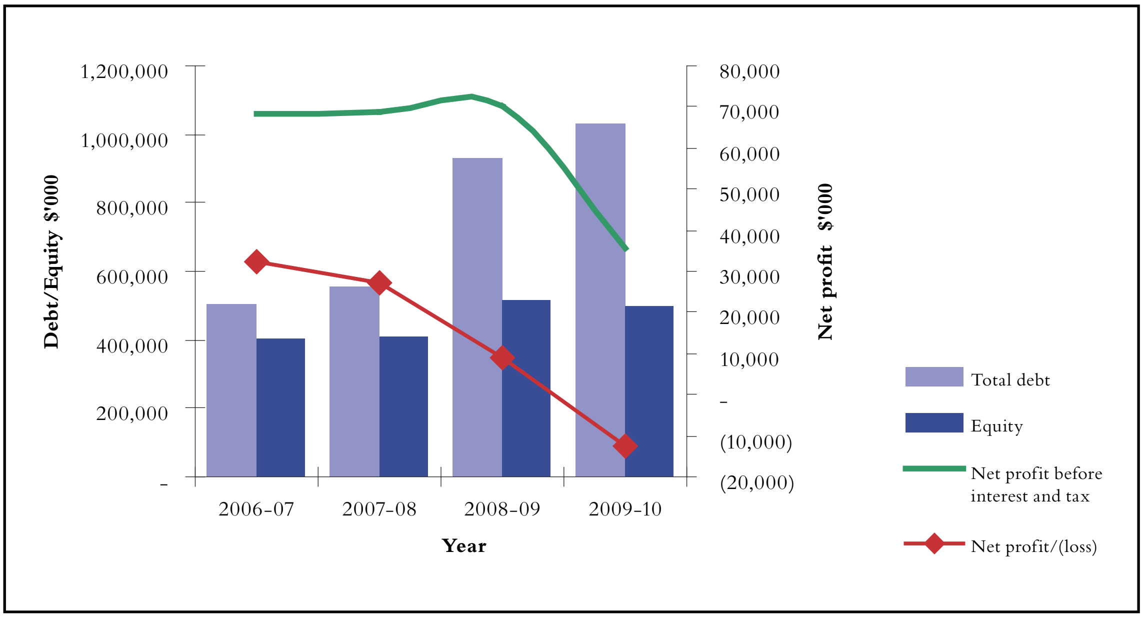
In 2009-10 the loss for the year resulted in a lower Return on equity in comparison with previous years.

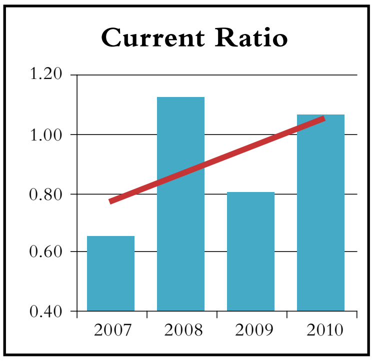




Aurora's Debt to equity ratio increased significantly in 2009-10 to 207.5% (2008-09, 180.0%) due to an increase in net borrowings $97.212m to fund its capital works program, including the completion of TVPS, and a reduction in equity due to the loss made in the year. The ratio is well above its gearing level benchmark ratio of around 60:40, or 150% and is a key focus of management.

The impact of increased borrowings and fluctuating Net profits is summarised in the graph below. The purchase of AETV had a significant effect on Aurora's consolidated result in 2009-10, with increased borrowing costs on additional debt. However, management anticipate that, improved hedging arrangements with Hydro Tasmania, more efficient operations arising from the optimisation of the Energy Business portfolio activities and higher regulated prices will generate sufficient revenue to service the associated debt.





As at 30 June 2010, the current ratio was above one, with a relatively small amount of the debt portfolio being current and falling due within one year (compared to $254.482m in 2008-09).

COMPREHENSIVE INCOME STATEMENT

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Sales revenue	1 149 050	970 664	860 650	778 405
Other revenue	47 964	47 529	47 285	51 901
Total Revenue	**1 197 014**	**1 018 193**	**907 935**	**830 306**
Energy and transmission purchases	817 092	698 487	611 629	538 600
Renewable energy credit purchases	27 898	17 036	13 635	7 385
Employee expenses	94 665	79 695	67 857	69 852
Depreciation	90 418	78 427	71 301	65 339
Other expenses	110 739	74 465	74 693	80 636
Billing system direct expensing	20 643	0	0	0
Total Expenses	**1 161 455**	**948 110**	**839 115**	**761 812**
Profit before interest	**35 559**	**70 083**	**68 820**	**68 494**
Borrowing costs	54 150	37 843	33 141	28 756
Guarantee fee	6 756	2 214	1 498	1 843
Nominal interest on superannuation liability	5 013	4 626	4 230	3 696
Profit (Loss) before tax	**(30 360)**	**25 400**	**29 951**	**34 199**
Income tax (expense) benefit	10 381	(3 897)	(9 663)	(9 530)
Net Profit (Loss) after tax	**(19 979)**	**21 503**	**20 288**	**24 669**
Customer contributions	8 923	10 002	10 819	10 763
Superannuation liability movement	(11 505)	(5 996)	1 724	(6 546)
Financial Instrument fair value movements	13 321	(21 724)	(2 853)	6 735
Income tax (expense) benefit	(3 222)	5 315	(2 907)	(3 286)
Net Profit (Loss)	**(12 462)**	**9 100**	**27 071**	**32 335**

Comment

General observations

Aurora generated earnings before tax and interest, and before the $20.643m expensing of 2009-10 costs incurred on its still to be completed billing system, of $56.202m, a decline of $13.881m compared to the prior year. The profit of $56.202m included earnings before interest and tax (EBIT) in AETV of $11.175m. The decline in Aurora's profitability was primarily caused by the illiquidity in the Tasmanian electricity market which increased energy prices paid by Aurora.

Reasons for individual movements in the Profit and Loss included the following:

- declining margins on sales. This decline exceeded 2% or approximately $23m which was driven by higher energy sourcing costs
- $14.970m (19% increase) additional employee costs of which approximately $9.522m relates to 122 additional FTE's which are employed to deliver the increased program of work for the Distribution Business and additional staff due to the change in nature of the Aurora Energy business, including the addition of AETV (power station employees with the commissioning of TVPS) and wholesale division
- $11.991m (15% increase) additional depreciation charges, the bulk of which relates to the Tamar Valley power station

- $5.697m (20% increase) additional contract services costs, primarily associated with AETV maintenance contracts
- $3.575m (29% increase) additional information technology and communication charges due to the expanded nature of the operations
- $3.488m (219% increase) additional licence fees which included costs relating to the change in business operations plus additional activities to support the emerging Telecommunications division
- $3.950m (429% increase) additional customer service level charges associated with adverse weather conditions in Tasmania which led to greater outages across the state
- $3.754m (222% increase) additional insurance costs due to the commissioning of the TVPS and cost associated with sourcing additional contract cover for Frequency Control Ancillary Services (FCAS) generation services in Tasmania
- $10.579m (185% increase) additional "other charges" due to the changing nature of the business operations including the cost associated with operating TVPS.

On an earnings after interest and billing system expenses (commented upon previously in this Chapter) basis, Aurora incurred a significant loss. On the assumption that interest and guarantee fees had remained the same as in 2008-09, and without the billing system costs expensed this year, Aurora might have generated a profit of about $11m which is still low compared to prior years and further highlights the difficulty faced by Aurora this year.

Aurora's profitability after tax remained steady between 2007 and 2009, with a decline in the 2010 year. Action was taken by management to reverse the 2010 reduction in profitability, which includes the recently re-negotiated agreements with Hydro Tasmania relating to its non-contestable electrical load within Tasmania. This agreement is for three years and is aimed at enabling Aurora's energy business to operate on a sustainable basis.

Aurora's final Net Loss of $12.462m includes a number of transactions including contributions received from customers as part of distribution augmentation, financial instrument fair value movements, actuarial adjustments for superannuation, asset revaluations and the results of its hedging transactions, which, while in some cases material, are difficult to draw meaningful comparisons about on an annualised basis. However, the total financial instrument fair value movement of $13.321m, an increase of $35.045m from 2008-09, was due to the unwinding of prior valuations on derivatives expiring on 30 June 2010 and gains on unrealised energy derivatives held at year end.

Revenue

Aurora's revenue in 2009-10 increased by $178.821m, 17.56%, due to increases in:

- the regulated tariff for 2009-10 by an average 8%
- mainland load consumption
- AEMO pool income as a result of the generation income earned by AETV on the spot market. Generation income increased by $65.796m in 2009-10 following the full commissioning of the Tamar Valley Power Station
- gas sales as a result of having a full year of sales income in relation to the gas contracts acquired as part of the acquisition of AETV in 2008-09
- telecommunications gross income resulting from wholesale telecommunication activities and the contract for services in relation to the provision of National Broadband Network (NBN) services in Tasmania.

Table 1 below summarises information about Aurora's sales volumes and numbers of installations.

TABLE 1: Installation numbers and sales volume in million kWh

	2010	2009	2008	2007
Installation Numbers				
Business and Residential	271 750	269 541	265 812	263 251
Sales (in million kWh)				
Business and Residential	11 026	10 154	10 536	10 484

Installation numbers steadily increased over the past four years, with sales revenue increasing up to 2008. After a decrease in 2009, sales continued their upward trend of recent years as the impact of the financial downturn on industrial load decreased.

Expenditure

Aurora's major operating expense, Energy and transmission purchases, increased by $129.467m, 18.09%, in 2009-10. As noted previously, Aurora settles for the majority of its electricity from AEMO, with electricity derivatives in place to manage the spot price volatility. The increased cost reflects difficulties that Aurora faced in the Tasmanian wholesale electricity market in sourcing competitive energy and the costs of running TVPS.

Aurora managed its power cost increases through contracts for differences and competitive hedge contracts.

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 of 2001 – 2010. The effect of this saw an increase in the value of renewable energy certificates purchases surrendered, which totalled $27.898m in 2009-10 ($17.036m). In the main the renewable energy certificate costs are passed on to consumers and therefore included in energy purchases.

STATEMENT OF FINANCIAL POSITION

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Cash	37 584	128 790	3 172	33 272
Receivables	175 781	184 635	155 395	161 512
Inventories	27 204	21 526	14 857	9 170
Financial assets	48 598	169 252	3 371	43 715
Current tax asset	9 895	2 162	0	0
Other (including held for sale)	26 618	17 235	1 382	1 487
Total Current Assets	**325 680**	**523 600**	**178 177**	**249 156**
Payables	143 954	244 726	108 707	147 285
Borrowings	39 682	252 482	0	181 924
Provisions – employee benefits	28 315	24 808	28 956	28 458
Current tax payable	0	0	2 009	4 461
Financial liabilities	75 548	111 396	2 305	4 294
Other	18 321	20 826	16 084	15 717
Total Current Liabilities	**305 820**	**654 238**	**158 061**	**382 139**
Working Capital	**19 860**	**(130 638)**	**20 116**	**(132 983)**
Property, plant and equipment	1 609 393	1 450 046	1 065 413	995 292
Deferred tax asset	128 779	176 407	25 619	27 244
Intangible assets	54 372	47 421	33 836	23 283
Financial assets	192 650	371 732	9 523	5 980
Other	21 882	17 044	0	0
Total Non-Current Assets	**2 007 076**	**2 062 650**	**1 134 391**	**1 051 799**
Borrowings	990 235	680 223	555 212	323 449
Provisions – employee benefits	87 534	69 300	52 574	51 650
Provisions – decommissioning costs	22 007	1 057	0	0
Deferred tax liability	220 750	278 548	135 451	140 242
Financial liabilities	206 104	380 210	788	313
Other	3 890	4 446	0	0
Total Non-Current Liabilities	**1 530 520**	**1 413 784**	**744 025**	**515 654**
Net Assets	**496 416**	**518 228**	**410 482**	**403 162**
Capital	309 355	301 555	201 555	201 555
Reserves	112 483	119 509	110 933	119 858
Retained earnings	74 578	97 164	97 994	81 540
Minority Interest	0	0	0	209
Total Equity	**496 416**	**518 228**	**410 482**	**403 162**

Comment

At 30 June 2010, Aurora's Equity totalled $496.416m, a decrease of $21.812m, 4.21%, from 2008-09. The net decrease includes the following major movements:

- issue of $7.800m new equity from the State Government as an equity injection to support the TasGovNet Strategic Partnership to bring competition into the Tasmanian broadband network. A final payment under the partnership of $4.900m is due in 2010-11
- asset revaluation increases on distribution grid assets, $7.938m
- Aurora's consolidated loss after tax of $12.462m
- dividends paid of $10.124m in relation to its 2008-09 profit
- cash flow hedge reserve movement, being a decrease of $12.583m.

Cash balances decreased by $91.206m in 2009-10. The decrease is analysed under the Statement of Cash Flows commentary later in this Chapter.

The decrease in Receivables of $8.854m, 4.80%, was attributed to an increase in accrued income of $5.599m and a decrease of $12.024m in unbilled energy. Other receivable balances remained constant between years.

Unbilled energy ($64.496m) is an estimate of unbilled power sales to 30 June 2010, where meters, generally read quarterly, were still to be read.

As noted previously, Aurora is required to annually purchase and surrender renewable energy certificates under the *Commonwealth Government's Renewable Energy (Electricity) Act 2000*. Renewable energy certificates were purchased and held as inventory until February each year, when they are surrendered. Pursuant to this Act, increasing targets are being phased in over the period of 2001 – 2010. At 30 June 2010, renewable energy certificates totalled $16.864m (2008-09, $11.890m), which contributed to the inventory balance increasing by $5.678m in 2009-10.

Aurora has arrangements with derivative counterparties where differences in the spot price set by AEMO and the agreed contract price will be settled. The amount payable to Tasmanian derivative counterparties for power purchases over the five week period to 30 June 2010 was $12.826m which was included in Payables. At 30 June 2009 this item was in a receivable position of $84.393m included at that time as a financial asset. The movement from 2008-09, $97.219m, was due to the decrease in the spot price of electricity at year end (30 June 2010 average of $30.89/MWh, compared to the June 2009 average of $173.80/MWh).

Aurora had significant other financial assets and liabilities at each balance date as summarised in Table 2.

TABLE 2: Summary of hedge assets and liabilities

	2009-10	2008-09	2007-08*	2006-07*
	$'000s	$'000s	$'000s	$'000s
Hedge derivates (current asset)	48 534	169 252	3 371	43 715
Less Reported as a Receivable		(84 393)		
Current hedge derivatives	48 534	84 859	3 371	43 715
Hedge derivates (non-current asset)	192 650	371 732	9 523	5 980
Hedge derivates (current liability)	(75 548)	(111 396)	(2 305)	(4 294)
Hedge derivates (non-current liability)	(206 104)	(380 210)	(788)	(313)
Net hedge position	**(40 468)**	**49 378**	**9 801**	**45 088**

** Pre recognition of Aurora's major Tasmanian contracts in the abscence of a measurable yield curve.*

The negative $40.468m indicates that at 30 June 2010 Aurora's hedge position was an unrealised liability of this amount. However, the balance fluctuates from year-to-year depending on contracts outstanding at balance date and movements in the market.

Property, plant and equipment increased by $159.347m (10.99%) from 2008-09. Major movements in the balance included:

- capital works and additions completed by Aurora, $169.991m
- additions and capital works in progress related to AETV, $83.781m
- revaluation of Aurora's grid assets, $7.938m.

Offset by:

- depreciation expense of $79.954m.

Payables, which includes general creditors and accruals and the REC liability, decreased by $100.772m in 2009-10. A major accrual, which varied considerably depending upon the relevant spot prices, related to amounts payable to AEMO for the purchase of power. At 30 June 2010, the AEMO accrual was $126m lower than at 30 June 2009. The balance decreased significantly from 2008-09 due to reductions in the relevant spot price in June 2010, when compared to June 2009. The decreased spot prices had a corresponding effect on Receivables, as mentioned earlier. Other items impacting the Payables balance included an increase of $5.647m in the loan interest accrual due to higher interest rates.

Total Borrowings (current and non-current) increased by $97.212m, 10.4%, from 2008-09. The increase in debt was attributable to Aurora's capital expenditure program, as shown by its investment of a further $218.388m in capital expenditure, which is discussed further in the Statement of Cash Flows section of this Chapter.

The additional borrowings resulted in Aurora's Debt to equity ratio increasing to 207.50% (2008-09, 180.0%).

The additional borrowings were classified as non-current at 30 June 2010, rather than current, which had an impact on Aurora's Working Capital position which improved to a positive $19.860m as at 30 June 2010.

In total, Provisions-employee benefits increased by $21.741m, 20.22%, to $115.849m at 30 June 2010. The majority of the movement was due to the superannuation liability increasing by $16.297m. This liability was determined by an independent actuarial assessment with the movement primarily attributable to lower interest rates at 30 June 2010 leading to the use of a lower discount rate resulting in an increased liability.

STATEMENT OF CASH FLOWS

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	1 314 916	1 061 292	974 214	893 579
Payments to suppliers and employees	(1 204 132)	(882 699)	(865 548)	(751 452)
Interest received	1 450	1 514	1 844	1 409
Borrowing costs and guarantee fee paid	(55 162)	(39 508)	(32 510)	(30 556)
Taxation paid	(7 733)	(14 119)	(14 363)	(9 570)
Cash from operations	**49 339**	**126 480**	**63 637**	**103 410**
Payments for intangible assets	(15 420)	(24 284)	(14 821)	(17 115)
Payments for property, plant and equipment	(218 388)	(432 380)	(120 102)	(107 194)
Payment for purchase of gas contracts and generation dispatch rights	0	(15 000)	0	0
Proceeds from sale of property, plant and equipment	1 276	939	1 319	7 269
Cash (used in) investing activities	**(232 532)**	**(470 725)**	**(133 604)**	**(117 040)**
Proceeds from borrowings	464 693	452 993	368 800	121 784
Repayment of borrowings	(367 482)	(75 500)	(318 800)	(78 000)
Dividends paid	(10 124)	(9 930)	(10 733)	(9 585)
Funds received pending issue of equity	0	2 900	0	0
Proceeds from issue of equity	4 900	100 000	0	344
Cash from financing activities	**91 987**	**470 463**	**39 267**	**34 543**
Net increase (decrease) in cash	**(91 206)**	**126 218**	**(30 700)**	**20 913**
Cash at the beginning of the year	128 790	2 572	33 272	12 359
Cash at end of the year	**37 584**	**128 790**	**2 572**	**33 272**

Comment

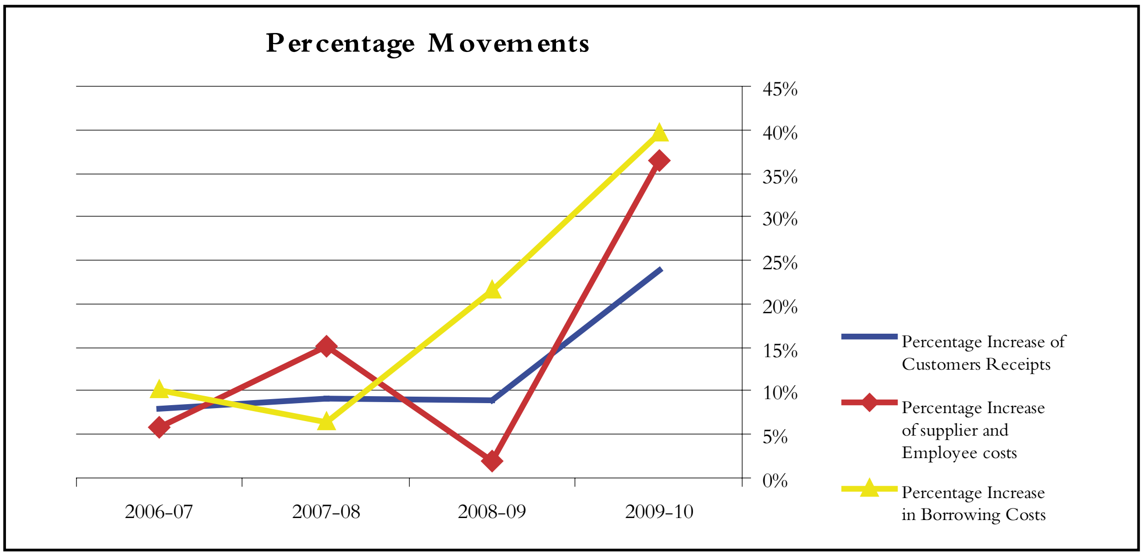
Aurora's Cash from operations more than halved that of the prior year, declining $77.141m, or 61.0%. Cash from operations was at its lowest of the four years under review. The decline in Cash from operations was mainly driven by losses in the year. Main variances were:

- increased Payments to suppliers and employees, $325.975m or 36.8%, reflecting the increased scale and complexity of the Group and higher costs of energy
- increased Borrowing costs as a result of higher debt, $11.112m or 29.8%

offset by:

- increased Receipts from customers $253.624m, or 23.9%, due to the full impact of price increases, additional gas and telecommunications revenue and AETV being commissioned in September 2009.

The graph below summarises movements in receipts, payments to suppliers and employees and increases in borrowing costs.



This graph shows that payments to suppliers (including energy sourcing costs), employees and borrowing costs in 2009-10 increased at rates significantly higher than increases in receipts (capped under the existing retail pricing determination), leading to the lower cash generated from operations. The Graph shows the cost of supplying electricity growing at a faster rate than the increase in receipts from customers.

For all years shown Aurora did not generate sufficient Cash from operations to support the significant investing activities; instead having to also rely on borrowings. The additional significant borrowings in 2008-09 and 2009-10 included the funding of capital works programs, primarily on the distribution assets, but also the completion costs associated with the of construction AETV.

Managing the required level of investing activities and meeting financing commitments with the current levels of Cash from operations will prove challenging for Aurora in the current competitive environment.

However, Aurora has a clear focus to limit debt increases. The re-negotiated agreements with Hydro Tasmania relating to the non-contestable electricity load within Tasmania and the recently released draft retail price determination will assist the business to operate on a sustainable basis.

As at 30 June 2010, Aurora had significant unused borrowing facilities totalling $179.066m available. Therefore, Aurora has available to it funding sources to continue with its capital expenditure programs although it will need to continue to closely monitor the impact of additional debt on target debt and debt serviceability ratios.

FINANCIAL PERFORMANCE

	Bench Mark	2009-10	2008-09	2007-08	2006-07
Financial Performance					
Net (loss) profit after tax ($'000s)		(12 462)	9 100	27 071	32 335
EBIT ($'000s)		35 559	70 083	68 820	68 494
EBITDA ($'000s)		125 977	148 510	140 121	133 833
Operating margin	>1.0	0.98	1.01	1.05	1.06
Return on assets		1.4%	3.6%	5.3%	5.7%
Return on equity		(2.5%)	2.0%	6.7%	8.8%
Financial Management					
Debt to equity		207.5%	180.0%	135.3%	125.4%
Debt to total assets		44.2%	36.1%	42.3%	38.8%
Interest cover – EBIT	>2	0.5	1.6	1.8	2.0
Interest cover – cash from operations	>2	1.6	3.7	2.5	3.9
Current ratio	>1	1.06	0.80	1.13	0.65
Cost of debt	6.9%	6.7%	6.0%	7.3%	7.1%
Debt collection	30 days	51	63	92	111
Creditor turnover	30 days	73	89	34	60
Total capital expenditure/depreciation		259%	582%	189%	190%
Returns to Government					
Dividends payable ($'000s)		3 921	10 124	9 930	10 733
Dividend payout ratio	50%	(31.5%)	111.3%	36.7%	33.2%
Dividend to equity ratio	6%	0.8%	2.2%	2.4%	2.9%
Income tax paid ($'000s)		0	9 948	12 194	16 041
Effective tax rate	30%	–	39.2%	40.7%	46.9%
Government guarantee fees		6 756	2 214	1 498	1 843
Total return to the State ($'000s)		10 677	22 286	23 622	28 617
Total return to equity ratio		2.1%	4.8%	5.8%	7.8%
Other Information					
Staff numbers (FTEs)		1 353	1 231	1 056	1 069
Average staff costs ($'000s)		70	65	64	65
Average leave balance per FTE ($'000s)		23	21	22	21
Average Superannuation balance per FTE ($'000s)		62	55	55	54

Comment

For the year ended 30 June 2010 Aurora's Loss before superannuation liability losses, financial instrument fair value movements and customer contributions was ($19.979m), which decreased by $41.482m, 92.91%, from 2009-10.

Net Loss after tax in 2009-10 totalled $12.462m, resulting in a negative Operating margin of 0.98%, just below the Benchmark. For the reasons noted previously, the Financial Performance ratios show that Aurora's profit deteriorated in the 2009-10 year.

Debt to equity ratio increased significantly following the purchase and completion of the TVPS. In previous years, the ratio was below the target with a debt/equity ratio of around 60:40, 150%. The ratio was well above this benchmark in both 2008-09 and 2009-10 due to increased debt associated with the construction of TVPS and reduced equity. The significant increase in debt levels was used to fund capital works, particularly the completion of the TVPS as well as a major investments in distribution assets, as noted in the Statement of cash flows section of this Chapter, with the Debt to total assets ratio decreasing in 2009-10.

Aurora recorded Interest cover ratios better than the benchmark in each of the four years under review, except for 2009-10 when it was 1.5. Aurora applies an internal benchmark of 1.9.

Aurora's Leverage ratio decreased to 470% at 30 June 2010, from 499% at 30 June 2009. The decrease was due to a reduction in equity due to the loss recognised during the year.

Debt collection days improved significantly to 51 days from 63 days, but remained reasonably consistent in the previous three years. The 2008-09 figure was abnormally high due to the significant increase in Receivables at 30 June 2009.

Creditor turnover days fluctuated above the benchmark in each of the years under review. The 2009-10 figure did not incorporate the year end accrual relating to power purchases from AEMO which increased the figure in 2009 (this varies significantly according to the spot price). However, Aurora pays its creditors within the benchmark.

Aurora's Total capital expenditure/depreciation ratio was well above 100% in each of the years under review reflecting its significant investment in Property, plant and equipment. The 259% ratio for 2009-10 represented the strong capital works program for distribution assets and completion of the construction of the Tamar Valley power station.

Over the four year period, Aurora returned $85.202m to the State or an average of $21.301m per year, comprising, dividends of $34.708m, income taxation equivalents (paid or payable) of $38.183m and guarantee fees of $12.311m. Despite the significant loss in 2009-10, based on 5 year average of the adjusted profits, the Board recommended a dividend of $3.921m for this year.

Aurora's average staff costs of $70,000 and Average leave balances remained reasonably constant since 30 June 2007. Staff numbers increased by 138 due to AETV and the high level of activity on the capital works program and increased scale and complexity of the business, which includes infrastructure construction and IT projects. Excluding these the staff numbers remained consistent with previous years.

METRO TASMANIA PTY LTD

INTRODUCTION

Metro Tasmania Pty Ltd (Metro or the company) is a State-Owned Company that provides public urban road transport services in the urban areas of Hobart, Launceston and Burnie under service contracts with the Tasmanian Government through the Department of Infrastructure, Energy and Resources (DIER). It also provides passenger transport services to a number of non-urban areas around Hobart and Burnie 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.

On 30 June 2005 Metro acquired the business of its subsidiary, Metro Coaches (Tas) Pty Ltd (Metro Coaches). Metro Coaches ceased to trade from this date and is now a 'shell' Company.

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

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Signed financial statements were received on 12 August 2010 and an unqualified audit report was issued on the same day.

The audit was completed satisfactorily with no major items outstanding.

KEY FINDINGS AND DEVELOPMENTS

Matters reported to management and the Board included the need to:

- address, review and update the company's risk register and
- although an improvement, approximately 30 employees had either annual leave balances in excess of 40 days, or long service leave balances in excess of 80 days.

Management is addressing these matters.

Our ratio analysis in this Chapter highlighted that during 2009-10 Metro's Current ratio, a measure of working capital, decreased from 0.96 to 0.80. A ratio of greater than one is acceptable as being a minimum position in most industries and this decreasing trend is something the Metro Board and Management need to monitor.

Metro receives approximately 70% of its revenue from the contract with DIER. As a result of this Government contribution Metro remains economically dependent on the State Government for its continued operations. In 2009-10 the contribution was $29.719m (2008-09, $29.148m), an increase of 1.95% over the period.

A significant development during the year was Metro obtaining an additional $3.250m from DIER to improve its passenger bus services and to assist with Metro's long term capital replacement program. In 2009-10 the funding was specifically used for bus replacement, rebranding the buses, market research and upgrading of on-road infrastructure. For 2010-11, the funding will be set aside for ongoing capital expenditure and other passenger growth initiatives. This funding has been incorporated into Metro's budgets for the next four years.

During the year Metro continued its major bus replacement program aimed at:

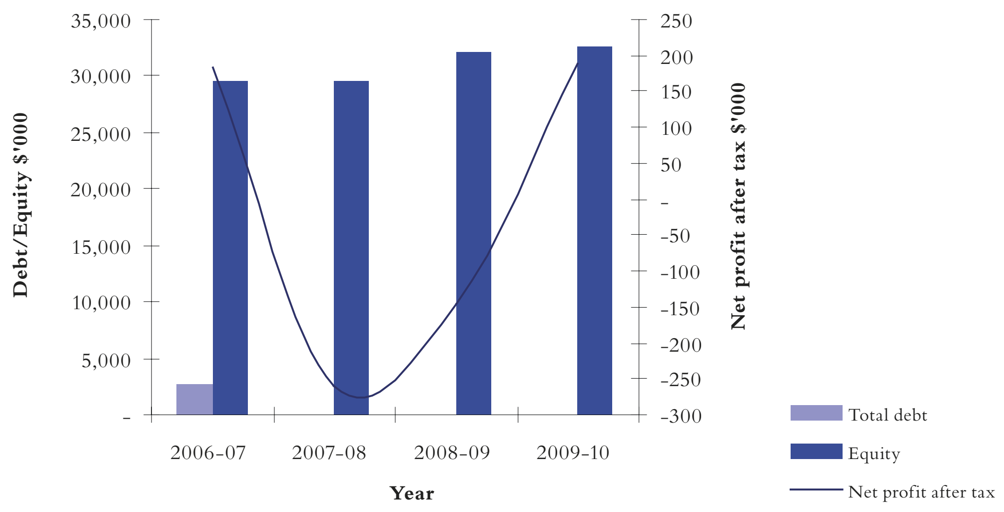
- stabilising the average age of its vehicle fleet at around 12 years
- meeting the requirements of the *Commonwealth Disability Discrimination Act 1992*
- providing Metro customers and bus operators with a fleet of modern, convenient and comfortable vehicles.

This program was designed to ensure Metro maintains an appropriate mix of vehicle ages and sizes in its fleet to meet the needs of customers.

FINANCIAL RESULTS

Metro operated at a net loss after tax in two of the four years under review. This reflected the position that its contract with DIER was aimed at Metro breaking even. Equity increased primarily due to revaluations of the bus fleet.

The graph below shows the trend in performance, debt levels and equity for the past four years.



Although Metro made a small profit in 2009-10 this would not have been generated if they had not received $3.250m in additional funding to replace buses. Except for 2006-07, Metro recorded deficits after tax and before additional government funding increasing from $0.259m in 2007-08 to $3.061m in 2009-10.

Metro's Debt was fully repaid in 2007-08. Despite deficits, Equity increased slightly over the period under review mainly due to bus revaluations.

COMPREHENSIVE INCOME STATEMENT

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Government contribution	29 719	29 148	27 845	26 421
Fare revenue	10 289	10 647	10 301	9 943
Other revenue	1 232	1 791	1 661	1 653
Gain on sale of non-financial assets	42	28	57	181
Total Revenue	**41 282**	**41 614**	**39 864**	**38 198**
Borrowing costs	6	0	124	175
Depreciation	3 964	3 565	3 067	3 050
Administration	2 997	2 102	2 014	2 143
Employee expenses	27 474	26 371	24 455	23 035
Other expenses	10 035	10 087	10 504	9 488
Total Expenses	**44 476**	**42 125**	**40 164**	**37 891**
Profit (Loss) before Taxation	**(3 194)**	**(511)**	**(300)**	**307**
Income tax expense	133	365	41	(123)
Net Profit (Loss) before	**(3 061)**	**(146)**	**(259)**	**184**
Additional government funding	3 250	0	0	0
Net Profit (Loss)	**189**	**(146)**	**(259)**	**184**
Other comprehensive income				
Revaluation of property, plant and equipment	1 503	2 593	0	0
Net change in fair value of available-for-sale financial assets	(9)	(78)	0	0
Defined benefit plan actuarial gains (losses)	(1 036)	83	0	0
Income tax on other comprehensive income	(140)	41	0	0
Other comprehensive income for the year, net of income tax	**318**	**2 639**	**0**	**0**
Total Comprehensive Profit (Loss)	**507**	**2 493**	**(259)**	**184**

Comment

Net Loss before taxation increased in comparison to the prior year. Total revenue slightly decreased whilst expenses increased by 5.58%. The main factors contributing to this loss were:

- Other revenue decreased by $0.559m. This was predominately due to the inclusion of $0.325m, in the prior year, for the sale of the New Norfolk service contract and $0.455m related to funding from councils for the joint grant application for National ` Crime Prevention Program. Interest revenue decreased by $0.108m
- Depreciation expense increased by 11.19%, $0.399m, due to the full year effect of revaluation of buildings in 2008-09 as well as six new buses in 2009-10
- Employee expenses increased by 4.2% in 2009-10, from $26.371m to $27.474m, mainly due to a 4% wage increase and additional wages for new services. The average number of Full-time equivalents (FTE's) remained relatively constant over the period.

The above factors were partly offset by the increase in Government contributions, 1.95%, $0.571m, compared to the prior year. In 2009-10 this revenue source represented 72% (2008-09, 70%) of Metro's total revenue.

Metro realised an Income tax benefit of $0.133m during the current period (2008-09 benefit of $0.365m) as a result of incurring a loss before income tax from operations.

Metro in 2009-10 received an additional funding of $3.250m from DIER which changed the operating result to an after tax profit of $0.189m (2008-09, $0.146m loss). This funding was provided to assist with bus purchases and other costs referred to earlier in this Chapter.

Total Comprehensive result for 2009-10 amounted to $0.507m down by $1.986m on the previous period. This was due to:

- the revaluation increment of Property, plant and equipment, being $1.090m less than last year
- Defined benefit plan actuarial loss of $1.036m as determined by the State Actuary.

STATEMENT OF FINANCIAL POSITION

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Cash	5 435	4 327	9 000	13 446
Receivables	341	809	713	609
Inventories	1 046	917	919	849
Assets classified as held for sale	261	511	861	67
Other	854	1 017	696	564
Total Current Assets	**7 937**	**7 581**	**12 189**	**15 535**
Payables	4 836	2 575	3 649	2 621
Borrowings	0	0	0	2 792
Provisions – leave and other	4 201	4 209	3 977	3 735
Provisions – superannuation	890	1 097	4 441	4 443
Total Current Liabilities	**9 927**	**7 881**	**12 067**	**13 591**
Working Capital	**(1 990)**	**(300)**	**122**	**1 944**
Property, plant and equipment	49 469	45 604	38 702	36 889
Intangible assets	143	254	346	367
Deferred tax assets	10 467	10 201	9 848	10 038
Total Non-Current Assets	**60 079**	**56 059**	**48 896**	**47 294**
Provisions – leave and other	582	601	560	667
Provisions – superannuation	19 586	18 017	13 757	13 787
Deferred tax liabilities	5 382	5 109	5 162	5 269
Total Non-Current Liabilities	**25 550**	**23 727**	**19 479**	**19 723**
Net Assets	**32 539**	**32 032**	**29 539**	**29 515**
Capital	15 503	15 503	15 503	15 503
Retained earnings	3 442	3 942	3 967	3 695
Reserves	13 594	12 587	10 069	10 317
Total Equity	**32 539**	**32 032**	**29 539**	**29 515**

Comment

Metro's Equity increased by $0.507m during 2009-10 due to a revaluation of its bus fleet, leading to the higher Asset revaluation reserve, and the Net profit after tax.

The change in Net Assets in 2009-10, also by $0.507m, can be attributable to:

- Cash and cash equivalents, which increased by $1.108m reasons for which are discussed in more detail in the Statement of Cash Flows section of this Chapter
- Property, plant and equipment increased by $3.865m. This increase was mainly due to additional buses purchased in 2009-10, $2.715m, (2008-09, $8.009m), expenditure on the new electronic ticketing system, $4.600m, and the revaluations of the bus fleet referred to earlier, $1.503m. These increases were offset by Depreciation and amortisation of $3.853m ($3.418m).

The effects of the foregoing were offset in part by:

- Receivables decreased, $0.468m, mainly due to a reduction of debtors as the introduction of the new ticketing system no longer requires agents to sell paper tickets and no longer prepaid insurance
- Payables increased, $2.261m, due to higher trade creditors, $1.173m, and an accrued insurance expense, $0.619m. Trade creditors are higher because a $1.000m invoice was accrued being an instalment for the new ticketing system. The insurance accrual had increased as Metro changed its insurance arrangements. Metro now uses a broker who pays Metro's premiums with the accrual representing the amount outstanding.

Provisions – leave, superannuation and other increased by $1.335m. This increase was mainly due to the change in the valuation of the liability for RBF defined benefit superannuation.

Metro recognised Deferred tax asset and liability balances in its Statement of Financial Position. These balances mainly related to defined benefit superannuation liabilities, accumulated tax losses and differences between tax and accounting values of Property, plant and equipment.

STATEMENT OF CASH FLOWS

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	43 931	43 596	40 707	38 687
Payments to suppliers and employees	(39 780)	(41 118)	(37 215)	(35 280)
Interest received	207	315	925	890
Finance costs	(6)	0	(124)	(175)
Cash from operations	**4 352**	**2 793**	**4 293**	**4 122**
Bus replacement funding	2 677	0	0	0
Proceeds from investments				
Payments for property, plant and equipment	(6 252)	(7 566)	(6 050)	(2 662)
Proceeds from sale of property, plant and equipment	331	100	103	740
Cash (used in) investing activities	**(3 244)**	**(7 466)**	**(5 947)**	**(1 922)**
Repayment of borrowings		0	(2 792)	0
Cash (used in) financing activities	**0**	**0**	**(2 792)**	**0**
Net increase (decrease) in cash	**1 108**	**(4 673)**	**(4 446)**	**2 200**
Cash at the beginning of the year	4 327	9 000	13 446	11 246
Cash at end of the year	**5 435**	**4 327**	**9 000**	**13 446**

Comment

Overall the Net increase in cash in 2009-10, $1.108m, was because not all of the funding received from bus replacement was spent in 2009-10.

Cash from operations remained steady over the four years under review in the main representing Metro's depreciation and amortisation charges averaging around $3.000m to $4.000m per annum.

Cash used in investing activities is primarily due to the purchase of additional buses and instalments paid for the new ticketing system.

Cash used in financing activities reduced to nil as loans were fully repaid in 2007-08.

FINANCIAL PERFORMANCE

	Bench Mark	2009-10	2008-09	2007-08	2006-07
Financial Performance					
Profit (Loss) ($'000s)		(3 194)	(511)	(300)	307
Operating margin	>1.0	0.93	0.99	0.99	1.00
Return on assets		(4.8%)	(0.8%)	(0.3%)	0.8%
Return on equity		(9.5%)	(0.5%)	(0.9%)	0.7%
Self Financing ratio		0.38	0.22	0.36	0.35
Financial Management					
Debt to equity		0	0	0	9.5%
Debt to total assets		0	0	0	4.4%
Current ratio	>1	0.80	0.96	1.01	1.14
Debt collection	30 days	4	7	6	5
Creditor turnover	30 days	54	22	37	20
Returns to and from Government					
DIER contract funding ($'000s)		29 918	29 148	27 845	26 421
Other Information					
Average staff numbers (FTEs)		388	377	369	367
Average staff costs ($'000s)		71	70	66	63
Average leave balance per FTE ($'000s)		12	13	12	12

Comment

The lower Profit (Loss) was commented upon in the Comprehensive Income Statement section of this Chapter.

As mentioned previously, due to the contract with Government historically being based on achieving a break-even outcome, returns to the State continued to be well below that which would be normally expected from a commercial undertaking. This was confirmed by the low Return on assets, low Return on equity and no return to the State in the form of taxes and dividends.

Current ratio, a measure of working capital, decreased from 0.96 to 0.80 in 2009-10. A ratio of greater than one is acceptable as being a minimum position in most industries and this decreasing trend is something the Metro Board and Management need to monitor.

Self financing ratio increased from 0.22 to 0.43 in 2009-10. This ratio measures Metro's ability to fund the replacement of assets from cash generated from operations

Metro reduced borrowings over the four year period as reflected in the Debt to equity and Debt to total assets ratios over this period.

Average staff costs rose during the four years, primarily because of general wage increases. Average employee leave balances increased only slightly over the same period with the defined benefit superannuation constituting the majority of these provisions.

TASMANIAN PORTS CORPORATION PTY LTD

INTRODUCTION

Tasmanian Ports Corporation Pty Ltd (the Company or Tasports) was formed in July 2005 through the amalgamation of Tasmania's major port operators. The enabling legislation is the *Tasmanian Ports Corporation Act 2005*.

The following companies are wholly owned subsidiaries and form part of the Tasports group:

- King Island Ports Corporation Pty Ltd (refer last section in this Chapter)
- Flinders Island Ports Company Pty Ltd (did not trade in 2009-10)
- Port Logistics and Services Pty Ltd (did not trade in 2009-10 and was deregistered on 9 January 2010).

The Company also owned 50% equity in Cargo and Port Operation Logistics (CPOL), a joint venture stevedoring arrangement with P&O Automotive and General Stevedoring Pty Ltd (POAGS).

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

The financial information presented below represents the consolidated financial statements of Tasports and its subsidiaries.

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Signed financial statements were received on 16 September 2010 and an unqualified audit report was issued on the same day.

KEY FINDINGS AND DEVELOPMENTS

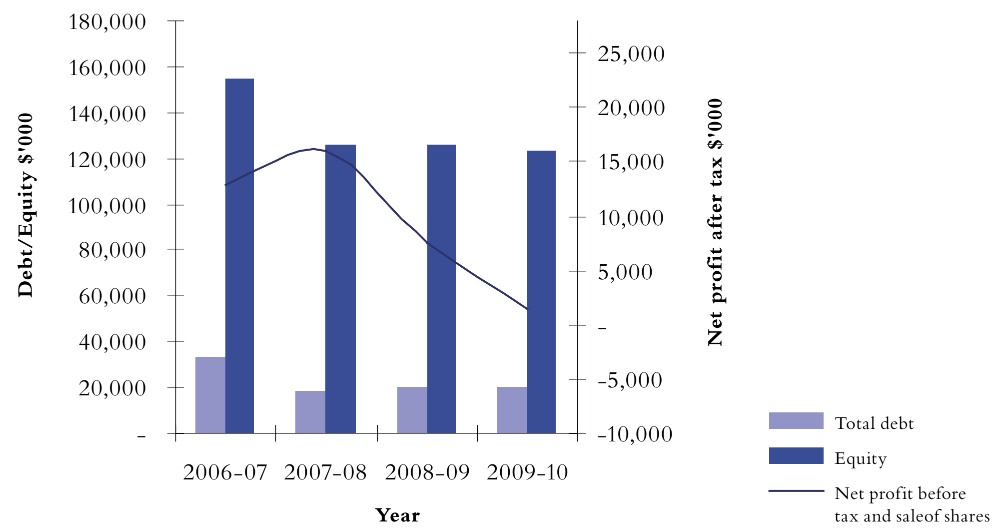
During our audit we raised with the Board the need for improved management of staff leave entitlements. As indicated under the Financial Analysis section of this Chapter, at 30 June 2010 the average leave entitlement (annual and long service leave) per FTE was $23 000 which is high with some employees having in excess of a two-year annual leave entitlement or more than 100 days long service leave due to them. This matter was also reported in 2008-09 and 2007-08. Management are addressing this through implementation of leave plans and regular monitoring at executive and Board meetings.

The audit was completed satisfactorily with no other items outstanding.

Subsequent to 30 June 2010 the Company divested its 50% equity in Cargo and Port Operation Logistics (CPOL), a joint venture stevedoring arrangement with P&O Automotive and General Stevedoring Pty Ltd (POAGS). CPOL's assets and liabilities as at 30 June 2010 were reported as 'held for sale' in the Statement of Financial Position.

FINANCIAL RESULTS

The graph below shows the trend in performance, debt levels and equity for the past four years, excluding the impact of the profit, $293.339m, on the sale of the Hobart International Airport Pty Ltd in 2007-08.



From 2006-07 to 2008-09 Tasports produced solid results, however 2009-10 was a challenging year for Tasports as a result of the continued downturn in shipping activity. Since 2007-08 there has been a 17% reduction in freight, 16.200m tonnes to 13.400m tonnes. A reduction in bulk exports, including woodchip shipments have contributed to this decrease. The reduction in revenue was also caused by lower activity from the Bell Bay Port as a result of a number of clients no longer utilising Bell Bay including ANL, MSC, Nyrstar and Norske Skog.

The Company reduced its borrowings from $33.155m in 2006-07 to $18.160m as at 30 June 2008. The debt reduction was funded from existing cash reserves and operating profits. Since 2007-08 the level of borrowings was relatively steady. Equity remained comparatively steady from 2007-08 to 2009-10. The decrease in 2006-07 related to the sale of the Hobart International Airport.

The increased profitability in 2007-08 was driven by higher trading revenue, including seaport revenue, $9.852m. Profitability in 2006-07 and seven months of 2007-08 included trading results of the airport. Airport revenue was $10.091m in 2007-08 (for the seven months) and $17.446m in 2006-07. The airport reported a profit after tax of $3.025m in 2007-08 (for the seven months) and $4.777m for 2006-07.

COMPREHENSIVE INCOME STATEMENT

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Trade revenue	78 628	83 963	84 910	72 707
Airport revenue	1 514	1 540	10 091	17 446
Interest revenue	317	483	0	0
Other revenue	122	1 288	2 035	1 975
Total Revenue	**80 581**	**87 274**	**97 036**	**92 128**
Cost of goods sold	(9 815)	(11 307)	(11 227)	(10 852)
Net Revenue	**70 766**	**75 967**	**85 809**	**81 276**
Employee expenses	33 498	32 397	31 701	28 200
General expenses*	26 480	26 904	27 100	27 418
Depreciation	8 063	7 888	7 635	8 653
Finance costs	1 241	1 174	3 422	4 155
Total Expenses	**69 282**	**68 363**	**69 858**	**68 426**
Profit before taxation and sale of shares	**1 484**	**7 604**	**15 951**	**12 850**
Gain on sale of shares (Hobart International Airport)	0	0	293 339	0
Profit before taxation	**1 484**	**7 604**	**309 290**	**12 850**
Income tax expense	298	1 822	4 208	4 269
Net Profit	**1 186**	**5 782**	**305 082**	**8 581**

* *comprises property, equipment hire, maintenance and administrative expenses.*

Comment

Net Profit before taxation for 2009-10, $1.484m, was $6.120m, or 80%, lower than 2008-09. This decrease in Net Profit resulted from:

- a decline in Net Revenue for 2009-10, $5.201m, or 6.8%, caused by lower revenue from shipping operations due to a downturn in freight activity and lower Other revenue, $1.166m, primarily due to the 2008-09 gain from the sale of the Burnie Office, $1.289m
- higher Employee benefits expense, $1.100m, or 3.4%, primarily due to wage indexation.

The above factors were partially offset by decreased General expenses, $0.423m, or 15%, largely as a result of reduced maintenance expenditure due to the low 2009-10 profit forecast. The table following illustrates, despite a drop in maintenance expenditure in 2009-10, over the four year period such maintenance increased overall.

	2006-07	2007-08	2008-09	2009-10
	$'000s	$'000s	$'000s	$'000s
Maintenance	4 623	6 842	8 525	7 576

The 2009-10 result included the final instalment of revenue, $1.200m previously recognised as deferred revenue on the Statement of Financial Position. Eliminating the $1.200m of revenue the Company would have reported a Net Loss for 2009-10.

STATEMENT OF FINANCIAL POSITION

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Cash	11 674	10 161	13 665	30 863
Receivables	7 283	10 203	10 293	7 816
Investment in subsidiary held for sale	3 046	0	0	0
Other	2 447	2 518	3 008	86 779
Total Current Assets	**24 450**	**22 882**	**26 966**	**125 458**
Payables	9 613	10 461	11 060	8 323
Borrowings	5 615	17 398	5 773	15 196
Tax liability	(163)	548	1 542	254
Provisions – employee benefits	4 567	5 004	4 761	4 411
Deferred Revenue	83	1 283	1 200	1 200
Provisions – remediation	0	0	0	927
Liabilities classified as held for sale	1 022	0	0	40 449
Total Current Liabilities	**20 737**	**34 694**	**24 336**	**70 760**
Working Capital	**3 713**	**(11 812)**	**2 630**	**54 698**
Property, plant and equipment	132 582	138 544	133 752	119 422
Goodwill	2 801	2 855	2 848	0
Deferred tax asset	3 574	3 941	4 113	5 083
Total Non-Current Assets	**138 957**	**145 340**	**140 713**	**124 505**
Borrowings	14 770	2 989	12 387	17 959
Deferred tax liabilities	3 691	3 645	3 539	3 667
Long-term provisions	601	772	795	376
Deferred revenue	271	354	1 200	2 400
Total Non-Current Liabilities	**19 333**	**7 760**	**17 921**	**24 402**
Net Assets	**123 337**	**125 768**	**125 422**	**154 801**
Capital	113 712	113 712	113 712	120 936
Retained earnings	7 291	9 722	9 376	9 531
Reserves	2 334	2 334	2 334	24 334
Total Equity	**123 337**	**125 768**	**125 422**	**154 801**

Comment

The only change in equity between 2008-09 and 2009-10 was the $2.431m decline in Retained earnings. This decline represented the Net Profit of $1.186m less the $3.617m dividend paid.

Net Assets as at 30 June 2010 and 30 June 2009 remained fairly consistent, with only a $2.431m or 2% decrease during 2009-10. However, Working Capital improved from a deficit at 30 June 2009 to a surplus at 30 June 2010. This turnaround was primarily due to refinancing arrangements for maturing debt. As at 30 June 2009 $17.398m, or 85%, of borrowings were recognised as current. During 2009-10 these borrowings were refinanced with $5.615m, or 27%, being classified as current, resulting in an improved working capital position. Overall total Borrowings remained relatively constant.

The slight decrease in Net Assets was primarily due to:

- lower Receivables, \$2.920m, or 29%, due to less shipping activity and receivables transferred to 'held for sale', \$0.942m
- decreased Property, plant and equipment, \$5.962m, or 4%, comprised of depreciation expense, \$8.063m, partially offset by additions, \$3.972m and property, plant and equipment transferred to 'held for sale', \$1.154m.

The above movements were partly offset by:

- decreased Deferred revenue, \$1.200m. Deferred revenue primarily represented the balance of a prepayment of \$12.000m received in 2001 under a ten-year service contract entered into by one of the former port companies. Each year, \$1.200m is recognised as revenue in the Comprehensive Income Statement. Movements between years primarily represent the amount of annual amortisation
- higher Cash, \$1.513m (discussed later in the Cash Position section).

As mentioned in the Key Findings and Developments section CPOL was presented as a disposal group at 30 June 2010. As such Tasports share of CPOL's assets, \$3.046m, and liabilities, \$1.022m, were classified as held for sale on the Statement of Financial Position. The reclassification did not impact the Company's Net Asset position, however, it has reduced individual asset and liability classes, including:

- Trade and other receivables, \$0.942m
- Cash at bank and in hand, \$0.383m
- Property, plant and equipment, \$1.154m
- Trade and other payables, \$0.435m
- Employee benefits, \$0.669m.

Valuation of long-lived assets

Property, plant and equipment was recognised at cost and included long-lived assets such as land and building, wharves, harbour improvements and other major infrastructure assets which represented over 75% of total Property, plant and equipment. In our view, reporting long-lived assets such as these on the basis of cost, although consistent with Australian Accounting Standards, remains inappropriate. Valuation on a fair value basis is considered more appropriate. Continuing difficulties experienced by management in obtaining relevant values due to the unique nature of many of these assets meant that all property, plant and equipment was again carried at cost less accumulated deprecation.

However, the Company provided estimates of the fair values of its long-lived infrastructure assets in the notes to its financial statements. The estimates were calculated using a net income valuation method, taking into account the income earning capacity of these assets over the next 20 years, inflation rates and then applying a discount using a weighted average cost of capital.

The following table provides comparison of the two bases of valuation:

	2009-10	**2008-09**	**2007-08**	**2006-07**
	\$'000s	\$'000s	\$'000s	\$'000s
Long-lived infrastructure assets and land and buildings				
at cost less accumulated depreciation	97 694	97 432	98 332	100 450
at fair value	111 882	111 882	122 436	122 075

If long-lived infrastructure assets were carried at fair values based on future income streams this would result in an increased asset value, which would have an unfavourable effect on Net Profit, as the depreciation expense would increase.

STATEMENT OF CASH FLOWS

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	90 559	91 746	112 105	95 644
Payments to suppliers and employees	(79 996)	(77 124)	(75 195)	(68 648)
Interest received	292	506	1 680	2 043
Income taxes	(724)	(2 537)	(2 596)	(3 311)
Net cash from operating activities	**10 131**	**12 591**	**35 994**	**25 728**
Recovery (purchase) of investments	0	169	2 631	(1 026)
Acquisition of property, plant and equipment	(3 972)	(14 464)	(31 869)	(21 098)
Proceeds from sale of property, plant and equipment	605	3 077	4 583	878
Net cash (used in) investing activities	**(3 367)**	**(11 218)**	**(24 655)**	**(21 246)**
Proceeds from (repayments of) borrowings	(3)	1 844	2 112	39
Finance costs	(1 249)	(1 286)	(3 905)	(4 216)
Dividends paid	(3 617)	(5 436)	(17 746)	0
Net cash (used in) financing activities	**(4 869)**	**(4 878)**	**(19 539)**	**(4 177)**
Net increase (decrease) in cash	**1 895**	**(3 505)**	**(8 200)**	**305**
Cash at the beginning of the year	10 161	13 665	30 864	31 583
Effect of cash included in assets classified as held for sale	(382)	0	(8 999)	(1 023)
Cash at end of the year	**11 674**	**10 160**	**13 665**	**30 865**

Comment

The Company reported a positive cash flow of $1.895m for 2009-10 compared to a negative cash flow in 2008-09 of $3.505m.

In 2009-10 the Company reported Net cash from operating activities of $10.131m. The cash generated funded Acquisition of property, plant and equipment, $3.972m, Finance costs, $1.249m, and Dividend paid, $3.617m, and also resulted in the improved cash position as at 30 June 2010 compared to prior year.

However, Cash from operating activities decreased, $2.460m, compared to the prior year due to:

- higher Payments to suppliers and employees, $2.872m, largely as a result of increased employee benefit costs
- lower Receipts from customers, $1.187m, due to the slowdown in shipping activity.

The above factors were partly offset by lower income taxes paid, $1.813m.

Net cash used in investing activities was $7.851m lower than 2008-09 due mainly to reduced capital expenditure, $10.492m, offset in part by lower Proceeds from sale of property, plant and equipment, $2.472m. Proceeds from the sale of the Burnie office were reflected in the 2008-09 balance, $3.077m.

From an overall perspective operating cash flows appear to have declined resulting in lower investment in asset replacement/upgrades. Decreased operating cash flows also make it difficult to finance future dividend payments.

FINANCIAL PERFORMANCE

	Bench Mark	2010	2009	2008*	2007
Financial Performance					
Profit (Loss) before tax ($'000s)		1 484	7 604	15 951	12 850
EBIT ($'000s)		2 725	8 778	19 373	17 005
Operating margin	>1.0	1.02	1.11	1.23	1.19
Return on assets		1.6%	5.2%	9.3%	6.8%
Return on equity		1.0%	4.6%	8.4%	6.4%
Financial Management					
Debt to equity		16.5%	16.2%	14.5%	21.4%
Debt to total assets		12.5%	12.1%	10.8%	13.3%
Interest cover	>2	2.20	7.48	5.66	4.09
Current ratio	>1	1.18	0.66	1.11	1.77
Cost of debt	6.9%	6.1%	6.1%	13.3%	12.6%
Debt collection	30 days	34	44	44	39
Creditor turnover	30 days	50	41	50	22
Returns to Government					
Dividends paid or payable ($'000s) **		0	3 617	5 435	17 745
Dividend payout ratio	50%	0.0%	62.6%	46.3%	206.8%
Dividend to equity ratio	6%	–	2.9%	3.9%	0.0%
Income tax paid or payable ($'000s)		724	2 537	2 596	3 311
Effective tax rate	30%	48.8%	33.4%	16.3%	25.8%
Total return to the State ($'000s)		724	6 154	8 031	21 056
Total return to equity ratio		0.6%	4.9%	5.7%	15.6%
Other information					
Average staff numbers (FTEs)		234	232	210	209
Average staff costs ($'000s)		143	140	151	132
Average leave balance per FTE ($'000s)		22	25	27	23

* *The 2007-08 Financial Performance measures exclude the sale of the Airport.*

** *The Board had not declared a dividend at date of this report, but is expected to be no lower than 50% of Company operating profit.*

Comment

The decline in financial performance ratios since 2008 reflected the downturn in revenue from shipping activity caused by the global economic slowdown. Despite the downturn, the Operating margin remained above the benchmark in all years.

Return on assets and Return on equity moved in line with profitability.

The change in Debt to equity and Debt to total assets ratios from 2006-07 to 2007-08 primarily resulted from the sale of the Hobart International Airport during 2007-08. The airport reported borrowings of $24.770m, as at 30 June 2008. The movements in these ratios from 2008-09 reflected debt repayment and draw-downs as reflected within the Statement of Cash Flows. Interest cover moved in line with reported results.

In most industries a Current ratio of one or better is good practice. The movement in this ratio is consistent with the Net working capital position reported.

In the current year, the Company paid a dividend of 70% of its 2008-09 Net Profit after tax, $3.617m, as well as tax of $0.724m.

Fluctuations in both Average staff costs and Average leave balance per FTE over the four year period were influenced by staff movements including:

- the transfer of stevedoring staff to Capital P&O Logistics Pty Ltd towards the end of 2007-08
- cessation of stevedoring operations in Melbourne and Bell Bay
- uptake of North Western Shipping and Towage during last year.

Average staff costs comprised salaries and wages, superannuation, hire labour, travel and accommodation expenses. The increase primarily reflects wage indexation.

Average leave balances decreased in 2009-10 as a result of management's implementation of leave plans and regular monitoring at executive meetings.

King Island Ports Corporation Pty Ltd

King Island Ports Corporation (KIPC) is a wholly owned subsidiary of Tasports.

The principal activity of KIPC is the provision of wharf and petroleum services as port owners and operators at Grassy and Currie on King Island, and petroleum services at Lady Barron on Flinders Island.

KIPC reported a 2009-10 Profit after tax of $0.311m (2008-09, $0.449m) on a turnover of $12.650m (2008-09, $13.985m).

KIPC Net Assets as at 30 June 2010 were $3.659m (2008-09, $3.572m) and Total assets were $5.621m (2008-09, $5.339m).

TASRACING PTY LTD

INTRODUCTION

Tasracing Pty Ltd (Tasracing) was incorporated on 1st of July 2009. Tasracing became a state owned company under the Department of Infrastructure, Energy and Resources (DIER) after six months of trading as the Tasmanian Racing Board (TRB). The TRB was a statutory authority established on 1st of January 2009 but which ceased to operate on 30 June 2009.

Tasracing was established by the *Racing (Tasracing Pty Ltd) Act 2009* and is governed by the Racing Regulation Amendment Act 2008. The Principle Act is the *Racing Regulation Act 2004*.

The responsible Minister is the Minister for Racing.

Racing Regulation Act 2004, section 11 outlines Tasracing's responsibilities, which includes:

- developing a vision for the racing industry
- promoting Tasmanian racing locally, nationally and internationally
- promoting the development of an efficient and effective racing industry
- promoting the development of an efficient and effective horse and greyhound breeding industry
- corporate governance, strategic direction and funding
- providing advice to the Minister and making appropriate policy recommendations for the development of racing
- attracting sponsorship income
- allocating race dates
- race programming
- developing and maintaining racing and training venues under its control
- making (by drawing up its own local rules and by adopting Australian Rules of racing) the Rules of Racing, having regard to the recommendations of the Director.

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Signed financial statements were received on 13 August 2010 and were subsequently resigned on 24 September 2010. An unqualified audit report was issued on 28 September 2010. The financial statements were prepared on the basis that Tasracing is a going concern although this is only so due to financial support from the State government. Without this support, it may have been necessary to subject Tasracing's assets to tests for impairment. In this regard attention is drawn to the following note included in Tasracing's policy notes in its audit financial statements to assessments of impairment of its tangible and intangible assets:

> "Management takes into consideration the nature of the business together with the government funding arrangements and cash neutral business strategy when determining impairment. As such the guaranteed funding streams area aimed at supporting the carrying amount of the company's assets."

KEY DEVELOPMENTS

Net assets transferred from the TRB

All assets, liabilities, employees and rights were transferred to Tasracing from the former TRB on 1 July 2009. Equity transferred, \$53.014m, comprised assets, \$59.875m and liabilities, \$6.861m with the main asset transferred being racing infrastructure in the amount of \$44.669m.

Financial dependence on the State government

The audited financial statements confirm that Tasracing's revenue is dependent on a funding deed with the State government which provides base funding of $27m per annum plus CPI less 1% over 20 years. This deed also allows for a $40m debt facility with TASCORP for which Treasury will provide servicing in the form of principle and interest payments, subject to certain conditions. The $40m debt facility deed was unsigned at the time of finalising the audit.

Tasracing's corporate plans

Tasracing's principal objectives under the *Racing (Tasracing Pty Ltd) Act 2009* include the need for it to perform its functions and exercise its powers so as to be a successful business by operating in accordance with sound commercial practice as efficiently and effectively as possible.

In order for us to assess how Tasracing satisfies these requirements, we read its corporate plan (the Plan) and noted that:

1. Tasracing anticipated incurring net losses each year over the next five years amounting to $3.100m to $4.100m
2. The Plan makes going concern assumptions based on ongoing financial support from government
3. Tasracing's financial strategy is based around it being able to report a book loss on the basis that the loss is funded from non-cash charges (ie depreciation) and that these non-cash charges should allow funding for normal ongoing capital programs. Large capital projects will need to be funded from a loan facility and that Tasracing's ability to service any loans drawn down will be supported by the Department of Treasury and Finance. This strategy, while reporting a book loss, is essentially a cash neutral position
4. That, in addition to the CPI adjusted $27.000m annual contribution, Tasracing will earn income derived from racefields legislation once it is passed and overseas income from promotion of Tasmanian races.

We note that without all of these strategies coming to fruition, there is doubt that Tasracing will be able to continue as a going concern unless it is able to generate income from other sources.

Mowbray Racing Centre

During the year Tasracing installed new lighting at Tote Racing Centre at a cost of $5.500m, which enabled it to expand its market to off track wagering customers.

FINANCIAL RESULTS

The financial information detailed in this Chapter represents the operations of Tasracing for it's first full year of operation to 30 June 2010 and its financial position at balance date.

Comparatives for the six-month period to 30 June 2009, being for the period that the former TRB managed racing infrastructure, have been included in the Statement of Financial Position only.

In the year to 30 June 2010, Tasracing recorded a total comprehensive loss of $0.414m and net assets increased by $0.447m.

COMPREHENSIVE INCOME STATEMENT

	2009-10
	$'000s
Revenue from Government and TOTE Tasmania	32 235
Other income	3 142
Total Revenue	**35 377**
Employee benefits expense	4 926
Prizemoney, benefits and incentives	20 876
Depreciation and amortisation expense	2 285
Finance and leasing costs	374
Commission expense	1 214
Raceday and racing expenses	3 586
Other expenses	2 530
Total Expenses	**35 791**
Deficit before tax:	**(414)**
Income tax expense	0
Net (Loss) for the year	**(414)**
Other comprehensive income	0
Total Comprehensive (Loss)	**(414)**

Comment

Tasracing recorded a Net Loss for the year, $0.414m. Revenue from government, $32.235m, comprised government appropriation, $27.088m and funding from TOTE Tasmania, $5.147m in lieu of race field fee and interest income.

Other major components of the comprehensive income statement included:

- Other income, $2.377m, the major components of which were sponsorship income, $0.634m and rental income, $0.892m
- Employee benefits expense, $4.926m, comprising mainly salaries and wages of $3.388m
- Prize money, benefits and incentives, $20.876m, Tasracing's largest cost, was 58% of total expenditure
- Depreciation and amortisation expense for the year was $2.285m, the largest component was racecourse leasehold improvements, $1.814m
- Raceday and racing expenses, $3.585m, the most significant component being training and racing facilities expenses, $2.511m
- Other operating expenses, $1.746m, included insurance, $0.516m
- Income tax expense was not recognised due to the Deficit before tax in 2009-10. In addition, Deferred tax assets were not recognised as it was anticipated that future taxable profits would not be available to offset current and anticipated tax losses.

STATEMENT OF FINANCIAL POSITION

	2009-10	2008-09*
	$'000s	$'000s
Cash and cash equivalents	8 038	11 206
Trade and other receivables	607	2 162
Prepayments	268	173
Total Current Assets	**8 913**	**13 541**
Property, plant and equipment	50 851	46 334
Intangibles	11	0
Total Non-Current Assets	**50 862**	**46 334**
Trade and other payables	1 154	2 319
Employee benefits	423	384
Other financial liabilities	163	12
Total Current Liabilities	**1 740**	**2 715**
Borrowings	1 500	1 500
Employee benefits	3 075	2 647
Total Non-Current Liabilities	**4 575**	**4 147**
Net Assets	**53 460**	**53 013**
Contributed equity	53 874	46 598
Retained earnings (losses)	(414)	6 415
Total Equity	**53 460**	**53 013**

* *Comparatives apply to Tasmanian Racing Board*

Comment

Total Equity at 30 June 2010 consisted of:

- capital transferred from TRB, $53.013m which comprised net assets and liabilities transferred on 1 July 2009
- equity injection from government from a TOTE contingency for Tote Racing Centre lights, $0.861m
- Loss for year, $0.414m.

Major items in the Statement of financial position included:

- Cash, $8.038m which comprised working capital and funds held for capital works
- Receivables, $0.607m. The 2009 balance was high because funding due from Treasury, $1.201m, was not received until 2009-10
- Property, plant and equipment of $50.851m. This comprised the following assets transferred from TRB:
    - racecourse leasehold improvements, $44.669m, with additions in 2009-10, $5.932m mainly relating to lighting improvements at Mowbray Racing Centre mentioned earlier
    - plant and equipment, $1.664m with additions in 2009-10, $0.758m
- Borrowings, $1.500m, from TASCORP used for funding capital projects
- Employee benefits, $3.497m, the largest component being superannuation, $3.042m.

STATEMENT OF CASH FLOWS

	2009-10
	$'000s
Receipts	36 164
Payments to suppliers and employees	(34 180)
Interest received	758
Interest and other costs of finance	(110)
Cash from operations	**2 632**
Capital proceeds received	0
Proceeds from sales of property, plant and equipment	19
Payments for property, plant and equipment	(6 831)
Cash (used in) investing activities	**(6 812)**
Proceeds from transfer from Tasmanian Racing Board	11 206
Equity transfer from Tasmanian Government	861
Proceeds of transfer from Racing Services Tasmania	151
Cash from financing activities	**12 218**
Net increase in cash	**8 038**
Cash on 1 July 2009	0
Cash at end of the year	**8 038**

Comment

Tasracing was able to generate positive cash, $2.632m from operations in its initial year of operation. The financial strategy for the Company was based around being able to report a book loss on the basis that the loss was funded from non-cash charges (ie depreciation). The non-cash charges should also allow funding for normal ongoing capital programs. Large capital projects will need to be funded from the loan facility with TASCORP, previously mentioned. This strategy, while reporting a book loss, is essentially cash neutral.

Cash outflows from Investing activities were funded by Cash from operations and Financing activities.

The Cash at end of the year, $8.038m was due primarily to the cash and cash equivalents transferred from the former TRB of $11.206m.

FINANCIAL PERFORMANCE

This Chapter does not inlcude any assessment of financial performance, including financial ratios, because this was the first year of Tasracing's activities.

TASMANIAN RAILWAY PTY LTD

INTRODUCTION

The State Government and Pacific National Tasmania (PNT) concluded a Business Sale Agreement in September 2009 enabling the State to acquire the rail operations and business of PNT for $32 million. A new State-owned Company, Tasmanian Railway Pty Ltd (the Company), was established under the *Rail Company Act 2009* for the purpose of acquiring, owning and operating the rail business in Tasmania. The new company commenced operations on 1 December 2009.

The company has two primary roles, being to:

- provide rail freight services to customers – also referred to as the above rail functions
- manage the rail network infrastructure that was previously administered by the Department of Infrastructure, Energy and Resources (DIER), and it outsourced the management of the rail network to PNT – also referred to as the below rail function.

These roles include managing the previously privately operated Melba line.

The joint shareholders of the Company are the Treasurer and the Minister for Infrastructure, who hold their shares on behalf of the State of Tasmania. The shareholders hold one ordinary share each.

The Board comprised five non-executive directors, one of whom acted as a part-time Executive Chairman for a period during the year.

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Initial signed financial statements were received on 15 August 2010, with amended statements received on 2 September 2010 and an unqualified audit report was issued on 10 September 2010.

KEY FINDINGS AND DEVELOPMENTS

The 2009-10 audit was completed satisfactorily with no major issues outstanding.

On 30 June 2010, the Company held negotiations with DIER to finalise a rail corridor lease. Although management of the rail network had been transferred to the Company, the land remained the property of DIER. The Company sought advice from Crown Law on all lease agreements relating to the corridor and the obligations these leases imposed.

The Company has also held discussions with the State Government over concerns related to possible environmental liabilities and responsibilities they have been asked to assume, that may have existed prior to its commencement of operations in December 2009. No environmental liabilities have yet been quantified. The Company's current position is that it is only responsible for its actions and activities since commencement of operations in December 2009. This matter requires resolution.

We made the following audit recommendations to the Company:

- implement the recommendations provided in an independent review of procurement, concentrating on improving segregation of duties, independent review and authorisation of invoices and payments, monthly subsidiary ledger reconciliations and compliance with payment delegations
- review year end stock-take procedures.

FINANCIAL RESULTS

The financial information detailed below represents the operations of the Company for the seven month period from 1 December 2009 to 30 June 2010 and its financial position at balance date.

In the first seven months of operations the Company recorded a total comprehensive loss of $10.008m. Below rail operations (that is the management and maintenance of the track and land corridor) have and will continue to record losses in the future and the Company has secured State Government funding to meet future operating losses. The State Government budgeted $70.832m over the next four years to assist the Company with maintenance and administration costs.

The Company took control of a rail network that requires extensive capital upgrade. During 2009-10, the Company received the balance of Federal Rail Rescue Package funding through DIER which amounted to $26.397m. In addition, the State Government budgeted $244.250m over the next four years to fund capital work.

COMPREHENSIVE INCOME STATEMENT

	1 December 2009 to 30 June 2010 $'000s
Revenue from freight services	15 843
Other revenue	1 696
Total Revenue	**17 539**
Finance costs	49
Depreciation and amortisation expense	3 562
Other expenses	24 063
Total Expenses	**27 674**
Loss before taxation	**(10 135)**
Income tax expense	87
Loss before	**(10 222)**
Transfer of land for nil consideration	(1 725)
Gain on acqusition of business	1 852
Income tax benefit on transfer and acquistion	87
Net loss for period	**(10 008)**
Other comprehensive income	0
Total Comprehensive (Loss)	**(10 008)**

Comment

In 2009-10 the Company recorded a Loss before taxation of $10.135m. It operates two reportable segments:

- above rail – provision of rail freight services, which recorded a segment loss of $0.938m
- below rail – management and operation of the rail network and related infrastructure, which recorded a segment loss of $9.070m.

The segment losses represent external sales revenue and operating costs incurred. The results do not include any inter-entity pricing. In future periods, we expect the "above rail" business to be charged an internal fee for use of the rail network.

As noted, the above rail function generated the majority of its revenue through freight services. In purchasing the operations of PNT, the Company took over contracts for freight with eight major customers.

Other revenue consists primarily of rental income, interest and sundry sales.

Finance costs represent an interest penalty incurred on an agreed delayed payment to Queensland Rail, engaged by DIER to perform works on the Western Line before the Company was incorporated.

The majority of the depreciation expense related to rolling stock (locomotives and wagons). The useful lives of these and other assets were determined as part of the initial valuation of assets on acquisition. An independent Valuer provided useful asset lives, which in most cases, were adopted by the Company.

Other operating expenses consisted of:

- Salaries and wages $9.991m, which included employees transferred from PNT on acquisition of the business, employees transferred from DIER, employees appointed by the Company (CEO/CFO) and contract labour. During 2009-10, the Company offered full time positions to previously contracted employees with the majority accepting
- Maintenance and consumables $5.716m, included maintenance of infrastructure assets, locomotives and wagons. In addition, the Company had incurred $0.851m in incident costs associated with derailments
- Fuel and oil $2.621m, the majority of which related to locomotive fuel
- Administration $3.752m, being insurance costs, directors' fees, security, power, rates and, water and sewerage charges
- Other expenses $1.981m included consultants and information technology (IT) costs. The Company outsourced payroll and IT services and required external assistance in initial set up for commencement of it's operations.

The Transfer of land for nil consideration of $1.725m consisted of $1.680m in land acquired from PNT and additional land purchased during the period which was collectively transferred to the Crown. As a requirement of the acquisition of PNT's operations, land obtained by the Company vests with the Crown. The State Government gazetted this land transfer to the Crown in January 2010 within the plebiscite of the *Rail Company Act 2009.*

Gain on acquisition of business represented the surplus of net assets acquired (less assumed liabilities) in excess of the consideration paid. The following table details the calculation of the bargain purchase option.

Business combination	
Initial purchase price	32 000
Inventory Melba line acquired	392
Prepayments acquired	116
Employee benefits	(2 059)
Cash paid	30 449
Property, plant and equipment	34 272
Prepayments acquired	116
Employee benefits	(2 087)
Total identifiable asset acquired and liabilities assumed	32 301
Bargain purchase option	(1 852)

The fair value of the acquired assets was determined by an expert independent Valuer as at the date of the sale.

STATEMENT OF FINANCIAL POSITION

	1 December 2009 to 30 June 2010
	$'000s
Cash	32 705
Receivables	3 624
Inventories	1 527
Total Current Assets	**37 856**
Payables	4 641
Employee benefits	2 816
Total Current Liabilities	**7 457**
Working Capital	**30 399**
Property, plant and equipment	41 523
Total Non-Current Assets	**41 523**
Employee benefits	65
Total Non-Current Liabilities	65
Net Assets	**71 857**
Capital	81 865
Retained earnings	(10 008)
Total Equity	**71 857**

Comment

Total equity consisted of:

- Capital of $81.865m being State and Australian Government funding for the initial purchase from PNT, working capital and capital projects, offset by
- a net loss after taxation of $10.008m.

Major items in the Company's statement of financial position included:

- Cash of $32.705 which comprised working capital and funds held for capital works
- Property, plant and equipment of $41.523m. This balance consisted of assets acquired from PNT and transferred from DIER totalling $33.578m (including land and work in progress items), land additions totalling $0.046m and capital works in progress for the period $13.186m less total land transferred to the Crown, $1.725m, and depreciation of $3.562m.

STATEMENT OF CASH FLOWS

	1 December 2009 to 30 June 2010 $'000s
Receipts from customers	15 481
Payments to suppliers and employees	(21 477)
Finance costs	(49)
Interest received	683
Cash from operations	**(5 362)**
Consideration acquisition rail assets	(30 449)
Payments for property, plant and equipment	(13 349)
Cash (used in) investing activities	**(43 798)**
Proceeds from equity contributions	81 865
Cash from financing activities	**81 865**
Net increase in cash	**32 705**
Cash at the beginning of the year	0
Cash at end of the year	**32 705**

Comment

The Company failed to generate positive cash from operations in its initial seven months of trading. As noted previously, the Company currently does not expect to achieve operating profits and will need State Government funding to counter future negative cash flows from operations.

Cash used in investing activities included:

- a cash payment for the acquisition of rail assets paid to PNT
- Payments for property, plant and equipment including improvements to the Main North/South rail and Rhyndaston rail capacity.

The net cash outflows from operations and investing activities was offset by equity contributions of $81.865m which represent State Government funding for the initial purchase from PNT, working capital and funding for capital projects.

FINANCIAL PERFORMANCE

	Bench Mark	1 December 2009 to 30 June 2010
Financial Performance		
Profit (Loss) ($'000s)		(10 135)
EBIT ($'000s)		(10 057)
Operating margin	>1.0	(0.57)
Return on assets		-12.7%
Return on equity		-13.9%
Financial Management		
Current ratio	>1	5.08
Debt collection	30 days	66
Creditor turnover	30 days	48
Total capital expenditure/depreciation		375%
Other Information		
Staff numbers (FTEs)		170
Average staff costs ($'000s)		53
Average employee benefits ($'000s)		17

Comment

The Financial Performance ratios show operating margin well below benchmark due to the operating loss. As noted previously, the operation will struggle to be profitable in the near future and will be heavily reliant on Government support.

The Current ratio is well above benchmark due to the Company's significant cash holdings, which will be used for capital projects in 2010-2011 and future years.

The Debt collection and Creditor turnover days were worse than benchmark because the calculation was based on seven months of operations. If revenue and expenditure numbers were extrapolated for the 12 month period, both ratios would be closer to benchmark.

The total capital expenditure/depreciation ratio represents capital expenditure to depreciation. The ratio for the seven month period to 30 June 2010 was extremely high which reflected the Company's investments in property, plant and equipment. The Company has a high capital expenditure program because the rail network requires extensive upgrade. During 2009-10, the Company received the balance of Federal Rail Rescue Package funding of $26.397m and expects additional State Government funding of $244.250m over the next four years to fund the upgrade.

Average staff costs over the period were $0.053m and average leave balances $0.017m. We note the majority of PNT employee that transferred with the acquisition carried forward their leave balances.

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. On 1 January 2009 the 'racing' component of TOTE was transferred to what is now Tasracing Pty Ltd leaving TOTE to manage the wagering business. This should be borne in mind when reading the tables in this Chapter.

The Company is empowered to establish and conduct Totalizator betting in Tasmania under the *Gaming Control Act 1993.*

At balance date, the consolidated entity comprised the Company and the following wholly owned subsidiaries:

- TasRadio Pty Ltd, a commercial radio broadcaster, which provides race broadcasts throughout most of Tasmania
- Agility Interactive Pty Ltd (Agility) acquired 1 July 2008, a software developer which develops interactive products used by the customers of the TOTE.

The board as at 30 June 2010 comprised three directors who were appointed by the Government. Two additional directors were appointed on 26 August 2010.

AUDIT OF THE 2009-10 FINANCIAL STATMENTS

Signed financial statements were received on 26 August 2010 and an unqualified audit report was issued the following day.

The financial information presented in this Chapter represents the consolidated results and financial position of the Company and its subsidiaries.

KEY FINDINGS AND DEVELOPMENTS

On 8 January 2008, the Government announced that it intended to explore the potential sale of TOTE. Through the appointed sale advisors, an Information Memorandum was released in June 2009 and indicative bids for the purchase of the Company were sought. The closing date for the bids was 14 July 2009. On 3 December 2009 the State Government withdrew the business from sale.

On 1 July 2009 the *Gaming Control Act 1993* (the Act) was amended to allow for wagering activities of a totalizator operator and corporate bookmakers in Tasmania.

The Tasmanian Gaming Commission is now responsible for regulating the wagering activities of TOTE Tasmania, consistent with other wagering operators in Tasmania.

As a result of the amendments to the Act, from 1 July 2009 TOTE is required to hold a Tasmanian Gaming Licence and must comply with specific requirements under the Act. As a result TOTE:

- is required to pay a license fee (2009-10, $6.255m) to the Liquor and Gaming Branch who administer the Act
- is upgrading its systems and processes to enable it to comply with new legislative requirements
- must maintain liquid assets to the value of the telephone betting deposits it holds. This requirement resulted in TOTE incurring additional borrowings of $10.000m in 2009-10. At 30 June 2010 its telephone betting deposits totalled $7.709m.

On 1 January 2009 the responsibility for the development of an efficient and effective racing and breeding industry was transferred to Tasracing Pty Ltd (Tasracing) to which a separate Chapter has been dedicated in this Report. The 2009-10 financial year was the first full financial year where TOTE's financial statements reflected the change in these arrangements. Tasracing is funded through an annual State Government grant/appropriation (2009-10, $27.000m), indexed annually. During 2009-10 TOTE also made a distribution to Tasracing of $5.126m (2008-09, $18.802m). TOTE may also be required to pay race field fees, approximately $0.500m, to Tasracing in the future, if Tasracing follow other States and commence to charge racefield fees.

Despite incurring additional costs as a result of the introduction of the Act, and the establishment of Tasracing, TOTE saves approximately $20.000m annually in Prize money, benefits and incentives with these items now paid by Tasracing.

The Comprehensive Income Statement within this chapter has been structured to clearly illustrate the impact on TOTE's profit of these changes in 2009-10 compared to prior years by separately identifying licence fees, distributions to Tasracing, Prize money, benefits and incentives, and other racing administration expenses.

The 2009-10 State Budget anticipated the following receipts from TOTE:

- income tax payment, $9.300m
- dividend, $3.700m
- special dividend, $3.000m.

TOTE paid the special dividend in 2009-10 of $3.000m, and the Board proposed a dividend from 2009-10 profits of $3.494m. Income tax equivalents paid during 2009-10 totalled $3.523m, well short of the budget amount anticipated. However, TOTE had not anticipated the payment of $5.126m to Tasracing.

During 2009-10 TOTE purchased a 25% share in Sports Alive, a unit trust operating as a corporate bookmaker, for $5.000m. Sports Alive incurred a loss of $0.600m from 10 December 2010 to 30 June 2010, the period TOTE owned this strategic investment.

The 2009-10 TOTE's two subsidiaries reported:

- TasRadio derived $0.665m of revenue from broadcast income. TasRadio's activities are aimed at boosting TOTE's wagering business
- Agility – incurred costs of $3.837m and reported a loss of $0.204m with the majority of revenue derived from TOTE for software development.

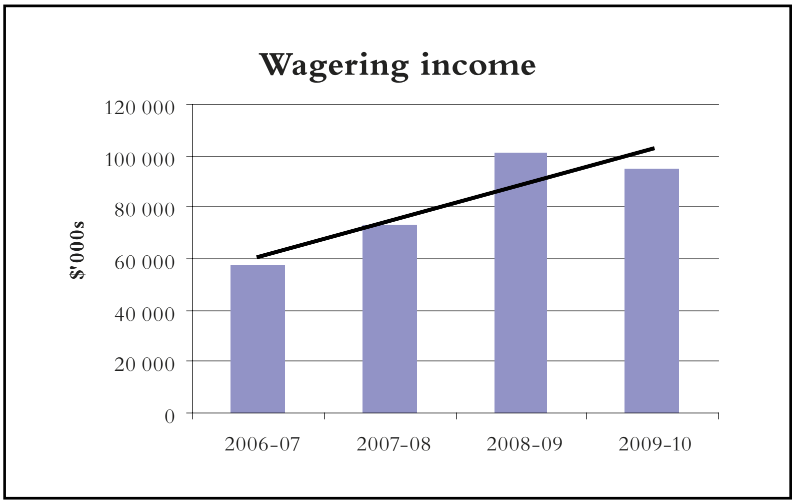
During 2008-09 TOTE participated within two pools, the fixed odds TAB Sportsbet pool, and the Pari-mutual Supertab pool. During 2008-09 the Sportsbet pooling agreement by Tabcorp was terminated. As a result TOTE entered into a new joint venture agreement to participate in a fixed odds sport betting pool operated by Centrebet from May 2009. Participation within this pool was effectively limited to TOTE's retail customers. Fixed odds sport bet wagering turnover significantly decreased as a result, however this decrease in fixed odds sports turnover was entirely offset by an increase in pari-mutuel turnover.

Note 29, Economic dependency, in the financial statements detail TOTE's agreement with Tabcorp Manager Pty Ltd to pool bets into the Supertab pool. Tabcorp is licensed to operate the Victorian Wagering License and host the Supertab pool until 14 August 2012. There is a risk that Tabcorp may not be awarded a further license as it is subject to competitive tender process which is currently underway. Accordingly the continuation of the Supertab pool is a risk. The Directors have stated they have a number of strategies to mitigate this risk.

The audit was completed satisfactorily with no major items outstanding.

FINANCIAL RESULTS

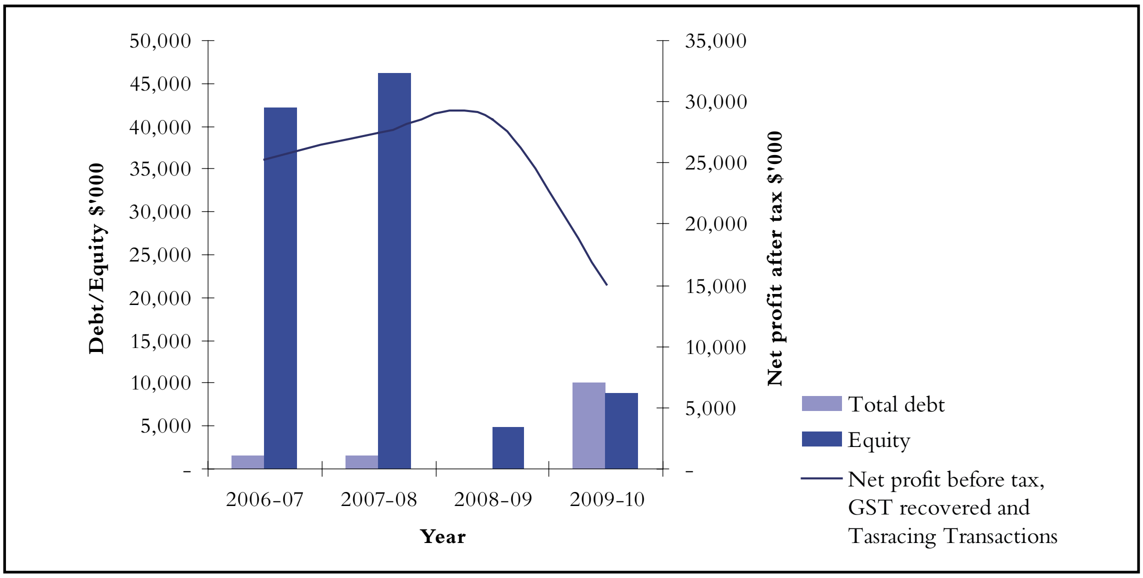
The graph below illustrates TOTE's higher wagering performance year on year from 2006-07 to 2008-09, and a slight decrease in 2009-10.



The increase in wagering income resulted from:

- attracting large non-retail customers to TOTE through the use of incentives such as commissions and rebates
- providing customers with internet, telephone and interactive options
- having a comprehensive range of pari-mutuel and fixed odds wagering products
- a presence in the major pari-mutuel wagering pool
- development of alliances with other agencies such as Betfair.

The graph below shows the trend in financial performance, debt levels and equity for the past four years. The profit line is before taxation, GST recovered and distributions to Tasracing.



The graph illustrates the loan drawdown in 2009-10 as a result of the legislative requirement to match telephone betting deposits with liquid assets. The net profit line from 2006-07 to 2008-09 reflects higher wagering income over that period. The significant decrease in the 2009-10 net profit line was primarily as a result of lower wagering income (primarily due to a change in Sportsbet pools, $7.000m), the first time payment of the Tasmanian Gaming License fee, $6.255m, the first full year of racefield fees paid to other States, $4.000m, and other costs associated with ensuring compliance with the Act, approximately $2.000m.

COMPREHENSIVE INCOME STATEMENT

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Investments from customers	756 423	746 613	498 412	387 106
Settlement from other TABs	54 760	62 783	45 225	31 243
Cost of dividends and taxes	(715 957)	(708 389)	(470 064)	(360 611)
Wagering Income	**95 226**	**101 007**	**73 573**	**57 738**
Other income from operating activities	3 713	4 011	3 464	3 542
Total Income	**98 939**	**105 018**	**77 037**	**61 280**
Employee benefits expense	(12 628)	(9 895)	(8 200)	(8 565)
Wagering and pooling fees	(13 942)	(14 709)	(12 426)	(8 894)
Depreciation and amortisation expense	(3 268)	(2 159)	(1 822)	(1 912)
Interest and leasing costs	(2 513)	(1 477)	(1 260)	(1 274)
Commission expense	(28 052)	(33 636)	(16 317)	(9 079)
Communication and broadcasting expenses	(6 878)	(6 625)	(5 979)	(5 504)
Administration expenses	(5 186)	(3 910)	(2 169)	(2 251)
Licence fee	(6 255)	0	0	0
Other expenses	(5 024)	(4 030)	(3 196)	(3 046)
Total Expenses	**(83 746)**	**(76 441)**	**(51 369)**	**(40 525)**
Share of loss of equity accounted investment	(150)	0	0	0
Profit before taxation, GST recovered and Tasracing distribution	**15 043**	**28 577**	**25 668**	**20 755**
GST recovered	0	9 448	0	0
Distributions to Tasracing	(5 126)	(18 802)	0	0
Prizemoney, benefits and incentives	0	(8 175)	(20 119)	(20 105)
Racing other income	0	3 593	8 706	10 568
Racing other expenses	0	(4 873)	(10 177)	(8 903)
Income tax effect of these items	0	(317)	0	0
Profit before taxation	**9 917**	**9 451**	**4 078**	**2 315**
Income tax expense	(2 927)	(2 937)	(1 214)	(556)
Net Profit	**6 990**	**6 514**	**2 864**	**1 759**
Other Comprehensive Income				
Assets revaluation reserve	0	0	150	0
Total Comprehensive Profit	**6 990**	**6 514**	**3 014**	**1 759**

Comment

In 2009-10 a decline in Wagering Income $5.781m, 5.7%, Other income, $0.298m, and increased expenditure, $7.305m, 9.5%, resulted in TOTE reporting a $13.534m lower Profit before taxation, GST recovered and distributions to Tasracing compared to the prior year.

The decrease in Wagering income, $5.781m, comprised:

- lower Settlements from other TAB's, $8.023m
- increased Cost of dividends and taxes, $7.568m.

Partly offset by:

- higher Investments from customers, $9.810m.

The above movements reflected a fall in fixed odds sports bet turnover, $73.653m, due to changes in the wagering pools which TOTE operates within. This is explained further in the next paragraph. However this decrease in fixed odds sports turnover was entirely offset by an increase in pari-mutuel turnover.

During 2008-09 TOTE participated within two pools, the fixed odds TAB Sportsbet pool, and the Pari-mutual Supertab pool. During 2008-09 the Sportsbet pooling agreement by Tabcorp was terminated. As a result TOTE entered into a new joint venture agreement to participate in a fixed odds sport betting pool operated by Centrebet. Participation within this pool was effectively limited to TOTE's retail customers. Fixed odds sport bet wagering turnover significantly decreased as a result.

The cost of dividends and taxes correlate with turnover.

Expenditure increased $7.305m, 9.5%, primarily due to:

- the first time License fee payment during 2009-10, $6.255m, to fulfil Gaming Act obligations
- the first full year of racefield fees paid to other States, $4.000m
- higher Employee benefits expense, $2.733m, due to salary increases, new positions created and an upwards movement in leave entitlements
- increased Interest and leasing costs, $1.036m, from additional borrowings
- additional Administration expenses, $1.276m, including fraud related costs, $0.496m
- new marketing initiatives, captured within Other expenses, $0.994m.

The above factors were partly offset by:

- decreased Commission expenses, $5.584m, as a result of a drop in retail turnover and the reclassification of certain commission expense to 'Cost of dividends and taxes'
- lower Wagering and pooling fees, $0.767m, due to a change in the Sportsbet pooling arrangement and a reduction in fixed odds turnover.

The distribution to Tasracing in 2009-10, $5.126m, is less than the distribution in 2008-09, $18.802m.

Racing other income in 2008-09 primarily comprised State government grant revenue of $2.717m. Racing business related grants are now paid to Tasracing. Racing other expenses comprised employee expenses, $1.553m, depreciation $0.923m, and other costs, $0.537m. From 1 January 2009 expenditure related to racing is no longer incurred by TOTE.

STATEMENT OF FINANCIAL POSITION

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Current Assets				
Cash and cash equivalents	10 300	3 071	6 145	4 897
Trade and other receivables	2 664	5 264	5 574	4 321
Prepayments and Consumables Stores	628	266	635	439
Total Current Assets	**13 592**	**8 601**	**12 354**	**9 657**
Current Liabilities				
Telephone betting deposits	7 709	9 021	5 062	3 654
Dividends and refunds due and unpaid	683	1 033	789	783
Accruals and accounts payable	8 026	7 978	8 052	5 142
Borrowings – unsecured interest bearing	10 000	0	0	0
Deferred taxation liabilities	0	97	0	0
Income tax payable	2 382	2 678	572	146
Provisions – leave and other	955	700	956	863
Other liabilities	285	283	476	549
Total Current Liabilities	**30 040**	**21 790**	**15 907**	**11 137**
Working Capital	**(16 448)**	**(13 189)**	**(3 553)**	**(1 480)**
Non-Current Assets				
Property, plant and equipment	6 022	5 518	47 396	43 129
Investment in associate and other investments	4 950	0	0	0
Deferred tax assets	340	0	499	706
Intangibles	10 208	8 552	5 753	3 864
Goodwill	4 150	4 150	0	0
Total Non-Current Assets	**25 670**	**18 220**	**53 648**	**47 699**
Non-Current Liabilities				
Borrowings – unsecured interest bearing	0	0	1 500	1 500
Other liabilities	21	0	47	62
Provisions – superannuation	0	0	2 317	2 309
Provisions – leave and other	307	126	127	100
Total Non-Current Liabilities	**328**	**126**	**3 991**	**3 971**
Net Assets	**8 894**	**4 905**	**46 104**	**42 248**
Equity				
Contributed equity	0	0	22 600	22 600
Retained earnings	8 590	4 600	18 859	15 003
Asset revaluation reserve	304	305	155	155
Equity transfer – Racing Tasmania	0	0	4 490	4 490
Total Equity	**8 894**	**4 905**	**46 104**	**42 248**

Comment

At 30 June 2010 TOTE's equity totalled \$8.894m, an increase of \$3.989m on 2008-09. The increase was primarily due to:

- net profits after taxation of \$6.990m (2008-09, \$6.514m)

offset by

- dividends paid during year of \$3.000m.

Corresponding to the increase in total equity, Net Assets increased \$3.989m. This movement primarily related to:

- higher Cash at bank, \$7.228m, further discussed within the Statement of Cash Flows section of this Chapter
- an investment in a corporate bookmaker, Bet Worldwide Unit Trust (Sports Alive), \$4.850m. TOTE paid \$5.000m for this investment. Subsequently the investment incurred a trading loss with TOTE's share being \$0.150m
- increased Property, plant and equipment and intangibles, \$0.504m and \$1.656m respectively. Property, plant and equipment additions included the programmed retail outlet upgrades and computer communications protocols with Tabcorp. Intangibles additions included software developments for new wagering products and system changes to meet legislative requirements
- lower Telephone betting deposits, \$1.382m. The level of this balance is a function of turnover and customer willingness to hold winnings in their account.

The above factors were partially offset by:

- lower Trade and other receivables, \$2.600m, mainly due a number of closed accounts, which in the prior period held high balances, and the fall in settlements from other TABs
- additional Borrowings of \$10.000m drawn down during the year primarily to meet a legislative requirement to maintain liquid assets to the value of the Telephone betting deposits.

The level of working capital is commented on within the Financial Analysis section of this Chapter.

STATEMENT OF CASH FLOWS

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Receipts from customers and other TABs	335 277	422 007	266 841	249 511
Other receipts	4 304	7 171	13 035	14 868
Interest received	404	476	463	333
GST recovery	0	9 448	0	0
Payments to customers	(239 830)	(318 397)	(193 118)	(190 798)
Payments to suppliers and employees	(80 232)	(83 581)	(76 233)	(68 799)
Borrowing costs	(453)	(54)	(109)	(71)
Payments to the Tasmanian Racing Board	0	0	0	0
Other payments	(3 522)	(1 194)	(582)	(504)
Cash from operations	**15 948**	**35 876**	**10 297**	**4 540**
Payments for property, plant and equipment	(5 494)	(11 307)	(10 112)	(4 417)
Proceeds from sale of property, plant and equipment	0	0	72	32
Proceeds of loans to external parties	0	0	991	323
Acquisition of Agility cash at bank	0	153	0	0
Investment in subsidiary	0	(4 000)	0	0
Investment in associate	(5 100)	0	0	0
Release of racing reserves	0	(4 993)	0	0
Cash (used in) investing activities	**(10 594)**	**(20 147)**	**(9049)**	**(4 062)**
Proceeds from borrowing	10 000	0	0	0
Payments to the Tasracing	(5 126)	(18 802)	0	0
Dividends paid	(3 000)	0	0	0
Cash (used in) financing activities	**1 874**	**(18 802)**	**0**	**0**
Net increase (decrease) in cash	**7 228**	**(3 073)**	**1 248**	**478**
Cash at the beginning of the year	3 072	6 145	4 897	4 419
Cash at end of the year	**10 300**	**3 072**	**6 145**	**4 897**

Comment

During 2009-10 Cash increased $7.228m to $10.300m. This compares with a decrease in cash during 2008-09 of $3.073m. The increase in cash comprised:

- additional borrowings of $10.000m
- Cash from operations, $15.958m.

Offset by:

- Investment in associate, Sports Alive, $5.000m, and Twonix, $0.100m
- dividend payment, $3.000m
- Payments for property, plant and equipment, $5.494m.

The above analysis indicates that TOTE's Cash from operations and borrowings funded its investing activities, its new legislative obligation to 'cash back' telephone betting deposits and to pay the special dividend, $3.000m.

Cash from operations fell $19.928m compared to the prior year primary due to the following reasons:

- Receipts from customers and other TAB's fell $86.730m, despite overall turnover increasing due to an increased amount of betting through telephone betting accounts compared to cash
- Other receipts fell $2.867m, this was mainly attributable to the divestment of the Racing Division
- GST recovery receipts fell $9.448m as this receipt was a one-off receipt from a successful GST dispute with the Australian Taxation Office
- Other payments increased $2.328m as a result of higher income tax payments.

The above movements were partially offset by:

- lower Payments to customers, $78.567m, for the same reasons mentioned above at Receipts from customers and other TAB's
- decline in Payments to suppliers and employees, $3.349m, as there was additional expenditure incurred in the sale process and divestment of the Racing Division in 2008-09
- payments to Tasracing in 2009-10 being $13.676m lower than the payment in 2008-09.

Cash used in investing activities for 2009-10 fell $9.553m compared to the prior year as 2008-09 included additional expenditure related to Tasracing.

FINANCIAL ANALYSIS

	Bench Mark	2009-10	2008-09
Financial Performance			
Profit (Loss) ($'000s) (before tax and adjustments)		15 193	28 577
EBIT ($'000s)		14 596	28 523
Operating margin	>1.0	1.18	1.37
Return on assets		44.2%	61.5%
Return on equity		78.6%	132.8%
Underlying result ratio		7.1%	6.2%
Financial Management			
Debt to equity		112.4%	0.0%
Debt to total assets		25.5%	0.0%
Interest cover	>2	32.65	528.20
Current ratio	>1	0.45	0.39
Cost of debt	6.9%	8.9%	7.2%
Debt collection	30 days	11	248
Creditor turnover	30 days	51	50
Self financing ratio		16.1%	34.2%
Returns to Government			
Dividends paid or payable ($'000s)		6 494	0
Dividend payout ratio	50%	93%	0%
Dividend to equity ratio	6%	94%	0%
Income tax paid or payable ($'000s)		3 523	1 194
Effective tax rate	30%	23.4%	4.2%
Total return to the State ($'000s)		10 017	1 194
Total return to equity ratio		112.6%	24.3%
Other Information			
Average staff numbers (FTEs)		101	123
Average staff costs ($'000s)		119	70
Average leave balance per FTE ($'000s)		13	8

The above analysis is for two years only as the 2007-08 and 2006-07 balances incorporate Racing activities thus creating inconsistencies not beneficial for meaningful analyses of performance.

Comment

The Operating Margin decreased in 2009-10 as commented on within the Comprehensive Income Statement of this Chapter.

In the current year, the Debt to equity ratio, 112.4%, reflected TOTE's decision to establish a new facility with TASCORP to borrow funds. The Gaming Control Act required TOTE to have liquid assets on hand to cover current Telephone betting deposits.

TOTE continued to operate with negative working capital over the four year period of review. The current ratio worsened during the current year due to new borrowings of $10.000m. TOTE is effectively a cash business that generates cash streams without a substantial need for working capital.

The Self financing ratio fell to 16.1% in the current year from 34.2% in the prior year due to a drop in Cash from operations. In 2008-09, Cash from operations included a one off receipt for GST recovery for $9.448m, which had skewed the Self financing result for that year.

Total return to the State increased. A special dividend was paid during 2009-10, $3.000m and on 26 August 2010 the Board resolved to pay a dividend of $3.494m from 2009-10 profits.

Average staff numbers for 2008-09 reflected Tasracing employees for the half of the year prior to the transfer on 1 January 2009. This change also impacted the average staff costs.

TRANSEND NETWORKS PTY LTD

INTRODUCTION

Transend Networks Pty Ltd (Transend – or the Company) was established under the *Electricity Companies Act 1997* and incorporated under the *Corporations Act 2001* on 17 June 1998. Two shares have been issued to each of its two shareholders – the Treasurer and the Minister for Energy and Resources who hold these shares on behalf of the State of Tasmania.

Transend owns and operates the electricity transmission system in Tasmania which transmits electricity from power stations in Tasmania (and on the mainland via Basslink) to Transend's customers around the State.

Transend currently has 16 transmission customers, including generators, networks and a number of major industrials.

Transend is a participant in Australia's National Electricity Market (NEM). The NEM operates on an interconnected power system that extends from Queensland to South Australia. Tasmania is connected to the NEM via Basslink.

In November 2008, Transend acquired a telecommunications business from Hydro Tasmania. This business (now known as Transend Communications Services) serves customers in the electricity supply industry and other industries.

The board currently comprises six directors, including the Managing Director.

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Signed financial statements were received on 26 August 2010 and an unqualified audit report was issued on 3 September 2010.

KEY FINDINGS AND DEVELOPMENTS

Transend constructed a new central inventory warehouse at Bridgewater and introduced a new Inventory Management System during 2009-10. This implementation allows Transend to better manage its inventory on a state-wide basis.

This was the first full year of operation for the telecommunications business. The business performed better than budget in 2009-10 and generated a gross profit.

The audit was completed satisfactorily with no major issues outstanding. However, the following audit recommendations were made:

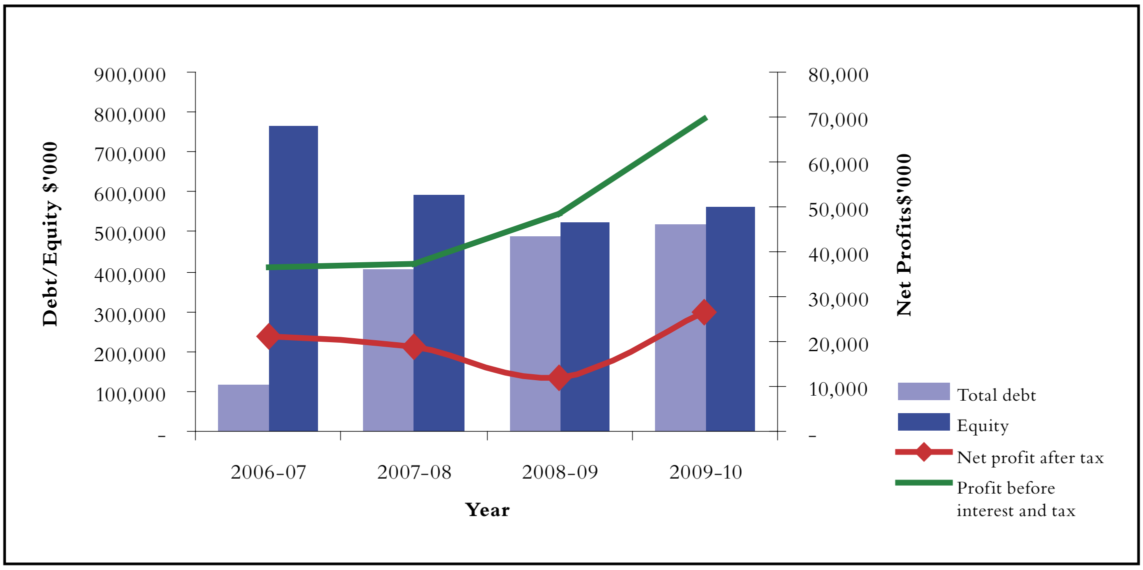
- Testing of the annual leave (AL) provision noted that 53 employees had AL balances in excess of 40 days, or two years entitlements. In addition, testing of the long service leave (LSL) provision noted that two employees had LSL balances in excess of 100 days. It was recommended that leave monitoring and management procedures be reviewed to ensure that employees do not accrue excessive leave balances
- The last formal independent valuation of Transend's network assets was performed four years ago on 30 June 2006. Since that date, values have been adjusted by appropriate escalation components, to predict movements in key cost drivers, in an effort to ensure current values. An extended period of reliance on annual indexation could lead to a divergence from fair values, hence the need for periodic revaluations. It was recommended that Transend review the valuation of network assets to ensure they are fairly stated and presented in the financial statements

- Testing of decommissioned assets revealed that for one item selected, a transmission line recorded in the financial records at a written down value of $1.257m, there was no formal disposal documentation forwarded to the finance department to support the decision to decommission this asset. It was recommended management implement formal documentation and authorisation procedures and associated workflows for the decommissioning of assets.

Management is addressing these matters.

FINANCIAL RESULTS

Transend's financial performance and financial position over the past four years were significantly impacted by the timing of regulated price increases and the change in the debt/equity structure that occurred in 2007-08. This, together with its capital expenditure program resulted in significantly higher finance costs. The graph below shows the trend in performance, debt levels and equity for the past four years.



Movement in Equity over the period reflected after tax profits, property, plant and equipment valuation adjustments and the debt for equity swap with Hydro Tasmania in 2007-08.

Transend's Total revenue increased by $21.625m in 2009-10, due primarily to a 14.2% increase in revenue from prescribed (regulated) electricity transmission services leading to an improvement in Net profit after tax which increased by $14.447m. Transend was able to minimise increases in expenditure, allowing most of the increased revenue to flow through to profit.

On a Profit before interest and tax basis, Transend's net earnings grew strongly in 2008-09 and 2009-10.

COMPREHENSIVE INCOME STATEMENT

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Transmission use of system (TUOS)	165 848	144 223	130 120	123 294
Other revenue	17 747	14 396	6 554	4 480
Total Revenue	**183 595**	**158 619**	**136 674**	**127 774**
Depreciation and amortisation expense	(58 031)	(58 552)	(51 495)	(45 976)
Other expenses	(55 953)	(51 747)	(47 870)	(45 204)
Total Expenses	**(113 984)**	**(110 299)**	**(99 365)**	**(91 180)**
Profit before finance costs and tax	**69 611**	**48 320**	**37 309**	**36 594**
Finance costs	(32 589)	(32 413)	(10 499)	(6 513)
Net profit before taxation	**37 022**	**15 907**	**26 810**	**30 081**
Income tax expense	(10 664)	(4 660)	(8 083)	(8 949)
Gain on acqusition of business	0	664	0	0
Net Profit	**26 358**	**11 911**	**18 727**	**21 132**

Comment

In 2009-10, Transend recorded a Net profit after tax of $26.358m almost in line with its profitability in 2006-07, after declining profits in 2007-08 and 2008-09. The improvement in profitability was primarily due to:

- higher TUOS revenue, $21.625m due mainly to the Australian Energy Regulator's (AER) *Transmission Determination for 2009-10 to 2013-14.* The AER's decision resulted in an increase in the revenue determination of 14.2% for 2009-10
- an increase in Other revenue, $3.351m, primarily due to higher customer contributions and non-prescribed connection applications. In addition this revenue included a full year of operation of the telecommunications business acquired in November 2008.

The increased revenue was partially offset by:

- increased Other expenses, $4.206m, primarily due to a higher loss on disposal of property, plant and equipment, $1.234m, and a greater level of external works, $1.153m
- Gain on acquisition of business in 2008-09 related to the telecommunications business. There were no acquisitions in 2009-10
- on the basis of Net profits before financing costs and interest, Transend made strong profits in each of the four years under review, particularly in 2009-10.

COMPREHENSIVE INCOME STATEMENT

	2009-10	2008-09
	$'000s	$'000s
Net Profit for the year	26 358	11 911
Gain (loss) on revaluation of property, plant and equipment	29 641	(91 364)
Superannuation actuarial (loss)	(6 250)	(6 684)
Income tax equivalent on items of other comprehensive income	(7 018)	29 515
Total other comprehensive income	**16 373**	**(68 533)**
Total Comprehensive Profit (Loss)	**42 731**	**(56 622)**

* *Years prior to 2008-09 not included because a Statement of Comprehensive Income was not required in those years.*

Comment

Total comprehensive profit for the year improved $99.353m compared to the prior year primarily due to the after deferred tax impact of Gains in 2009-10 on the revaluation of property, plant and equipment compared to revaluation decrements in 2008-09. The gain was primarily associated with net revaluation increments for transmission lines and substations, $27.176m. In 2008-09 there were net revaluation decrements, $93.784m, for these assets due to a downward reassessment of inflation indices.

STATEMENT OF FINANCIAL POSITION

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Cash	4 632	23 775	21 499	158
Receivables	17 575	24 970	22 943	17 692
Inventories	3 567	3 606	423	488
Current tax assets	0	4 939	0	0
Other	4 463	3 461	811	691
Total Current Assets	**30 237**	**60 751**	**45 676**	**19 029**
Payables	44 256	35 681	24 825	15 951
Borrowings	0	0	408 677	38 059
Employee benefits	6 874	6 114	4 680	4 137
Superannuation	1 009	1 035	4 613	4 378
Current tax liability	1 178	0	2 436	5 162
Other	26 157	33 037	32 019	10 951
Total Current Liabilities	**79 474**	**75 867**	**477 250**	**78 638**
Working Capital	**(49 237)**	**(15 116)**	**(431 574)**	**(59 609)**
Property, plant and equipment	1 355 476	1 239 780	1 259 312	1 110 452
Other	2 525	4 266	1 514	353
Total Non-Current Assets	**1 358 001**	**1 244 046**	**1 260 826**	**1 110 805**
Borrowings	518 000	488 000	0	80 000
Employee benefits	1 761	1 322	1 004	820
Superannuation	43 157	34 116	18 492	17 852
Deferred tax liability	181 935	180 696	218 390	187 905
Total Non-Current Liabilities	**744 853**	**704 134**	**237 886**	**286 577**
Net Assets	**563 911**	**524 796**	**591 366**	**764 619**
Capital	66 549	66 549	66 549	336 549
Retained earnings	91 677	70 613	72 625	68 898
Reserves	405 685	387 634	452 192	359 172
Total Equity	**563 911**	**524 796**	**591 366**	**764 619**

Comment

Total Equity increased, $39.115m during 2009-10, comprising:

- Net Profit, $26.358m (2008-09, $11.911m), less the dividend paid during the year of $3.616m (2008-09, $9.360m)
- Gain on revaluation of property, plant and equipment, $29.641m
- Superannuation actuarial loss, $6.250m
- net tax effect of the above, loss, $7.018m.

Corresponding to the increase in Total Equity, Net Assets also increased by $39.115m. This mainly related to:

- higher Property, plant and equipment, $115.696m, attributable to:
  - o revaluation of network assets, which resulted in a net increment of $29.785m (2008-09, decrement of $91.364m). Following from the full independent valuation of Transend's asset network undertaken in 2006-07, network assets were indexed again in 2009-10 using the revised valuation approach which uses long-term average annual network asset cost escalation rates
  - o capital works in progress increased by $81.986m, represented by transfers out of $61.263m to the following asset classes:
    - transmission substations, $40.803m
    - buildings, $8.122m
    - communication assets, $6.688m
    - other assets $5.650m.

Offset partly by:

- depreciation during the period, $55.595m (2008-09, $55.898)
- lower Other liabilities, $6.880m, due primarily to decreased income received in advance of $9.719m. Income received in advance is amortised over the period the revenue streams relate to.

These were offset in part by:

- lower Cash, $19.143m, used to fund capital expenditure. 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
- decreased Receivables, $7.395m, due to timing differences. The 2008-09 balance was high because Aurora was not invoiced for the May 2009 portion of its prescribed revenue until late June in 2008-09
- higher Payables, $8.575m, due mainly to increased accrued creditors of $9.834m. This increase was due to the higher capital expenditure in 2009-10
- increased Borrowings, $30.000m, in 2008-09 used to fund capital expenditure
- Defined benefits superannuation liability increased by $9.041m (2008-09, $12.046m). The increase in 2009-10 was due to changes in discount rates, a change in the treatment of the contributions tax liability and changes in the value of contributory scheme assets and liabilities. The defined benefit superannuation plan pays lump sum and pension benefits to members when taking retirement. Benefits are calculated as a multiple of members' average salary.

Despite Transend's profitability, working capital continued to be negative in that current liabilities exceeded current assets by $49.237m at 30 June 2010 (2009, $15.355m). However, it is our assessment that Transend can meet its current commitments as they fall due.

STATEMENT OF CASH FLOWS

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	200 789	170 986	166 711	136 040
Payments to suppliers and employees	(66 818)	(62 922)	(62 975)	(46 392)
Finance costs	(22 577)	(29 814)	(8 376)	(6 198)
Taxation paid	(10 326)	(18 610)	(19 271)	(18 988)
Cash from operations	**101 068**	**59 640**	**76 089**	**64 462**
Proceeds from sale of property and plant	422	531	279	326
Payments for property, plant and equipment	(147 472)	(124 412)	(60 666)	(71 199)
Interest received	455	0	0	0
Payments for business	0	(15 207)	0	0
Cash (used in) investing activities	**(146 595)**	**(139 088)**	**(60 387)**	**(70 873)**
Proceeds from borrowings	30 000	749 261	115 639	30 314
Repayment of borrowings	0	(658 177)	(45 000)	(5 000)
Return of shareholder's capital	0	0	(50 000)	0
Dividends paid	(3 616)	(9 360)	(15 000)	(18 774)
Cash from financing activities	**26 384**	**81 724**	**5 639**	**6 540**
Net increase (decrease) in cash	**(19 143)**	**2 276**	**21 341**	**129**
Cash at the beginning of the year	23 775	21 499	158	29
Cash at end of the year	**4 632**	**23 775**	**21 499**	**158**

Comment

Transend's Cash at end of the year decreased by $19.143m (2008-09, increase $2.276m). This resulted from the high level of cash used in investing activities, $146.595m, and payment of $3.616m dividends, being mainly funded by Cash from operations, $101.068m and proceeds of borrowings $30.000m. For the reasons outlined in the Income Statement section of this Chapter, cash generated from operations was high in 2009-10.

Finance costs paid, $22.577m, were less than expensed in the Comprehensive Income Statement because some finance costs were capitalised.

FINANCIAL PERFORMANCE

	Bench Mark	2009-10	2008-09	2007-08	2006-07
Financial Performance					
Profit (Loss) after tax ($'000s)		26 358	11 911	18 727	21 132
EBIT ($'000s)		69 611	48 320	37 309	36 594
EBITDA ($'000s)		127 642	106 872	88 804	82 570
Operating margin	>1.0	1.46	1.31	1.31	1.35
Return on assets		5.2%	3.7%	3.1%	3.8%
Return on equity		4.8%	2.1%	2.8%	3.3%
Financial Management					
Debt to equity		91.9%	93.0%	69.1%	15.4%
Debt to total assets		37.3%	37.4%	31.3%	10.4%
Interest cover – EBIT	>3	1.8	1.4	3.2	4.7
Interest cover – funds from operations	>3	5.5	3.0	10.1	11.4
Current ratio	>1	0.38	0.80	0.10	0.24
Cost of debt	6.9%	7.6%	7.6%	*4.4%	7.4%
Debt collection	30 days	6	34	31	20
Creditor turnover	30 days	10	10	27	11
Capital expenditure/depreciation		254%	212%	108%	144%
Returns to Government					
Dividends paid or payable ($'000s)		13 179	3 616	9 360	15 000
Dividend payout ratio	50%	50.0%	50.0%	50.0%	71.0%
Dividend to equity ratio	6%	2.4%	0.6%	1.4%	2.3%
Tax paid		10 326	18 610	19 271	18 988
Effective tax rate	30%	28.8%	29.3%	30.1%	29.7%
Total return to the State ($'000s)		23 505	22 226	28 631	33 988
Total return to equity ratio		4.3%	4.0%	4.2%	5.3%
Other Information					
Staff numbers (FTEs)		274	245	210	182
Average staff costs ($'000s)		116	114	100	112
Average employee benefits ($'000s)		32	30	27	27
Average superannuation benefits ($'000s)		161	143	110	122

**Lower borrowing rate due to significant debt incurred as at 30 June 2008 and hence not incurring interest for 2007-08.*

Comment

The higher Profit/(Loss) after tax was commented upon in the Income Statement section of this Chapter.

Net Profit after tax in 2009-10 totalled $26.358m, resulting in a positive Operating margin of 1.46%, above the bench mark. For the reasons noted previously, the Financial Performance ratios show that Transend's profit improved in the 2009-10 year.

Return on assets ratio in 2009-10 was affected by the increase in the valuation of the network assets and increased capital expenditure.

The strong capital investment program is being funded by a mixture of cash generated from operations and borrowings with one outcome being a negative working capital position, mentioned previously, as evidenced by the Current ratio being below benchmark for the four years under review.

Debt collection days improved significantly to 6 days from 34 days, but remained reasonably consistent in the previous three years. The 2009-10 figure was abnormally low due to the significant decrease in Receivables at 30 June 2010.

Transend's Capital expenditure/depreciation ratio was well above 100% in each of the years under review reflecting its significant investment in Property, plant and equipment. The 254% ratio for 2009-10 represented the strong capital works program.

Staff numbers (FTEs) have increased over the four years under review. The increase in 2009-10 is primarily due to the increased capital works for network assets.

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.

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

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 Minister for Infrastructure, being the Responsible Minister, and the Treasurer who hold the shares on behalf of the State of Tasmania.

The Company's board consists of seven directors, appointed by the Government, and the Chief Executive Officer.

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

The board signed the Company's financial statements on 19 August 2010 and an unqualified audit report was issued on 20 August 2010.

KEY FINDINGS AND DEVELOPMENTS

An independent valuation of the Company's two ships is sought annually from independent sources, being Mason Shipbrokers Limited and Simonship AB. As the prevailing market for these types of ships is predominately in Europe, the valuation is provided in Euros. The value of each vessel decreased from $137.139m (80.000m Euro) to $111.818m (78.000m Euro) between 2009 and 2010. As a result the Company's asset revaluation reserve decreased $14.733m to nil, net of tax, and a ship valuation decrement expense was recorded in the Statement of Comprehensive Income, $24.995m.
The devaluation of the vessels was significantly affected by the stronger Australian dollar at 30 June 2010, in comparison to the rate at 30 June 2009. Had the same exchange rate been applied in both years, the decrement would have been $3.429m for each vessel.

In response to high fuel costs incurred in late 2007-08, the Company in 2008-09 adopted a fuel-hedging strategy in order to gain long-term certainty over one of its largest expenditure items and limit the volatility on its financial results. At the time of entering the first hedge agreements in 2008-09 fuel prices had increased significantly and were approximately $815 per metric tonne, with an expectation of further price increases. Entering into the hedge agreements resulted in TT-Line being committed to future prices for fuel based on that expectation. However, the global fuel price actually decreased in 2008-09 and the Company's hedged price was higher than the market price. This resulted in the Company paying inflated fuel costs in 2008-09 and 2009-10 compared to the current market and also required the company to recognise a significant fuel hedge liability in 2008-09 and 2009-10 as reported in the Statement of Financial Position. The hedge contract which comprised the net fuel hedge liability at 30 June 2010, $7.422m, will be settled in 2010-11.

During 2009-10 the Company recorded a one-off tax benefit in its Statement of Comprehensive Income, $35.969m. Previously unrecognised tax losses, $31.420m, were recognised as it was determined there was sufficient evidence to demonstrate probable recoupment of prior year tax losses against future taxable income. This change also resulted in the Statement of Financial Position as at 30 June 2010 reporting a deferred tax asset of $35.367m for the first time.

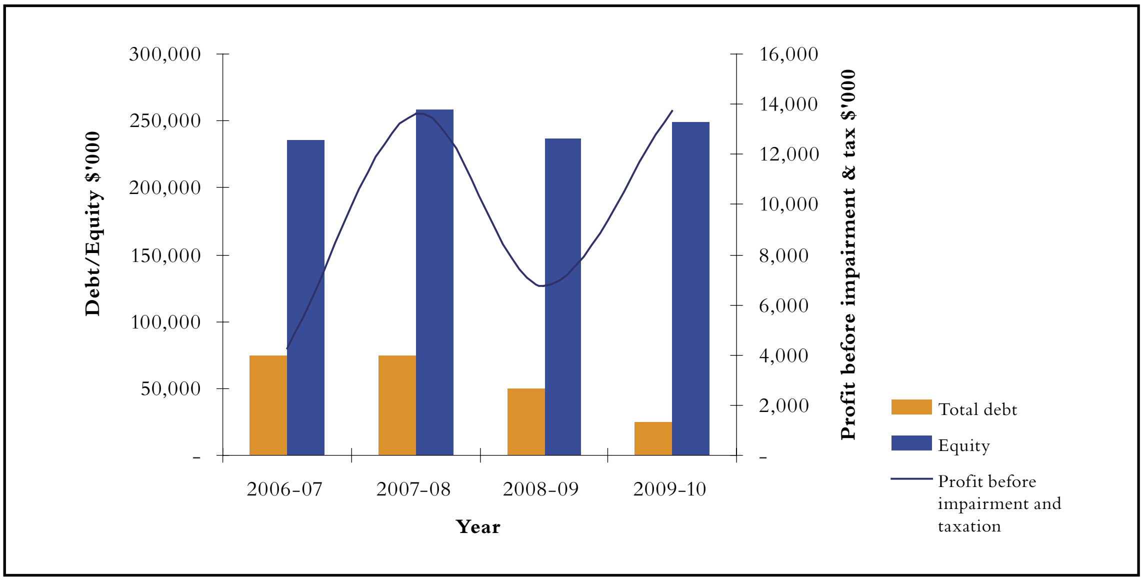
During the year, the Company implemented a new reservations system, which included a new look website and internet booking platform. Our audit concluded the implementation of the new reservations system would result in recording and reporting complete and accurate financial transactions. However, a number of opportunities to further enhance the internal control environment were identified.

In accordance with the Government's stated dividend policy, the Company retained its annual surplus for the purposes of debt retirement and funding the replacement cost of its two vessels.

The audit was completed satisfactorily with no major items outstanding.

FINANCIAL RESULTS

The graph below shows movements in TT-Line's equity, debt and profitability over the past four years:



The graph illustrates the level of debt reduced over the four year period reflecting significant loan repayments during 2009 and 2010. The Company is expected to be debt free at 30 June 2011 with a repayment of $25.000m scheduled in the 2010-11 financial year.

Movement in Equity over the period represents before tax profits, ship valuation adjustments and movements in the cash flow hedge reserve.

As can be seen from the graph, the Company's Profit before accounting adjustments and taxation fluctuated between $5.000m and $14.000m over the four year period. Revenue increased consistently year on year driving profits upwards. However, higher bunker fuel and oil costs during 2008-09 reduced profitability in that financial year. Despite ongoing high levels of expenditure on Bunker fuel and oil in 2009-10, increased revenue resulted in profitability improving this year.

COMPREHENSIVE INCOME STATEMENT

	2009-10	2008-09	2007-08*	2006-07*
	$'000s	$'000s	$'000s	$'000s
Revenue from the sale of goods and provision of services	**182 677**	**173 608**	**164 047**	**150 662**
Cost of Sales				
Employee benefits expense	51 403	49 636	48 577	0
Cost of food and beverage	4 164	3 694	0	0
Consumables	4 085	3 933	0	0
Repairs and maintenance	9 300	9 800	0	0
Bunker fuel and oil	43 276	44 328	28 726	0
Other	0	0	4 337	80 982
Total Cost of Sales	**112 228**	**111 391**	**81 640**	**80 982**
Gross Profit	**70 449**	**62 217**	**82 407**	**69 680**
Gross profit %	**38.6**	**35.8**	**50.2**	**46.2**
Investment revenue	886	1 978	2 816	1 082
Rental	0	0	0	642
Government grants	0	0	0	2 950
Other gains and (losses)	(13)	1	5	5
Depreciation and amortisation	(14 690)	(14 648)	(13 526)	(10 416)
Terminal operations and quarantine	(21 114)	(17 990)	0	0
Administration	(7 840)	(9 206)	(7 735)	(8 665)
Security	(3 025)	(2 795)	0	0
Customer acquisition	(8 598)	(8 719)	(15 674)	(16 466)
Finance costs	(2 330)	(4 049)	(5 161)	(6 809)
Hotel services	0	0	(29 354)	(26 634)
Total Other Expenditure	**(57 597)**	**(57 407)**	**(71 450)**	**(68 990)**
Total Costs	**169 825**	**168 798**	**153 090**	**149 972**
Profit before Accounting Adjustments and Taxation	**13 725**	**6 789**	**13 778**	**5 369**
Other Accounting Adjustments:				
Ship valuation adjustment	(24 995)	0	0	0
Spirit III sale costs/adjustments	0	0	0	(1 132)
Interest received (paid) on financial assets	0	0	0	0
Defined benefits superannuation adjustment	(587)	(965)	(80)	(657)
Income tax on items taken straight to equity				
Profit (Loss) before Taxation	**(11 857)**	**5 824**	**13 698**	**3 580**
Income tax benefit (expense)	32 057	(8 260)	2 834	7 060
Profit (Loss) after Taxation	**20 200**	**(2 436)**	**16 532**	**10 640**
Other Comprehensive Income for the Year Net of Tax				
Asset revaluation reserve	(14 733)	(7 067)	0	0
Cash flow hedge reserve	7 010	(12 206)	0	0
Total Comprehensive Profit (Loss)	**12 477**	**(21 709)**	**16 532**	**10 640**

* *The presentation of expenditure for 2007-08 and 2006-07 has not been updated to reflect the expenditure reclassifications reported within TT-Line's financial statements in 2008-09 and 2009-10. Also our prior year TT-Line chapter presented the income statement by voyage destination, that is Melbourne & Sydney, which is no longer relevant for 2009-10.*

Comment

For the year ended 30 June 2010 TT-Line generated a Profit before accounting adjustments and taxation of $13.725m, an increase of $6.936m, 102%, from 2008-09. This improvement was primarily due to higher revenue, $9.069m and relatively lower direct costs resulting in a higher gross profit. During 2009-10 the Company implemented a strategy of increasing the number of sailings aimed at growing both the passenger and freight market. Increased revenue included:

- an overall increase in passenger revenue, $1.240m or 2.25%. Promotions by the Company resulted in a 3.79% increase in the number of passengers. The increased passenger revenue was offset by a reduction in the fuel surcharge, $2.069m, which was a one-off collected during 2008-09
- additional vehicle revenue, $5.010m, from a 2.56% growth in the number of vehicles
- higher freight revenue, $4.422m, which reflected a 10.65% increase in freight volume.

The table below provides a further breakdown of the movements in the main drivers of the key revenue streams.

	2009-10	2008-09	2007-08	2006-07
Voyages	822	800	804	825
Passenger Numbers	405 554	390 746	385 028	387 972
% Increase (decrease)	3.79%	1.49%	(0.76%)	7.86%
Vehicle Numbers	187 274	182 595	177 265	175 298
% Increase (decrease)	2.56%	3.01%	1.12%	6.86%
Freight (TEU)	94 371	85 288	85 594	77 105
% Increase	10.65%	(0.36%)	11.01%	20.58%

**TEU = Twenty foot equivalent units*

Whilst costs were higher as a result of additional sailings, they increased at a lower rate than revenue. The increased revenue, $9.069m was partially offset by higher Employee benefits expense, $1.767m, 3.5%, and higher Terminal operations expenditure, $3.154m.

Bunker fuel and oil expense decreased $1.052m, 2.3% as the price associated with fuel hedge contracts executed by the Company in 2009-10 were lower than those in 2008-09.

Finance costs reduced $1.719m, due to the repayment of a further $25.000m of outstanding debt. The Company remains on track to be debt free by June 2011.

The Net Profit after taxation of $20.200m included the Ship valuation decrement, $24.995m and a net income tax benefit of $32.057m. Both these items are explained within the Key Findings and Development section of this Chapter.

STATEMENT OF FINANCIAL POSITION

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Cash	24 881	38 724	50 160	27 608
Receivables	13 063	10 588	12 274	12 459
Inventories	1 670	1 839	2 247	1 280
Derivative Asset – Fuel Hedge	68	1	0	0
Prepaid expenses	1 018	511	451	562
Total Current Assets	**40 700**	**51 663**	**65 132**	**41 909**
Payables	11 346	12 076	15 180	10 943
Borrowings	25 000	25 000	25 000	0
Provisions	7 411	7 860	7 443	6 839
Revenue received in advance	9 365	8 701	8 102	7 704
Derivative Liability – Fuel Hedge	7 913	10 233	0	0
Total Current Liabilities	**61 035**	**63 870**	**55 725**	**25 486**
Working Capital	**(20 335)**	**(12 207)**	**9 407**	**16 423**
Property, plant and equipment	16 744	12 942	13 243	13 415
Ships at fair value	223 636	274 278	290 446	284 181
Deferred tax asset	38 329	0	0	0
Derivative Asset – Fuel Hedge	983	175	0	0
Major cyclical maintenance dry dock at cost	0	0	1 060	4 522
Amortisation	0	0	(1 060)	(3 462)
Total Non-Current Assets	**279 692**	**287 395**	**303 689**	**298 656**
Borrowings	0	25 000	50 000	74 999
Provisions	6 523	5 884	4 552	4 681
Deferred tax liability	2 962	0	0	0
Derivative Liability – Fuel Hedge	560	7 379	0	0
Other	0	90	0	0
Total Non-Current Liabilities	**10 045**	**38 353**	**54 552**	**79 680**
Net Assets	**249 312**	**236 835**	**258 544**	**235 399**
Capital	328 981	328 981	328 981	328 981
Cash flow hedge reserve	(5 196)	(12 206)	0	0
Accumulated losses	(74 473)	(94 673)	(92 237)	(108 769)
Asset revaluation reserve	0	14 733	21 800	15 187
Total Equity	**249 312**	**236 835**	**258 544**	**235 399**

Comment

The Company's Equity increased $12.477m during 2009-10 due to:

- an after tax profit of $20.200m
- a favourable increase in the fuel hedge reserve, $7.010m after tax. The Cash flow hedge reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges net of income tax. The deferred gain or loss on the hedge is recognised in profit or loss at the date of the fuel purchases and corresponding hedge settlement.

The above factors were partly offset by an asset revaluation reserve decrement after tax of $14.733m as a result of the revaluation of Spirits I and II.

The corresponding increase in Net Assets was the result of the following factors:

- recognition of a deferred tax benefit, $35.367m, which comprised the net of a Deferred tax asset, $38.329m, and a Deferred tax liability, $2.962m. The major component of the deferred tax balance is the carried forward tax losses, $29.960m, recognised for the first time. Refer Key Findings and Development section of this Chapter for further commentary
- reduced net borrowings, $25.000m
- lower derivative fuel hedge liability, $10.014m. Refer Key Findings and Development section of this chapter for additional explanations
- higher Property, plant and equipment (excluding capital expenditure on ships), $3.802m primarily due to:
    - o capital additions of $5.715m, offset by
    - o depreciation expense, $1.761m
- increased Receivables balance, $2.475m, 23%.

The above factors were partly offset by:

- lower Cash balance at 30 June 2010, $13.843m. This decrease is explained within the Cash Position section of this Chapter
- a decline in the ships' value, $50.642m. Refer Key Findings and Development section of this Chapter for detailed explanation. Capital expenditure incurred on the ships included dry-dock costs of $5.031m (2008-09, $4.722m) and acquisitions, $3.297m ($2.248m). Refer Statement of Cash Flows section of this Chapter for further details of capital expenditure.

STATEMENT OF CASH FLOWS

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	199 065	193 489	181 311	166 537
Payments to suppliers and employees	(172 324)	(169 470)	(147 128)	(153 952)
Interest received	919	2 160	2 646	974
Finance costs	(2 599)	(4 341)	(5 169)	(8 381)
Cash from (used in) operations	**25 061**	**21 838**	**31 660**	**5 178**
Payments for property, plant and equipment	(14 041)	(8 318)	(9 201)	(2 760)
Proceeds from sale of property, plant and equipment	137	44	93	109 769
Cash from (used in) investing activities	**(13 904)**	**(8 274)**	**(9 108)**	**107 009**
Repayment of borrowings	(25 000)	(25 000)	0	(110 600)
Contribution from owners	0	0	0	22 500
Cash from (used in) financing activities	**(25 000)**	**(25 000)**	**0**	**(88 100)**
Net increase in cash	**(13 843)**	**(11 436)**	**22 552**	**24 087**
Cash at the beginning of the year	38 724	50 160	27 608	3 521
Cash at end of the year	**24 881**	**38 724**	**50 160**	**27 608**

Comment

The Company reported Net cash from operating activities of $25.061m for 2009-10 compared to $21.838m in 2008-09. The increase, $3.223m, reflected:

- higher receipts from customers, $5.576m, consistent with increased sales, offset by a higher receivables balance
- lower borrowing costs, $1.742m.

This improvement in operating cash flows was offset by increased payments to suppliers and employees, $2.854m.

The cash generated from operating activities, $25.061m, and part of the opening cash balance as at 1 July 2009, $38.724m, funded:

- loan debt repayments, $25.000m
- capital purchases, $14.041m. Of this amount, $5.031m (2008-09, $4.722m) related to the capitalisation of major cyclical maintenance dry dock expenditure. Dry dock scheduled maintenance and marine safety inspections are performed every two years on the vessels on an alternating basis. The remainder of capital purchases included:
  - o capital additions on the vessels, $3.297m, related to refurbishing and waterproofing of decks
  - o three bulnois tractors, $0.926m
  - o motor vehicles, $0.478m
  - o the Company's new reservation system, $2.640m
  - o leasehold improvements for the Port Melbourne ramp, $0.466m, and Devonport office terminal refurbishment, $0.311m.

FINANCIAL PERFORMANCE

	Bench Mark	2009-10	2008-09	2007-08	2006-07
Financial Performance					
Result from operations ($'000s)		13 725	6 789	13 778	5 369
EBIT ($'000s)		(9 527)	9 873	18 859	10 389
Operating margin	>1.0	1.08	1.04	1.09	1.04
Return on assets		(2.9%)	2.8%	5.3%	2.8%
Return on equity		8.3%	(1.0%)	6.7%	5.1%
Underlying result ratio		7.5%	3.9%	8.3%	3.5%
Self financing ratio		13.7%	12.4%	19.0%	3.3%
Financial Management					
Debt to equity		10.0%	21.1%	29.0%	31.9%
Debt to total assets		7.8%	14.7%	20.3%	22.0%
Interest cover	>2	(4.09)	2.44	3.65	1.53
Current ratio	>1	0.67	0.81	1.17	1.64
Debt collection	30 days	26	22	27	30
Creditor turnover	30 days	14	23	29	16
Other information					
Staff numbers (FTEs)		464	474	480	521
Average staff costs ($'000s)		66	65	66	56
Average leave balance per FTE ('$000)		17	16	14	12

Comment

Movements in Result from operations, EBIT, and the Operating margin are consistent with variance explanations provided earlier in this Chapter.

Return on assets ratio was affected by the decrease in the valuation of the vessels, although the impact was offset by the affect of bringing to account the Deferred tax asset for the first time.

Debt to equity ratio improved over the four year period as a result of loan repayments, which reduced interest expense, with the Company's interest cover improving over the period.

As noted previously, the Current ratio was below the benchmark of one in 2009-10 and 2008-09 due to reduced cash balances held and the inclusion in current liabilities of the fuel cash flow hedge.

No income tax payments were made in the past four years as the Company had carried forward tax losses, which at 30 June 2010 totalled $29.960m.

During the period under review, no dividend payments were recommended. The Directors noted in their Directors' Report that, in accordance with the Government's dividend policy for TT-Line, the Company will:

> '….retain its annual profit for the purpose of debt repayment and funding the replacement cost of its two vessels….'

TASMANIAN WATER AND SEWERAGE CORPORATIONS

AT A GLANCE

INTRODUCTION

In February of 2008 State and Local Government reached agreement to establish three local Government owned, vertically integrated businesses providing bulk, distribution and retail water and sewerage services, and a common service provider subsidiary company. The *Water and Sewerage Corporations Act 2008* (Corporations Act) was subsequently enacted and received Royal Assent on 13 June 2008.

Two of the main purposes of the Corporations Act were to:

- vest the water and sewerage assets, rights and liabilities of councils and bulk water authorities in the Regional Corporations and the Common Services Corporation
- make provision for the transfer of water and sewerage employees of councils and employees of bulk water authorities to the Regional Corporations and the Common Services Corporation.

The new corporations were operational (with minimal operations) on 1 January 2009. Full transfer of water and sewerage assets, liabilities and staff took place on 1 July 2009. From that date, responsibility for the provision of water and sewerage services moved from local councils to three new regional water and sewerage corporations (trading as Cradle Mountain Water, Ben Lomond Water and Southern Water). A fourth company, Onstream provides common services and support to the three regional corporations.

In conjunction with the above Act, the *Water and Sewerage Industry Act 2008* was also proclaimed on 13 June 2008. The Act provides for the establishment of an economic regulatory framework for the water and sewerage industry, including the establishment of a licensing regime and providing for the regulation of prices, customer service standards and performance monitoring of that industry and for related matters.

Full transition to the new water pricing and servicing standards is not expected until January 2012.

This Report includes separate Chapters for each of the corporations with financial information on each summarised under the following headings:

- Introduction
- Audit of the 2009-10 Financial Statements
- Key Developments
- Financial Results
- Comprehensive Income Statement
- Statement of Financial Position
- Statement of Cash Flow
- Financial Performance.

Additionally, this Report also includes a comparative analysis of the three regional corporations, Cradle Mountain Water, Ben Lomond Water and Southern Water.

KEY FINDINGS AND OUTCOMES FROM AUDITS

Key findings and outcomes from our audits were:

- All four corporations submitted financial statements within the statutory deadline.
- Unqualified audit opinions on financial statements were issued on 18 August 2010 for each of the corporations.
- We recommended the Boards give consideration to reporting financial performance by operating segment. This information would assist readers to better assess and understand the regional corporations' financial performance.
- It is our view that, subject to adequate maintenance expenditure, the regional corporations' operating margins do not provide an adequate return to enable them to provide for asset replacement, based on depreciation relating to full Depreciated Optimised Replacement Cost (DORC) and they will be heavily reliant for future profitability and asset replacement on price increases to be determined by the Regulator.
- The regional corporations took over billing processes from their constituent councils. Billing was undertaken by Onstream on behalf of the regional corporations. The absence of an effective integrated billing system created difficulties for the corporations in the collection and processing of revenue information and this impacted negatively on customer confidence. The focus of Onstream for the regional corporations is on the development and implementation of an integrated billing system by the end of 2010.
- The regional corporations undertook valuations for all assets as at 1 July 2009. The valuation process determined their opening property, plant and equipment balances for accounting, taxation and regulatory purposes. The valuations also provided information for the Treasurer's review of his Allocation Order for Water and Sewerage Returns.

  The basis of the valuations was DORC, but then impaired as a result of the lower net present value of the anticipated cash flows deriving from the assets. As part of the valuation process, the regional corporations identified those assets that were optimised on a local and regional level. Optimisation applied when, if theoretically deprived of an asset, the asset's capacity would be replaced with an asset of smaller capacity or no asset at all.

  Depreciation expense related to water and sewerage infrastructure assets and was based on the impaired DORC revaluation.

  Subsequent to the revaluation and impairment testing process the assets transferred from owner councils and from government were valued as follows:

Regional Corporation	**DORC 30 June 2010**	**Impaired DORC Valuation 30 June 2010**
Ben Lomond Water	$730.921m	$498.105m
Cradle Mountain Water	$674.912m	$397.064m
Southern Water	$1.440bn	$1.020bn

TASMANIAN WATER AND SEWERAGE CORPORATIONS (SOUTHERN REGION) PTY LTD

INTRODUCTION

The Tasmanian Water and Sewerage Corporation (Southern Region) Pty Ltd (the Corporation) trading as Southern Water was incorporated 13 November 2008.

The owners of the Corporation, who each hold one ordinary share are:

- Brighton Council
- Central Highlands Council
- Clarence City Council
- Derwent Valley Council
- Glamorgan Spring Bay Council
- Glenorchy City Council
- Hobart City Council
- Huon Valley Council
- Kingborough Council
- Sorell Council
- Southern Midlands Council
- Tasman Council.

Whilst the Corporation is owned by the Councils above, the responsible minister is the Treasurer.

The Board comprised six directors including a Chair who was common to all three water corporations and Onstream.

The period 2009-10 was the first full year of operations and focussed on laying the foundations to ensure the Corporation was able deliver water and waste water services to southern Tasmania. On 1 July 2009, the assets and liabilities of the twelve owner councils and a small number of assets from government were transferred to the Corporation. These included:

- water, sewerage and other assets, $1.022bn
- cash, $21.526m
- debt, $95.693m
- net deferred tax liabilities, $21.471m.

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Signed financial statements were received on 13 August 2010 and an unqualified audit report was issued on 18 August 2010.

The audit was completed satisfactorily with no major items outstanding. However, we recommended the Board give consideration to reporting its financial performance by operating segment. This information would assist readers to better assess and understand the Corporation's financial performance.

It is our view that, subject to adequate maintenance expenditure, the Corporation's operating margin does not provide an adequate return to enable it to provide for asset replacement, based on depreciation relating to full Depreciated Optimised Replacement Cost (DORC) and it will be heavily reliant for future profitability and asset replacement on price increases to be determined by the Regulator.

KEY DEVELOPMENTS

The Corporation took over billing processes from 12 different councils. Billing was undertaken by Onstream on behalf of the Corporation. The absence of an effective integrated billing system created difficulties for the Corporation in the collection and processing of revenue information and this impacted negatively on customer confidence. The focus of Onstream for the Corporation, and the other water companies, is on the development and implementation of an integrated billing system by the end of 2010.

The Corporation undertook valuations for all assets as at 1 July 2009. The valuation process determined the Corporation's opening property, plant and equipment balances for accounting, taxation and regulatory purposes. The valuations also provided information for the Treasurer's review of his Allocation Order for Water and Sewerage Returns.

The basis of the valuation was Depreciated Optimised Replacement Cost (DORC), but then impaired as a result of the lower net present value of the cash flows deriving from the assets. As part of the valuation process, the Corporation identified those assets that were optimised on a local and regional level. Optimisation applied when, if theoretically deprived of an asset, the asset's capacity would be replaced with an asset of smaller capacity or no asset at all.

Depreciation expense related to water and sewerage infrastructure assets and was based on the impaired DORC revaluation.

Subsequent to the revaluation and impairment testing process the assets transferred from owner councils and from government were valued at $1.020bn on 1 July 2009.

Capital expenditure amounted $31.571m over the year which included:

- work commenced on the $30.000m Huon Valley Regional Water Scheme
- the $8.500m Swansea Water project which at year end was nearing completion
- planning for the roll out of water meters.

FINANCIAL RESULTS

The financial information detailed below represents the operations of the Corporation for it's first full year of operation to 30 June 2010 and its financial position at balance date. Commentary comparing 2009-10 with the period 13 November 2008 to 30 June 2009 has not been provided in this Report as the corporation was not fully operational until 1 July 2009.

In the year to 30 June 2010 the Corporation recorded a total comprehensive surplus of $11.888m and net assets increased by $917.180m.

COMPREHENSIVE INCOME STATEMENT

	2009-10	13/11/08 to 30/6/09
	$'000s	$'000s
Sales revenue	101 879	0
Other operating revenue	7 306	0
Total Revenue	**109 185**	**0**
Depreciation	25 829	1
Employee and related expenses	25 717	383
Other operating expenses	34 658	1 545
Total Expenses	**86 204**	**1 929**
Net operating profit	**22 981**	**(1 929)**
Interest Income	500	0
Finance cost	(6 417)	0
Net profit (loss) before taxation	**17 064**	**(1 929)**
Income Tax Equivalents (Expense) Benefit	(4 812)	581
Net Profit (Loss)	**12 252**	**(1 348)**
Other Comprehensive Income		
Actuarial (Loss) on Defined Benefit Plan	(515)	0
Share of other comprehensive income (loss) of associates	(4)	0
Income tax relating to components of other comprehensive income	155	0
Total Comprehensive Profit (Loss)	**11 888**	**(1 348)**

Comment

For 2009-10 the Corporation recorded a $17.064m Net profit before taxation.

Sales revenue comprised water service charge of $51.933m and sewerage service charges, $44.974m.

The Corporation inherited a process where the majority of councils levied a fixed charge for water consumption and managed water useage by restrictions in the peak summer months. A small number of councils in the southern region managed water volumetric useage by metering domestic and business customers.

A government funded 5% cap on tariff increases for customers amounted to $1.246m. The amount was for a reimbursement of the rebate amounts, the costs incurred by the Corporation to undertake the rebate process and the costs associated with the delays in collecting the tariff revenue.
This rebate was extended to the 2010-11 financial year.

Other income included customer and developer contributions, $5.567m, interest subsidy of $0.500m from government for Swansea Water Treatment Plant, and revenue of $0.201m, equal to depreciation on fluoride dosing stations and Prosser river water infrastructure assets transferred to the Corporation by Government as part of the water and sewerage reforms.

Depreciation expense related to water and sewerage infrastructure assets and was based on the impaired DORC revaluation.

Employee and related expenses resulted from both a transfer of staff from councils and Hobart Water on 1 July 2009 and additional staff hired throughout the period as services developed. 270 staff (FTE) joined the Corporation on 1 July 2009 from 12 southern councils and Hobart Water.

Other operating expenses comprised:

- raw material and consumables costs, $8.515m
- operations and maintenance expenses, $13.033m
- administration expenses, $13.110m.

STATEMENT OF FINANCIAL POSITION

	2009-10	13/11/08 to 30/6/09
	$'000s	$'000s
Cash	17 522	0
Receivables and prepayments	25 531	54
Inventories	3 253	0
Derivative financial instruments	304	0
Total Current Assets	**46 610**	**54**
Payables	10 108	2710
Borrowings	32 636	0
Provisions employee entitlements	4 863	10
Unearned Income	2 504	0
Total Current Liabilities	**50 111**	**2720**
Working Capital	**(350)**	**(2 666)**
Property, plant and equipment	1 034 254	737
Net deferred tax assets	22 421	581
Intangibles	1 814	0
Investment in Associate (Onstream)	29	0
Total Non-Current Assets	**1 058 518**	**1318**
Borrowings	75 392	0
Provisions employee entitlements	6 145	0
Unearned Income	16 433	0
Deferred tax liabilities	41 215	0
Total Non-Current Liabilities	**139 185**	**0**
Net Assets	**915 832**	**(1 348)**
Reserves	909 547	0
Retained earnings	6 285	(1 348)
Total Equity	**915 832**	**(1 348)**

Comment

Total equity consisted of:

- capital contributed by owners of $909.547m which comprised net assets transferred on 1 July 2009
- Net profit after tax, $12.252m, offset by
  - o payment of dividends, $4.255m
  - o Other comprehensive loss of $0.364m attributable mainly to an actuarial loss on the Defined benefit plan.

Major items in the Corporation's statement of financial position included:

- Cash of $17.522m which comprised working capital and funds held for capital works
- Receivables of $25.510m, principally trade receivables, $22.702m, and unbilled water and sewerage income, $1.915m
- Property, plant and equipment of $1.034bn. This comprised assets acquired from Councils, Hobart Water and Government as follows
  - o Water infrastructure assets, $532.951m,
  - o Sewerage assets, $426.535m
  - o Freehold land, $23.141m
  - o Buildings, $2.635m
  - o Other assets $8.870m
  - o Assets under construction $40.122m
- Borrowings, $108.028m, from TASCORP utilised for funding of working capital and capital projects. $95.693m was transferred from councils and Hobart Water on 1 July 2009.
  To improve debt portfolio management, borrowings were being transferred from credit foncier loans to bond loans.

STATEMENT OF CASH FLOWS

.	2009-10 $'000s
Receipts from customers	83 853
Receipts from other Sources	15 011
Payments to suppliers and employees	(65 245)
Interest received	487
Borrowing costs	(5 950)
Income tax paid	(7 057)
Cash from operations	**21 099**
Payments for property, plant and equipment	(34 203)
Proceeds from sale of property, plant and equipment	1 491
Cash (used in) investing activities	**(32 712)**
Owner Cash Contributions	21 526
Proceeds from borrowings	69 803
Repayment of borrowings	(57 939)
Dividends paid	(4 255)
Cash from financing activities	**29 135**
Net increase in cash	**17 522**
Cash at the beginning of the year	0
Cash at end of the year	**17 522**

Comment

There were no cashflows in the prior year as all payment transactions were undertaken by Onstream. The Corporation was able to generate positive cash, $21.099m from operations in its initial period of operation.

Cash outflows on Investing activities was funded by a mixture of Cash from operations, cash taken over from Councils and net borrowings.

FINANCIAL PERFORMANCE

	Bench Mark	2009-10
Financial Performance		
Result from operations ($'000s)		12 252
EBIT ($'000s)		22 981
Operating margin	>1.0	1.27
Return on assets		2.2%
Return on equity		1.3%
Financial Management		
Indebtedness ratio		127.5%
Debt to equity		11.8%
Debt to total assets		9.8%
Interest cover	>2	3.7
Current ratio	>1	0.9
Cost of debt	7.5%	5.9%
Debt service ratio		28%
Debt collection	30 days	77
Creditor turnover	30 days	17
Capital expenditure/depreciation	>100%	132%
Returns to Owners		
Dividends paid or payable ($'000s)		6 110
Dividend payout ratio	50%	49.9%
Dividend to equity ratio		0.7%
Income tax paid or payable ($'000s)		7 057
Effective tax rate	30%	41.4%
Total return ($'000s)		13 167
Total return on equity ratio		1.4%
Other Information		
Staff numbers (FTEs)		320
Average staff costs ($'000s)		73
Average leave balance per FTE ($'000s)		16

Comment

The Financial Performance ratios show operating margin was above benchmark due to the operating profit. As noted previously, the operation does not provide an adequate return to fully maintain its assets and is heavily reliant for future price increases allowed by the Regulator.

Current ratio was marginally below the benchmark of one due to the Corporation's' level of short term debt.

Debt collection days was worse than benchmark because of the delays in billing caused by the absence of an integrated billing system. The Corporation plans installation of the new billing system in the next twelve months.

Capital expenditure/depreciation ratio compares capital expenditure to depreciation. The ratio for the period exceeded benchmark due to capital expenditure projects identified under the key developments section of this Chapter.

Average staff costs over the period were $0.073m and average leave balances $0.016m. We note the majority of employees who transferred to the new Corporation brought with them their leave balances.

TASMANIAN WATER AND SEWERAGE CORPORATIONS (NORTHERN REGION) PTY LTD

INTRODUCTION

The Tasmanian Water and Sewerage Corporation (Northern Region) Pty Ltd (the Corporation) trading as Ben Lomond Water was incorporated 13 November 2008.

The owners of the Corporation, who each hold one ordinary share, are:

- Break O'Day Council
- Dorset Council
- Flinders Council
- George Town Council
- Launceston City Council
- Meander Valley Council
- Northern Midlands Council
- West Tamar Council.

Whilst the Corporation is owned by these Councils, the responsible minister is the Treasurer.

The Board comprised six directors including a Chair who was common to all three water corporations and Onstream.

The period 2009-10 was the first full year of operations and focussed on laying the foundations to ensure the Corporation was able deliver water and waste water services to North Eastern Tasmania. On 1 July 2009, the assets and liabilities of the eight owner councils and small number of assets from government were transferred to the Corporation. These included:

- water, sewerage and other assets, $498.105m
- cash, $18.989m
- debt, $18.350m
- net deferred tax liabilities, $8.361m.

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Signed financial statements were received on 13 August 2010 and an unqualified audit report was issued on 18 August 2010.

The audit was completed satisfactorily with no major items outstanding. However, we recommended the Board give consideration to reporting its financial performance by operating segment. This information would assist readers to better assess and understand the Corporation's financial performance.

It is our view that, subject to adequate maintenance expenditure, the Corporation's operating margin does not provide an adequate return to enable it to provide for asset replacement, based on depreciation relating to full Depreciated Optimised Replacement Cost (DORC) and it will be heavily reliant for future profitability and asset replacement on price increases to be determined by the Regulator.

KEY DEVELOPMENTS

The Corporation took over billing processes from eight different councils. Billing was undertaken by Onstream on behalf of the Corporation. The absence of an effective integrated billing system created difficulties for the Corporation in the collection and processing of revenue information and this impacted negatively on customer confidence. The focus of Onstream for the Corporation and the other water companies is on the development and implementation of an integrated billing system by the end of 2010.

The Corporation undertook valuations for all assets as at 1 July 2009. The valuation process determined the Corporation's opening property, plant and equipment balances for accounting, taxation and regulatory purposes. The valuations also provided information for the Treasurer's review of his Allocation Order for Water and Sewerage Returns.

The basis of the valuation was DORC,but then impaired as a result of the lower net present value of the anticipated cash flows deriving from the assets. As part of the valuation process, the Corporation identified those assets that were optimised on a local and regional level. Optimisation applied when, if theoretically deprived of an asset, the asset's capacity would be replaced with an asset of smaller capacity or no asset at all.

Depreciation expense related to water and sewerage infrastructure assets and was based on the impaired DORC revaluation.

Subsequent to the revaluation and impairment testing process the assets transferred from owner councils and from government were valued at $498.105m on 1 July 2009.

Capital expenditure amounted $15.867m over the year. Some capital work in progress was transferred from councils on 1 July 2009 which included:

- Campbell Town water treatment plant, $5.200m
- Distillery Creek water treatment plant, $7.319m
- Scamander water treatment plant, $1.878m
- Queechy sewerage pipes and pumps, $4.438m.

FINANCIAL RESULTS

The financial information detailed below represents the operations of the Corporation for its first full year of operation to 30 June 2010 and its financial position at balance date. Commentary comparing 2009-10 with the period 13 November 2008 to 30 June 2009 has not been provided in this Report as the Corporation was not fully operational until 1 July 2009.

In the year to 30 June 2010 the Corporation recorded a total comprehensive surplus of $4.911m and net assets increased by $488.062m.

COMPREHENSIVE INCOME STATEMENT

	2009-10	13/11/08 to 30/6/09
	$'000s	$'000s
Sales revenue	51 785	0
Other revenue	2 312	0
Share of Net Profit(Loss) of Associate-equity method	16	0
Total Revenue	**54 113**	**0**
Depreciation	12 551	0
Employee and related expenses	13 471	0
Other expenses	19 826	640
Total Expenses	**45 848**	**640**
Net operating profit	**8 265**	**(640)**
Financial Income	312	0
Finance Cost	(1 089)	0
Net profit (loss) before taxation	**7 488**	**(640)**
Income Tax Equivalents (Expense)	(2 231)	(192)
Net Profit (Loss)	**5 257**	**(448)**
Other Comprehensive Income		
Actuarial (Loss) on Defined Benefit Plan	(492)	0
Share of other comprehensive income (loss) of associates	(2)	0
Income tax relating to components of other comprehensive income	148	0
Total Comprehensive Profit (Loss)	**4 911**	**(448)**

Comment

For 2009-10 the Corporation recorded a $7.488m Net profit before taxation.

Sales revenue comprised water service charges of $16.873m and sewerage service charges, $20.327m.

The Corporation inherited a process where some councils levied a fixed charge for water consumption and managed water useage by restrictions in the peak summer months. Other councils managed water volumetric useage by metering domestic and large business customers.

A government funded 5% cap on tariff increases for customers amounted to $1.553m. The amount was for a reimbursement of the rebated amounts, the costs incurred by the Corporation to undertake the rebate process and the costs associated with the delays in collecting the tariff revenue. This rebate was extended to the 2010-11 financial year.

Other income included customer and developer contributions, $2.113m and revenue of $0.044m, equal to depreciation on fluoride dosing stations assets transferred to the Corporation by Government as part of the water and sewerage reforms.

Depreciation expense related to water and sewerage infrastructure assets and was based on the impaired DORC.

Employee and related expenses resulted from both a transfer of staff from councils and Esk Water on 1 July 2009 and additional staff hired throughout the period as services developed. 153.6 staff (FTE) joined the Corporation on 1 July 2009 from 8 northern councils and Esk Water.

Other operating expenses comprised:

- Raw material and consumables costs, \$3.967m
- Operations and maintenance expenses, \$10.093m
- Administration expenses, \$5.766m.

STATEMENT OF FINANCIAL POSITION

	2009-10 \$'000s	13/11/08 to 30/6/09 \$'000s
Cash	6 480	0
Receivables and prepayments	15 139	32
Inventories	1 297	0
Total Current Assets	**22 916**	**32**
Payables	5 123	679
Borrowings	5 211	0
Provisions employee entitlements	3 153	9
Unearned Income	44	0
Current Tax Liability	1 230	0
Total Current Liabilities	**14 761**	**688**
Working Capital	**8 155**	**(656)**
Property, plant and equipment	504 705	16
Net deferred tax assets	5 825	192
Intangibles	70	0
Investment in Associate	14	0
Total Non-Current Assets	**510 614**	**208**
Borrowings	11 833	0
Provisions employee entitlements	4 329	0
Unearned Income	1 583	0
Deferred tax liabilities	13 410	0
Total Non-Current Liabilities	**31 155**	**0**
Net Assets	**487 614**	**(448)**
Contributed Capital	484 103	0
Retained earnings	3 511	(448)
Total Equity	**487 614**	**(448)**

Comment

Total equity consisted of:

- capital contributed by owners of \$484.103m which comprised net assets transferred on 1 July 2009
- Net profit, \$5.257m, offset by
  - o payment of dividends, \$0.952m
  - o Other comprehensive loss of \$0.346m attributable mainly to an actuarial loss on the Defined benefit plan.

Major items in the Corporation's Statement of financial position included:

- Cash of $6.480m which comprised working capital and funds held for capital works
- Receivables of $15.092m, principally trade receivables, $8.342m, and unbilled water and sewerage income, $6.308m
- Property, plant and equipment of $504.705m. This comprised assets acquired from Councils, Esk Water and Government as follows:
  - o Water infrastructure assets, $269.692m
  - o Sewerage assets, $203.464m
  - o Freehold land, $10.252m
  - o Buildings, $0.987m
  - o Other assets, $2.980m
  - o Assets under construction $17.330m.
- Borrowings, $17.044m, from TASCORP utilised for funding of working capital and capital projects. $18.350m was transferred from councils and Esk Water on 1 July 2009. To improve debt portfolio management, borrowings were being converted from credit foncier loans to bond loans.

STATEMENT OF CASH FLOWS

	2009-10
	$'000s
Receipts from customers	38 233
Receipts from other Sources	3 677
Payments to suppliers and employees	(33 263)
Interest received	341
Interest Paid	(990)
Income tax paid	(1 481)
Cash from operations	**6 517**
Payments for property, plant and equipment	(15 867)
Proceeds from sale of property, plant and equipment	136
Cash (used in) investing activities	**(15 731)**
Owner Cash Contributions	18 989
Proceeds from borrowings	16 187
Repayment of borrowings	(17 492)
Dividends Paid	(952)
Dividends Paid (Esk Water)	(1 038)
Cash from financing activities	**15 694**
Net increase in cash	**6 480**
Cash at the beginning of the year	0
Cash at end of the year	**6 480**

Comment

There were no cashflows in the prior year as all payment transactions were undertaken by Onstream or Esk Water. The Corporation was able to generate positive cash, $6.517m, from operations in its initial period of operation.

Cash outflows on Investing activities was funded by a mixture of Cash from operations, cash taken over from Councils and net borrowings.

FINANCIAL PERFORMANCE

	Bench Mark	2009-10
Financial Performance		
Result from operations ($'000s)		5 257
EBIT ($'000s)		8 265
Operating margin	>1.0	1.18
Return on assets		3.1%
Return on equity		1.1%
Financial Management		
Indebtedness ratio		57.6%
Debt to equity		3.5%
Debt to total assets		3.2%
Interest cover	>2	8.4
Current ratio	>1	1.6
Cost of debt	6.9%	5.8%
Debt service ratio		11.9%
Debt collection	30 days	53
Creditor turnover	30 days	19
Capital expenditure/depreciation	>100%	126%
Returns to Owners		
Dividends paid or payable ($'000s)		1 961
Dividend payout ratio	50%	37.3%
Dividend to equity ratio		0.4%
Income tax paid or payable ($'000s)		1 481
Effective tax rate	30%	19.8%
Total return ($'000s)		3 442
Total return on equity ratio		0.7%
Other Information		
Staff numbers (FTEs)		166
Average staff costs ($'000s)		81
Average leave balance per FTE ($'000s)		18

Comment

The Financial Performance ratios show operating margin was above benchmark due to the operating profit. As noted previously, it is our view that, subject to adequate maintenance expenditure, the operating margin does not provide an adequate return to enable the Corporation to provide for asset replacement, based on depreciation relating to full DORC and it will be heavily reliant for future profitability and asset replacement on price increases to be determined by the Regulator.

Current ratio was marginally below the benchmark of one due to the Corporation's level of short term debt.

Debt collection days was worse than benchmark because of the delays in billing caused by the absence of an integrated billing system. The Corporation plans installation of the new billing system in the next twelve months.

The capital expenditure/depreciation ratio compares capital expenditure to depreciation. The ratio for the period exceeded benchmark due to capital expenditure projects identified under the key developments section of this Chapter.

Average staff costs over the period were $0.081m and average leave balances $0.018m. We note the majority of employees who transferred to the new Corporation brought with them their leave balances.

TASMANIAN WATER AND SEWERAGE CORPORATIONS (NORTH WESTERN REGION) PTY LTD

INTRODUCTION

The Tasmanian Water and Sewerage Corporation (North Western Region) Pty Ltd (the Corporation) trading as Cradle Mountain Water was incorporated 13 November 2008.

The owners of the Corporation, who each hold one ordinary share, are:

- Burnie City Council
- Central Coast Council
- Circular Head Council
- Devonport City Council
- Kentish Council
- King Island Council
- Latrobe Council
- Waratah/Wynyard Council
- West Coast Council.

Whilst the Corporation is owned by these Councils, the responsible minister is the Treasurer.

The Board comprised six directors including a Chair who was common to all three water corporations and Onstream,

The period 2009-10 was the first full year of operations and focussed on laying the foundations to ensure the Corporation was able deliver water and waste water services to North Western Tasmania. On 1 July 2009, the assets and liabilities of the nine owner councils and small number of assets from government were transferred to CMW. These included:

- water, sewerage and other assets, $397.064m
- cash, $12.542m
- debt, $75.121m
- net deferred tax liabilities, $3.714m.

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Signed financial statements were received on 13 August 2010 and an unqualified audit report was issued on 18 August 2010.

The audit was completed satisfactorily with no major items outstanding. However, we recommended the Board give consideration to reporting its financial performance by operating segment. This information would assist readers to better assess and understand the Corporation's financial performance.

It is our view that, subject to adequate maintenance expenditure, the Corporation's operating margin does not provide an adequate return to enable it to provide for asset replacement, based on depreciation relating to full Depreciated Optimised Replacement Cost (DORC) and it will be heavily reliant for future profitability and asset replacement on price increases to be determined by the Regulator.

KEY DEVELOPMENTS

The Corporation took over billing processes from nine different councils. Billing was undertaken by Onstream on behalf of the Corporation. The absence of an effective integrated billing system created difficulties for the Corporation in the collection and processing of revenue information and this impacted negatively on customer confidence. The focus of Onstream for the Corporation and the other water companies is on the development and implementation of an integrated billing system by the end of 2010.

The Corporation undertook valuations for all assets as at 1 July 2009. The valuation process determined the Corporation's opening property, plant and equipment balances for accounting, taxation and regulatory purposes. The valuations also provided information for the Treasurer's review of his Allocation Order for Water and Sewerage Returns.

The basis of the valuation was Depreciated Optimised Replacement Cost (DORC), but then impaired as a result of the lower net present value of the anticipated cash flows deriving from the assets. As part of the valuation process, the Corporation identified those assets that were optimised on a local and regional level. Optimisation applied when, if theoretically deprived of an asset, the asset's capacity would be replaced with an asset of smaller capacity or no asset at all.

Depreciation expense related to water and sewerage infrastructure assets and was based on the impaired DORC revaluation.

Subsequent to the revaluation and impairment testing process the assets transferred from owner councils and from government were valued at $397.064m on 1 July 2009.

Capital expenditure amounted $18.389m over the year. The expenditure was for projects started by councils in the prior year and commencement of new projects which included:

- completion of Horsehead Creek detention storage centre commenced by Devonport City Council, $4.700m
- Treated water to Spreyton /Melrose area, $6.600m
- Queenstown Water scheme, $5.000m
- North Caroline street sewerage pump station
- Reservoir roofing and lining, installation of instrumentation, chlorinators, replacement of mains – several in conjunction with council works.

FINANCIAL RESULTS

The financial information detailed below represents the operations of the Corporation for it's first full year of operation to 30 June 2010 and its financial position at balance date. Commentary comparing 2009-10 with the period 13 November 2008 to 30 June 2009 has not been provided in this Report as the corporation was not fully operational until 1 July 2009.

In the year to 30 June 2010 the Corporation recorded a total comprehensive surplus of $0.841m and net assets increased by $325.494m.

COMPREHENSIVE INCOME STATEMENT

	2009-10	13/11/08 to 30/6/09
	$'000s	$'000s
Sales revenue	44 852	0
Other revenue	3 051	0
Share of net profit of associate	16	0
Total Revenue	**47 919**	**0**
Depreciation	12 129	0
Employee and related expenses	10 745	0
Other expenses	19 657	966
Total Expenses	**42 531**	**966**
Operating profit	**5 388**	**(966)**
Financial Income	179	0
Finance Cost	(4 439)	0
Net profit (loss) before taxation	**1 128**	**(966)**
Income Tax Equivalents (Expense) Benefit	(206)	(290)
Net Profit (Loss)	**922**	**(676)**
Other Comprehensive Income		
Actuarial (Loss) on Defined Benefit Plan	(112)	0
Share of other comprehensive income (loss) of associates	(2)	0
Income tax relating to components of other comprehensive income	33	0
Total Comprehensive Profit (Loss)	**841**	**(676)**

Comment

For 2009-10 the Corporation recorded a $1.128m Net profit before taxation.

Sales revenue comprised water service charges of $16.019m and sewerage service charges, $16.777m.

The Corporation inherited a process where the some councils levied a fixed charge for water consumption and managed water useage by restrictions in the peak summer months. A small number of councils in the region managed water volumetric useage by metering domestic and large business customers.

A government funded 5% cap on tariff increases for customers amounted to $1.026m. The amount was for a reimbursement of the rebated amounts, the costs incurred by the Corporation to undertake the rebate process and the costs associated with the delays in collecting the tariff revenue. This rebate was extended to the 2010-11 financial year.

Other income included customer and developer contributions, $1.352m and revenue of $0.149m, equal to depreciation on fluoride dosing stations and the Cradle Valley sewerage scheme assets transferred to the Corporation by Government as part of the water and sewerage reforms.

Depreciation expense related to water and sewerage infrastructure assets and was based on the impaired DORC revaluation.

Employee and related expenses resulted from both a transfer of staff from councils and Cradle Coast Water on 1 July 2009 and additional staff hired throughout the period as services developed. 107.23 staff (FTE) joined the Corporation on 1 July 2009 from nine regional councils and Cradle Coast Water.

Other operating expenses comprised:

- Raw material and consumables costs, $4.321m
- Operations and maintenance expenses, $6.619m
- Administration expenses, $8.717m.

STATEMENT OF FINANCIAL POSITION

	2009-10	**13/11/08 to 30/6/09**
	$'000s	$'000s
Cash	1 538	0
Receivables and prepayments	11 608	15
Inventories	604	0
Assets Held for Sale	3 008	0
Total Current Assets	**16 758**	**15**
Payables	5 565	1 303
Borrowings	9 249	0
Provisions employee entitlements	2 668	10
Unearned Income	123	0
Current Tax Liability	1 059	0
Total Current Liabilities	**18 664**	**1 313**
Working Capital	**(1 906)**	**(1 298)**
Property, plant and equipment	400 660	332
Net deferred tax assets	5 032	290
Intangibles	930	0
Investment in Associate	14	0
Total Non-Current Assets	**406 636**	**622**
Borrowings	69 306	0
Provisions employee entitlements	1 408	0
Unearned Income	2 041	0
Deferred tax liabilities	7 157	0
Total Non-Current Liabilities	**79 912**	**0**
Net Assets	**324 818**	**(676)**
Contributed Capital	325108	0
Retained earnings	(290)	(676)
Total Equity	**324 818**	**(676)**

Comment

Total equity consisted of:

- capital contributed by owners of $325.108m which comprised net assets transferred on 1 July 2009
- Net profit, $0.922m, offset by:
  - o payment of dividends, $0.455m
  - o Other comprehensive loss of $0.081m attributable mainly to an actuarial loss on the Defined benefit plan.

Major items in the Corporation's Statement of financial position included:

- Cash of $1.538m which comprised working capital and funds held for capital works
- Receivables of $11.572m, principally trade receivables $8.027m and unbilled water and sewerage income $1.834m
- Property, plant and equipment of $400.660m. This comprised assets acquired from Councils, Cradle Coast Water and Government as follows:
  - Water infrastructure assets, $219.268m,
  - Sewerage assets, $151.002m
  - Freehold land, $12.015m
  - Buildings, $1.540m
  - Other assets, $4.666m
  - Assets under construction. $12.169m
- Borrowings, $78.555m, from TASCORP utilised for funding of capital projects, was transferred from councils and Cradle Coast Water on 1 July 2009. To improve debt portfolio management, borrowings were being transferred from credit foncier loans to bond loans.

STATEMENT OF CASH FLOWS

	2009-10
	$'000s
Receipts from customers	36 135
Receipts from other Sources	2 950
Payments to suppliers and employees	(31 105)
Interest received	179
Interest Paid	(3 622)
Income tax paid	(442)
Cash from operations	**4 095**
Payments for property, plant and equipment	(18 389)
Proceeds from sale of property, plant and equipment	311
Cash (used in) investing activities	**(18 078)**
Owner cash contributions	12 542
Proceeds from borrowings	49 265
Repayment of borrowings	(45 831)
Dividends paid	(455)
Cash from financing activities	**15 521**
Net increase in cash	**1 538**
Cash at the beginning of the year	0
Cash at end of the year	**1 538**

Comment

There were no cashflows in the prior year as all payment transactions were undertaken by Onstream. The Corporation was able to generate positive cash, $4.095m, from operations in its initial period of operation.

Cash outflows from Investing activities was funded by a mixture of Cash from operations, cash taken over from Councils and net borrowings.

FINANCIAL PERFORMANCE

	Bench Mark	2009-10
Financial Performance		
Result from operations ($'000s)		922
EBIT ($'000s)		5 388
Operating margin	>1.0	1.13
Return on assets		1.3%
Return on equity		0.3%
Financial Management		
Indebtedness ratio		166.8%
Debt to equity		24.2%
Debt to total assets		18.6%
Interest cover	>2	1.3
Current ratio	>1	0.9
Cost of debt	6.9%	5.2%
Debt service ratio		79.1%
Debt collection	30 days	60
Creditor turnover	30 days	27
Capital expenditure/depreciation	>100%	151.6%
Returns to Owners		
Dividends paid or payable ($'000s)		922
Dividend payout ratio	50%	100.0%
Dividend to equity ratio		0.3%
Income tax paid or payable ($'000s)		442
Effective tax rate	30%	39.2%
Total return ($'000s)		1 364
Total return on equity ratio		0.4%
Other Information		
Staff numbers (FTEs)		137
Average staff costs ($'000s)		77
Average leave balance per FTE ($'000s)		20

Comment

The Financial Performance ratios show operating margin was above benchmark due to the operating profit. As noted previously, the operation does not provide an adequate return to fully maintain its assets and is heavily reliant for future price increases allowed by the Regulator.

Current ratio was marginally below the benchmark of one due to the Corporations' level of short term debt.

Debt collection days was above benchmark because of the delays in billing caused by the absence of an integrated billing system. The Corporation plans installation of the new billing system in the next twelve months.

The capital expenditure/depreciation ratio compares capital expenditure to depreciation. The ratio for the period exceeded benchmark due to capital expenditure projects identified under the key developments section of this Chapter.

Average staff costs over the period were $0.077m and average leave balances $0.020m. We note the majority of employees who transferred to the new Corporation brought with them their leave balances.

TASMANIAN WATER AND SEWERAGE CORPORATIONS (COMMON SERVICES) PTY LTD

INTRODUCTION

The Tasmanian Water and Sewerage Corporation (Common Services) Pty Ltd trading as Onstream was incorporated 9 December 2008.

The owners of the Corporation, who each hold one ordinary share, are:

- Tasmanian Water and Sewerage Corporation (Southern Region) trading as Southern Water (SW)
- Tasmanian Water and Sewerage Corporation (Northern Region) trading as Ben Lomond Water (BLW)
- Tasmanian Water and Sewerage Corporation (North Western Region) trading as Cradle Mountain Water (CMW).

Whilst Onstream is owned by the Corporations, the responsible Minister is the Treasurer.

The Board comprised six directors, the Chair who was common to all three water corporations and Onstream, the three CEOs of the water corporations and two additional directors.

Onstream's objectives under the *Water and Sewerage Corporations Act 2008* are to:

- (a) to assist the Regional Corporations to fulfil their principal objectives by providing, or arranging for the provision of, services to the Regional Corporations, which may include one or more of the following:
    - (i) payroll services
    - (ii) human resources services
    - (iii) information technology services
    - (iv) billing services
    - (v) financial and accounting services
    - (vi) any other service which may be of assistance to the Regional Corporations
- (b) to be a successful business and, to this end –
  - o (i) to operate its activities in accordance with good commercial practice, and
  - o (ii) to maximize sustainable returns to its members
- (c) to be available to provide services to third parties, including councils, on a commercial basis.

In accordance with these objectives, Onstream provided the following services to its owners:

- secretariat support for all Boards and their Committees, and meetings of state-wide Owners Representatives, corporate governance framework, internal audit services, legislative compliance framework and management of insurances
- finance policies and finance systems as well as revenue billing, receipting, payments, tax and treasury services
- IT policies, strategies, system platforms, networking and communications human resources services including payroll processing, recruitment support and personnel records management
- strategy and development and
- state-wide corporate communications and stakeholder engagement.

The period 2009-10 was the first full year of operations and focused on laying the foundations to facilitate the water corporations being able to deliver water and sewerage services to Tasmania.

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Signed financial statements were received on 13 August 2010 and an unqualified audit report was issued on 18 August 2010.

The audit was completed satisfactorily with no major items outstanding.

KEY DEVELOPMENTS

The company took over billing processes for water and sewerage from Tasmania's 29 councils. The absence of an effective integrated billing system created difficulties for Onstream in the collection and processing of revenue information and this impacted negatively on customer confidence. Work commenced on a $3.500m billing system in March 2010 which is planned to be completed by the end of 2010. An interim billing system was put in place to manage initial invoices for 2010-11 and second instalments.

Capital expenditure amounted to $3.800m over the year relating mainly to set-up costs and the central procurement of business assets required by the four corporations. These included IT hardware, leasehold improvements and plant, furniture and equipment.

FINANCIAL RESULTS

The financial information detailed below represents the operations of Onstream for it's first full year of operation to 30 June 2010 and its financial position as at that date. Commentary comparing 2009-10 with the period 9 December 2008 to 30 June 2009 has not been provided in this Report as the corporation was not fully operational until 1 July 2009.

In the year to 30 June 2010 the Company reported Total Comprehensive Income of $0.058m and Net Assets were $0.058m as at that date.

COMPREHENSIVE INCOME STATEMENT

	2009-10	**9/12/08 to 30/6/09**
	$'000s	$'000s
Sales revenue	15 095	1 305
Other revenue	25	0
Total Revenue	**15 120**	**1 305**
Depreciation and amortisation	691	0
Employee and related expenses	6 099	295
Other expenses	8 028	1 002
Total Expenses	**14 818**	**1 297**
Profit before:	**302**	**8**
Interest Income	25	8
Borrowing Cost	(296)	(16)
Net Profit before tax	**31**	**0**
Income Tax Equivalents (Expense) Benefit	36	0
Net Profit after tax	**67**	**0**
Other Comprehensive Items		
Actuarial (Loss) on defined benefit plan	(13)	0
Income tax relating to components of other comprehensive income	4	0
Total Comprehensive Profit	**58**	**0**

Comment

For 2009-10, Onstream recorded a $0.031m Net Profit before tax.

Sales revenue amounted to $15.095m and comprised fees earned for services provided to owner corporations, $15.006m and service income from other sources, $0.018m.

Other income comprised principally of profit on sale of assets, $0.014m.

The majority of the Depreciation and amortisation expense related to plant and equipment, $0.334m, and IT software, $0.264m.

Employee and related expenses resulted from both a transfer of staff from councils and Hobart Water on 1 July 2009 and additional staff hired throughout the year as services developed.

Other operating expenses comprised principally:

- Costs reimbursed by owner corproations including directors' fees, legal fees and IT hardware, $1.974m
- Billing services provided by councils, $1.316m
- Printing and postage costs, $1.307m
- Call centre costs, $1.124m
- IT systems and communications, $0.884m
- Rates land tax and property costs, $0.574m
- Directors' fees, legal fees and IT hardware reimbursed by the owner corporations, $1.974m.

STATEMENT OF FINANCIAL POSITION

	2009-10	9/12/08 to 30/6/09
	$'000s	$'000s
Cash	1 921	1 116
Receivables and prepayments	4 172	2 705
Current tax asset	21	
Total Current Assets	**6 114**	**3 821**
Payables	2 473	1 187
Borrowings	2 000	3 491
Provisions employee entitlements	995	0
Unearned Income	65	24
Total Current Liabilities	**5 533**	**4 702**
Working Capital	**581**	**(881)**
Property, plant and equipment	2 446	821
Net deferred tax assets	364	24
Intangibles	1 680	36
Total Non-Current Assets	**4 490**	**881**
Borrowings	4 500	0
Provisions employee entitlements	278	0
Unearned Income	235	
Total Non-Current Liabilities	**5 013**	**0**
Net Assets	**58**	**0**
Retained earnings	58	0
Total Equity	**58**	**0**

Comment

Total Equity consisted of the Net Profit after tax, $0.058m.

Major items in the Company's statement of financial position included:

- Cash of $1.921m, commentary on which can be found in the Statement of Cash Flows section later in this Chapter
- Receivables of $3.340m from the three owner water corporations for services provided and prepayments, $0.832m, principally for software licences
- Property, plant and equipment of $2.446m which comprised:
  - o Other assets, $1.434m, mainly plant, furniture and equipment
  - o Leasehold improvements, $0.824m, for offices in Launceston and Hobart
- Borrowings, $6.500m, from TASCORP, utilised for capital projects and to repay the 2008-09 borrowings from LGAT.

STATEMENT OF CASH FLOWS

	2009-10	**9/12/08 to 30/6/09**
	$'000s	$'000s
Receipts from customers	14 838	0
Payments to suppliers and employees	(13 044)	(2 081)
Interest received	25	8
Interest Paid	(194)	0
Income tax paid	(71)	0
Cash from operations	**1 554**	**(2 073)**
Payments for property, plant and equipment	(3 800)	(302)
Proceeds from sale of property, plant and equipment	51	0
Cash (used in) investing activities	**(3 749)**	**(302)**
Proceeds from borrowings	7 000	3 491
Repayment of borrowings	(4 000)	0
Cash from financing activities	**3 000**	**3 491**
Net increase (decrease) in cash	**805**	**1 116**
Cash at the beginning of the year	1 116	0
Cash at end of the year	**1 921**	**1 116**

Comment

Overall Onstream's cash increased by $0.805m, after it invested $3.749m in property, plant and equipment, funded by $3.000m borrowing and part of the $1.554m Cash from operations.

FINANCIAL PERFORMANCE

	Bench Mark	2009-10	9/12/08 to 30/6/09
Financial Performance			
Result from operations ($'000s)		67	8
EBIT ($'000s)		424	24
Operating margin	>1.0	1.02	1.01
Return on assets		5.5%	0.5%
Return on equity		115.5%	0.0%
Financial Management			
Indebtedness ratio		33.2%	0.0%
Debt to total assets		61.3%	74.2%
Interest cover	>2	1.4	–
Current ratio	>1	1.1	0.8
Cost of debt	6.9%	5.9%	0.2%
Debt service ratio		1%	0%
Debt collection	30 days	45	754
Creditor turnover	30 days	54	429
Returns to Owners			
Income tax paid or payable ($'000s)		71	0
Effective tax rate	30%	229.0%	
Total return ($'000s)		40	0
Total return on equity ratio		69.0%	
Other Information			
Staff numbers (FTEs)		78	6
Average staff costs ($'000s)		80	49
Average leave balance per FTE ($'000s)		15	0

Comment

The Financial Performance ratios show Operating margin above benchmark reflecting the profit result. During 2009-10 Onstream aimed for full recovery of costs it incurred in providing services to its owners.

Debt collection was below benchmark. This reflects the invoicing of customers monthly in arrears and is currently being addressed by management.

Creditor turnover was significantly above benchmark due to timing of a large invoice for an IT communications contract awarded in May 2010. Without this amount, Creditor turnover would have been much closer to benchmark at 35 days.

Average staff costs were $0.080m and Average leave balances $0.015m. We note the majority of employees who transferred to Onstream brought with them their leave balances.

SUPERANNUATION FUNDS

INTRODUCTION

A number of different superannuation arrangements operate in the Tasmanian public sector for public sector employees and Members of Parliament.

Superannuation may be provided in a number of ways:

- *Defined benefit:* Such a scheme has benefits that accrue on resignation or retirement or death, and are predetermined according to a formula established in the scheme's rules or regulations. The employer's contributions will vary depending on the performance of the underlying investments and the lifespan of the pensioners, as well as the salary of the contributing employees immediately before their retirement
- *Accumulation*: Under this scheme the employer's contribution is fixed according to the scheme's rules. The end benefit consists of the accumulated contributions by the employer and employee, together with the investment earnings on the contributions
- *Unfunded*: An unfunded scheme is one in which the employer financed benefit component is met on an 'emerging costs' basis when the employee becomes entitled to receive his or her payout, and without any money set aside in the scheme by the employer for that individual's benefit
- *Funded*: In this type of scheme the employer makes a regular contribution to the fund reflecting the currently accruing liability in regard to employees.

The Retirement Benefits Fund (RBF) is Tasmania's public sector superannuation fund and has been Tasmanian-owned and operated since it was established in 1904. Membership is available to people working on a casual, contract, permanent or temporary, full or part-time basis for a Tasmanian public sector employer and their spouses.

The Retirement Benefits Fund Board (RBFB) is responsible for the management and administration of the Funds established under the *Retirement Benefits Act 1993*, *Retirement Benefits Regulations 2005*, *Retirement Benefits (State Fire Commission Superannuation Scheme) Act 2005, Retirement Benefits (Tasmanian Ambulance Service Superannuation Scheme) Act 2006,* the *Public Sector Superannuation Reform Act 1999*, and the *Retirement Benefits (Parliamentary Superannuation) Regulations 2002*.

The fully funded Tasmanian Accumulation Scheme (TAS) was established under the provisions of the *Public Sector Superannuation Reform Act 1999* and replaced the unfunded RBF non-contributory scheme on 25 April 2000. The Fund now has two Schemes (Contributory and Tasmanian Accumulation Scheme – TAS) and an Investment Account, each of which prepares separate financial statements and is subject to specific governing rules within the Regulations. The Contributory Scheme has been closed to new members since 15 May 1999. Members who leave the Tasmanian public sector may, on satisfying certain conditions, continue to contribute to the RBF Investment Account.

The *Retirement Benefits (Parliamentary Superannuation Trustee Arrangements and Miscellaneous Amendments) Act 2002* received Royal Assent on 27 November 2002 with effect from 1 January 2003. This resulted in the Parliamentary Superannuation Fund and the Parliamentary Retiring Benefits Fund being transferred to RBF as sub-funds and the RBFB becoming the corporate Trustee of these sub-funds.

The *Retirement Benefits (Parliamentary Superannuation) Regulations 2002* also commenced on 1 January 2003. The purpose of these regulations was to ensure that equivalent rights continued to be provided to members of the Parliamentary Funds upon their incorporation as sub-funds of RBF.

The *Retirement Benefits (Tasmanian Ambulance Service Superannuation Scheme) Act 2006* received Royal Assent on 26 June 2006 with effect from 30 June 2006. This resulted in the Fund being transferred to RBF as a sub-fund and RBFB becoming the corporate Trustee of this sub-fund.

The *Retirement Benefits (State Fire Commission Superannuation Scheme) Act 2006* received Royal Assent on 24 June 2005 with effect from 1 May 2006. This resulted in the Fund being transferred to RBF as a sub-fund and RBFB becoming the corporate Trustee of this sub-fund.

The financial statements for the Contributory Scheme (as well as for the State's six other superannuation schemes included elsewhere in this Report) are prepared in accordance with Australian Accounting Standard AAS 25 *Financial Reporting by Superannuation Plans*. Note that in the case of the Contributory Scheme and the other two defined benefit schemes, this Standard does not require the preparation of a statement of cash flows. All statements complied with Australian Accounting Standards.

In summary the RBFB manages the following:

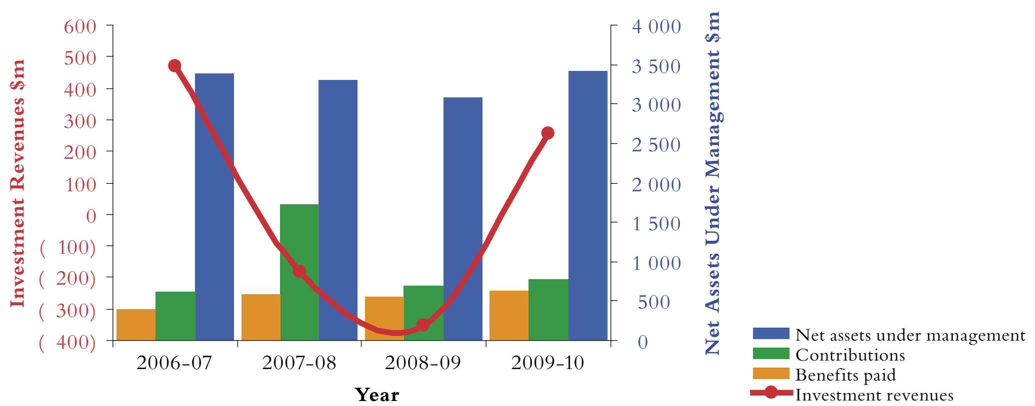
	2009-10	**2008-09**	**2007-08**	**2006-07**
	$m	$m	$m	$m
Investment revenues	255.1	(353.9)	(181.0)	468.9
Contributions from members, employers and transfers	773.2	701.8	749.3	609.1
Benefits paid	637.3	554.2	591.9	393.9
Administration expenses	22.1	23.5	17.8	15.7
Net assets under management	3 435.3	3 081.9	3 311.8	3 382.0
Total liability for acrued benefits	5 694.0	5 296.5	4 663.8	4 000.6
Net unfunded superannuation liability	4 209.2	3 835.5	3 186.1	2 746.4
Total vested benefits	5 863.6	5 519.9	5 228.9	4 966.5

Comment

The effects of the 2007-08 sub-prime crisis in the United States combined with a sustained stock market decline, at least until late in 2008-09, flowed through into International and Australian equities markets. The effect was of particular relevance in that each of RBFB's diversified options, including those in the Contributory Scheme, had significant exposure to equity markets. Australian and international equity markets had been particularly buoyant in 2006-07. Up until 31 December 2007 returns remained high, but experienced significant deterioration leading up to 30 June 2008 and for most of 2008-09. The net market value of Property investments in 2008-09 was also significantly impacted, recording a negative result for the first time. In 2009-10 International and Australian equities markets improved providing positive returns in all funds/schemes.

Average Investment revenue over the four years of review was $47.286m per annum.

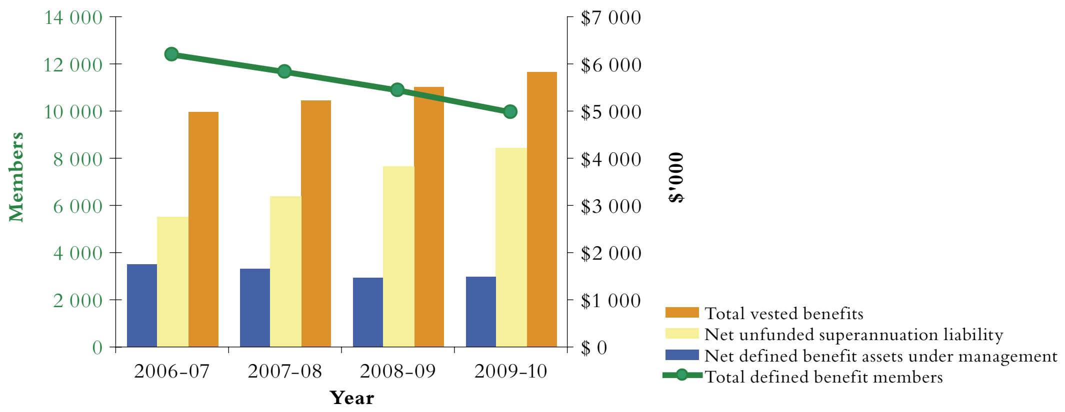
Fund performance is summarised in the following graph:



The effect of negative net investment income in 2007-08 and 2008-09, was partially offset by increased Contributions from members, employers and transfers. Contributions increased significantly in 2007-08 as members sought to maximise personal entitlements for retirement before the Commonwealth Government's *Better Super* initiatives took full effect. In 2008-09 Contributions dropped back in line with those of previous years and has remained consistent since. Benefits paid to members remained reasonably consistent over the four years of review, but reached a high point in 2009-10 due to an increase in member departures, or exits. In all years Contributions were greater than Benefits paid. Positive investment returns in 2009-10 assisted growth in Net assets under management.

Over the four year period Net Assets increased $53.352m, 1.58%, to $3.435bn.

The Funds' net asset positions compared to the Net unfunded superannuation liability and Total vested benefits is summarised in the following graph:



RBFB is not responsible for the whole of Government unfunded superannuation liability. That liability is met on an emerging cost basis. The Contributory Scheme represents the largest portion of this unfunded liability.

RESPONSIBLE MINISTER

The Responsible Minister is the Treasurer.

DEFINITIONS

Accrued Benefits

Represents the present obligation to pay benefits to a member and beneficiaries and has been determined on the basis of the present value of expected future payments arising from membership to a scheme up to the reporting date. Calculations are based on expected future salary levels and by application of a market-based risk-adjusted discount rate and relevant actuarial assumptions.

Vested Benefits

Vested benefits are benefits which are not conditional upon continued membership of a scheme (other than resignation) and include benefits which members were entitled to receive had they terminated their membership as at the reporting date. Vested benefits are guaranteed by regulations related to the particular fund or scheme

Member Investment Choice (MIC)

Members who have an RBF Investment Account, RBF-TAS SG Account, an RBF Allocated Pension, or an RBF Term Allocated Pension Account, have access to 14 different investment options. This allows individual exposure options to portfolio diversification and returns. The default option is RBF Actively Managed, which aims to provide a moderate to high level of capital growth over the medium to long term.

REPORTING

The remainder of this section of this Report provides commentary on each fund managed by RBFB.

RETIREMENT BENEFITS FUND BOARD – CONTRIBUTORY SCHEME

INTRODUCTION

Members of the Contributory Scheme, a defined benefits scheme, receive benefits based on their final average salary, years of service and contribution rate. Regulation 90 provides that the Treasurer or relevant State Employing Authority is to meet a proportion of the costs of benefits paid by the Board. Based on actuarial advice, the proportion payable by the Treasurer and State entities as from 1 July 1996 has generally been 70%, with the balance of 30% being met by the Board. From 1 July 2010 the employer contribution increased to 75% which has been factored into actuarial calculations.

Since membership was only available to permanent employees or long-term employees who started employment prior to 15 May 1999 this scheme will slowly decline over future years.

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Signed financial statements were received on 23 September 2010 and an unqualified audit report was issued on 27 September 2010.

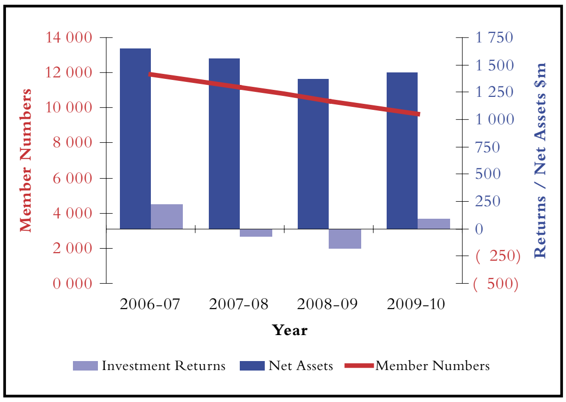
KEY FINDINGS AND DEVELOPMENTS

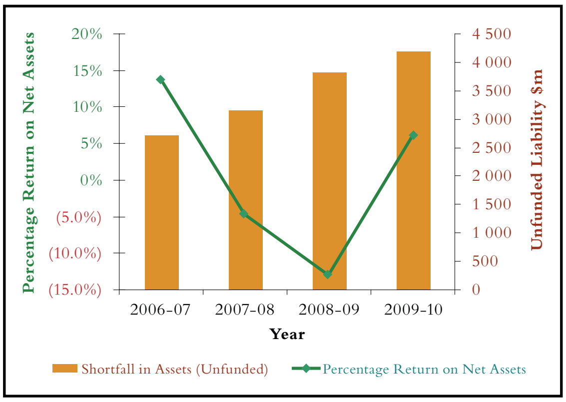
The audit was completed satisfactorily with no major items outstanding.

There were no key developments impacting the Contributory Scheme in 2009-10.

FINANCIAL RESULTS

The graphs below provide a snapshot of the Contributory scheme's financial performance.





Being a closed scheme Member numbers continued to fall over the four year period. Net Assets and Investment returns were strong in 2006-07, but declined in 2007-08 and 2008-09 due to the downturn in Australian and International markets associated with the global financial crisis. In 2009-10 investment returns improved but remain below the strong 2006-07 levels.

The Unfunded liability is funded by the State Government on an emerging cost basis. This liability increased significantly over the period 2006-07 to 2009-10 despite declining fund membership. There is no single factor causing this increase. Contributing factors included:

- lower interest rates leading to application of lower discount rates
- salary and wages increments at a rate greater than the actuary
- pension options available to benefit recipients
- anti-detriment provisions
- life expectancy
- tax changes.

STATEMENT OF CHANGES IN NET ASSETS

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Investment revenue	55 524	75 667	107 691	95 785
Change in net market value of investments	52 882	(233 918)	(158 710)	150 542
Direct investment expense	(5 129)	(5 088)	(5 515)	(4 987)
Employer contributions	229 400	202 364	174 611	149 867
Member contributions	34 752	42 540	50 191	47 395
Other revenue	(4 026)	(3 280)	(6 689)	(4 108)
Total Revenue	**363 403**	**78 285**	**161 579**	**434 494**
Pensions	186 639	176 095	162 236	153 379
Lump sums	107 902	90 181	79 222	59 238
Refunds and interest	374	1 354	2 132	1 565
Administration expenses	13 122	11 379	9 112	9 540
Superannuation contributions surcharge	114	109	115	283
Total Expenses	**308 151**	**279 118**	**252 817**	**224 005**
Surplus (Deficit) before taxation	**55 252**	**(200 833)**	**(91 238)**	**210 489**
Income tax benefit (expense)	(265)	14 651	(497)	4 012
Net Surplus (Deficit)	**54 987**	**(186 182)**	**(91 735)**	**214 501**
Net Assets available to pay benefits at start of year	1 371 424	1 557 606	1 649 341	1 434 840
Net Assets Available to Pay Benefits at End of Year	**1 426 411**	**1 371 424**	**1 557 606**	**1 649 341**

Comment

In 2009-10 the Contributory Scheme recorded a Net Surplus of $54.987m, compared to a Net Deficit of $186.182m in the prior year. The improved result in 2009-10 was predominantly due to:

- significant increase in the net market value of investments, $286.800m. These movements were predominantly due to:
  - o realised gains in investments of $57.892m compared to losses of $89.887m in 2008-09, a movement of $147.779m. Australian equities, international equities and diversified fixed interest investments all provided positive returns, movements of $60.938m, $55.440m and $10.445m, respectively compared to prior year deficits
  - o improved Unrealised investments from a loss of $144.031m in 2008-09 to a loss of $5.010m in 2009-10, an improvement of $139.021m. This was mainly due to Australian and international equities returning unrealised gains of $2.083m and $0.732m, from unrealised losses of $46.345m and $32.058m, respectively. The improvement was also assisted by a reduction in Unrealised Property losses, declining from $56.664m in 2008-09 to $3.093m in 2009-10
  - o increased Employer contributions of $27.036m primarily attributed to a combination of indexing of pensions and wage increases for remaining members. (For example, a life pension is guaranteed by the Government and is indexed by the Consumer Price Index (CPI) twice per year.)

The above factors were partially offset by:

- decreased Investment revenues, $20.143m, due to reduced returns, in the form of dividends, interest, other distributions and property rentals, from Australian equities, $5.333m, international equities, $7.428m, and alternative investments, $6.689m

- lower Member contributions, $7.788m, consistent with the decline in 2007-08 of $7.651m, as members retired
- increased Pension payments, $10.544m, due to CPI indexing and member retirement
- increased Lump Sum payments, $17.721m, as members continued to exit at an increasing rate
- increased Administration expenses, $1.743m, mainly due to higher salary related payments and unfavourable movement in the valuation of the unfunded superannuation liabilities for staff working for the fund
- Income tax resulting in an expense of $0.265m in 2009-10 compared to a benefit of $14.651m in 2008-09. This was predominantly due to 2008-09 including final clarification of Pre 1 July 1988 funding credits with the Australian Taxation Office (ATO) previously included in the 2007-08 calculation.

Another way to assess movements in Employer contributions is by comparison with Pensions and Lump sums paid, otherwise known as "the Employer Funding Share". Table 1 details this comparison in percentage terms and includes details of the movement between Pensions and Lump sums paid compared to total Employer and Member contributions.

Table 1 Contributions received as a percentage of pension and lump sum payments

		Note	2009-10	2008-09	2007-08	2006-07
Employer Funding Share						
Employer contributions ($m)	(a)		229	202	175	150
Pension and lump sum payments ($m)	(b)		295	266	241	213
Percentage payments to employer contributions	**(b)/(a)**	**1**	**128%**	**132%**	**138%**	**142%**
Employer and Member funded shares						
Employer contributions ($m)			229	202	175	150
Member contributions ($m)			35	43	50	47
Employer and member contributions ($m)	(c)		264	245	225	197
Pension and lump sum payments ($m)	(d)		295	266	241	213
Percentage payments to employer and member contributions	**(d)/(c)**	**2**	**112%**	**109%**	**107%**	**108%**
Number of Members		**3**	**9 663**	**10 392**	**11 163**	**11 880**

Table 1 indicates that:

Note 1 – This indicates that employer percentage contributions received decreased over time when compared to payments made. This was reasonable given the Contributory Scheme is a closed scheme and corresponds with fewer member upgrades.

Note 2 – In 2007-08 employer contributions increased due in part to Commonwealth Government initiatives encouraging increased voluntary contributions in the months leading up to 30 June 2008 aimed at improving personal entitlements for retirement.

With the exception of 2007-08, the general decline in Member contributions was expected. The retirement and exiting of members, without replacement, affected the reduction and/or shift to employer contributions.

Note 3 – The number of Scheme members, as anticipated, declined. In 2009-10 the decline from the prior year was 7.02% and the decrease since 2006-07 was 16.18%. The average reduction per year was 6.27% which was consistent with reduction in members since the scheme was closed in 1999.

Administration expenses included the higher superannuation expense as they relate to employees on the Contributory Scheme. Application of Australian Accounting Standard AASB119 *Employee Benefits* resulted in volatility in the valuation of the superannuation obligation from year to year, as it required application of the long-term government bond rate. Separating out the effects of these movements in superannuation obligations resulted in the following assessment of the Scheme's Net administration costs:

	2009-10	**2008-09**	**2007-08**	**2006-07**
	$'000s	$'000s	$'000s	$'000s
Administration expenses	13 122	11 379	9 112	9 540
Superannuation movement	(4 080)	(2 897)	(1 262)	(2 010)
Net administration costs	**9 042**	**8 482**	**7 850**	**7 530**

Administration expenses in 2009-10 increased $0.560m, or 6.6%, consistent with the average increase across all four years of 6.7%. In the current and prior years, Administration expenses increased across the board including areas such as general office and staff related expenses.

STATEMENT OF NET ASSETS

	2009-10	**2008-09**	**2007-08**	**2006-07**
	$'000s	$'000s	$'000s	$'000s
Cash at bank	0	1 206	849	3 334
Contributions and pensions receivable	4 330	5 327	13 625	7 387
Income receivable	4 083	6 790	7 494	444
Other receivables	95 152	79 986	13 555	15 123
Investments	1 362 071	1 314 433	1 620 936	1 694 118
Property, plant and equipment	2 867	4 405	5 062	8 566
Deferred tax asset	3 015	2 608	3 080	2 704
RBF-TAS Planning Pty Ltd	150	139	170	170
Total Assets	**1 471 668**	**1 414 894**	**1 664 771**	**1 731 846**
Other Payables	5 265	4 909	60 217	27 761
Contributions and pensions payable	559	735	669	295
Contributions in advance	14 507	14 688	13 589	12 086
Provision for employee entitlements	18 126	17 053	14 422	14 484
Deferred tax liability	4 473	3 341	15 019	24 460
Superannuation contributions surcharge payable	2 327	2 744	3 249	3 419
Total Liabilities	**45 257**	**43 470**	**107 165**	**82 505**
Net Assets Available to Pay Benefits	**1 426 411**	**1 371 424**	**1 557 606**	**1 649 341**

Comment

Net Assets Available to Pay Benefits increased $54.987m, 4.01%, consistent with the Net Surplus for the year. This was mainly caused by the improvement in Investment returns noted in the Statement of Changes in Net Assets section earlier in this Chapter.

- Other receivables increased $15.166m predominately due to an increase in the inter-fund receivable. The inter-fund balance was a result of rebalancing asset allocations and other transactions with RBF sub-funds.
- Provisions for employee entitlements increased $1.163m due to the actuarial adjustment to the defined superannuation scheme liability of $1.763m off-set by a fall in all other employee provisions.

The Contributory Scheme's Statement of Net Assets represents the assets available to pay member's benefits. The Accrued and Vested benefits for the Scheme were reviewed in 2009-10 and disclosed in the notes to the Statements. A full actuarial review was undertaken in 2009-10. As at 30 June 2010, the Accrued benefits, $5.623bn, was greater than scheme assets, $1.426bn, resulting in an unfunded liability of $4.196bn. This shortfall will be funded by the State Government on an emerging cost basis.

Vested benefits, as at 30 June 2010, were $5.751bn, compared to$5.405bn as at 30 June 2009.

FINANCIAL ANALYSIS

	2009-10	2008-09	2007-08	2006-07
Financial Performance				
Investments ($'000s)	1 362 071	1 314 433	1 620 936	1 694 118
Net investment income ($'000s)	103 277	(163 339)	(56 534)	241 340
Return on investments	8%	(11.1%)	(3.4%)	15.2%
Other Information				
Members (number)	9 663	10 392	11 163	11 880
Net Assets ($'000)	1 426 411	1 371 424	1 557 606	1 649 341
Return on net assets	7.4%	(11.15%)	(3.53%)	15.7%
Staff numbers (FTEs)	172	167	154	130
Average staff costs ($'000s)	61	61	53	53
Average annual and long service leave per FTE ($'000s)	6	6	5	6

Comment

Total funds under management decreased from $1.694bn in 2006-07 to $1.362bn in 2009-10, a drop of $0.332bn, or 19.6%.This mainly occurred between 2006-07 and 2008-09 when there was a significant reduction of $0.380bn due to the major downturn in Financial Markets. The return to Surplus in 2009-10 resulted in fund growth.

The strong in Net investment income for 2006-07 reflected the performance of international and Australian equity markets at that time. By contrast, the negative investment income in 2007-08 and 2008-09 were attributable to the major downturn in Financial Markets associated with the global financial crisis. This resulted in net market value of investments recording losses of $158.710m in 2007-08 and $233.918m 2008-09. The main asset classes contributing to the losses were property, international equities, Australian equities and alternative investments. Whilst investment revenues in 2009-10, from interest, dividends, distributions and property rentals, were lower than those in 2008-09, the net market value of investments returned to a positive position of $52.882m, as noted under the Statement of Changes in Net Assets section of this Chapter.

Return on investments represents a return on average net investments for any given year. The movements in the percentages over the period of review reflect changes in investment income previously discussed. The movement in Net Assets also reflected this.

Staff numbers steadily increased over the period to meet operational requirements.

RETIREMENT BENEFITS FUND BOARD – INVESTMENT ACCOUNT

INTRODUCTION

The Investment Account is an accumulation scheme, fully funded by members. Member Investment Choice (MIC) allows members the ability to select and construct their portfolio from fourteen different investment options.

Members can choose to invest in one investment option or in a number of options and can switch between options as often as they like. Members who do not choose an investment option will have their investments in the default investment option, RBF Actively Managed.

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Signed financial statements were received on 23 September 2010 and an unqualified audit report was issued on 27 September 2010.

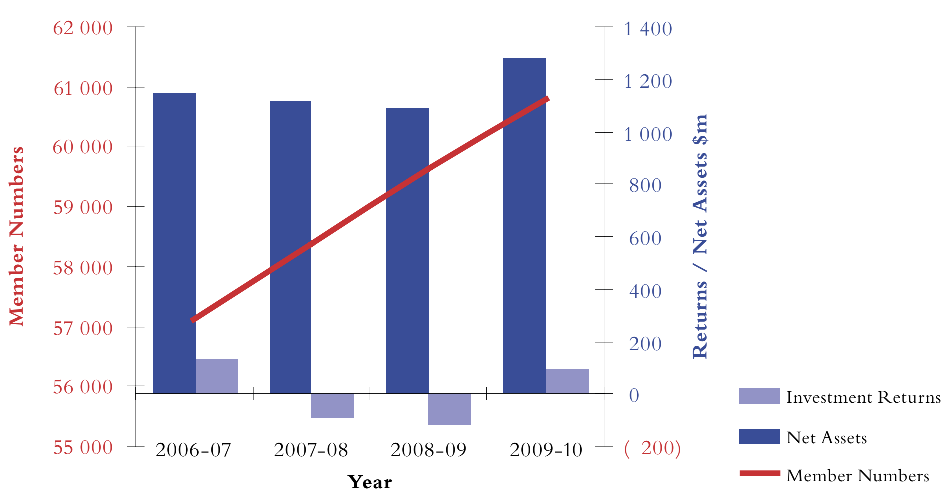
KEY FINDINGS AND DEVELOPMENTS

The audit was completed satisfactorily with no major items outstanding.

There were no key developments impacting the Investment Account in 2009-10.

FINANCIAL RESULTS

The graph below provides a snapshot of the Investment Account's financial performance.



Whilst Member numbers have risen, Net Assets and Investment returns showed solid growth in 2006-07 but declined in 2007-08 and 2008-09 due to the downturn in financial markets. In 2009-10 investment returns have started to recover resulting in the improved results and growth in Net Assets.

COMPREHENSIVE INCOME STATEMENT

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Investment revenue	52 597	62 690	68 262	66 099
Changes in net market values	42 089	(171 675)	(141 020)	81 162
Direct investment expenses	(4 360)	(3 706)	(2 860)	(3 422)
Employer contributions	69 921	70 770	71 172	55 959
Member contributions	64 803	51 424	77 243	116 051
Transfers from other funds	220 868	153 625	157 842	113 643
Total Investment and Contribution Revenue	**445 918**	**163 128**	**230 639**	**429 492**
Other Revenue – General operating provision	**13 388**	**0**	**0**	**0**
General operating fee	(1 334)	9 486	13 416	8 431
Superannuation contributions surcharge	56	102	250	885
Total Expenses	**(1 278)**	**9 588**	**13 666**	**9 316**
Benefits Accrued Before Tax	**460 584**	**153 540**	**216 973**	**420 176**
Income tax benefit (expense)	(16 113)	3 051	1 796	(15 982)
Benefits Accrued after Income Tax	**444 471**	**156 591**	**218 769**	**404 194**
Benefits paid	(240 257)	(189 109)	(247 707)	(112 019)
Liability for accrued benefits at year start	1 087 050	1 119 568	1 148 505	856 330
Liability for Accrued Benefits at Year End	**1 291 264**	**1 087 050**	**1 119 567**	**1 148 505**

Comment

After tax Benefits Accrued as a result of operations of $444.471m in 2009-10, improved by $287.880m compared to the prior year predominantly due to:

Net market value of investments improving by $213.764m. This was due predominantly to realised gains from Australian equities, $60.967m, International equities, $35.178m, and Diversified fixed interest investments, $10.387m. The improvement was assisted by a reduction in Unrealised losses at year end, $99.595m, in Australian equities, International equities and Property investments

- increased Member contributions $13.379m as members made additional contributions and member numbers grew
- increased Transfers in, $67.243m, attributable to internal (eg Contributory) and external rollovers into the Investment Account. Whilst a degree of growth is normally expected with the closure of other funds and growth in members, this movement can be partially attributed to higher benefits paid in the Contributory and State Fire Commission Superannuation Schemes
- increased Other Revenue, $13.388m, discussed further in the Statement of Financial Position section of this Chapter
- decreased General operating fees, $10.820m, due to the effect of tax credits in 2009-10.

The above factors were partial offset by:

- lower Investment revenue, $10.093m. This was mainly due to a decrease in distribution revenues of, $6.413m, and dividends, $4.336m, offset by an increase in interest revenues $0.339m
- higher Income tax, $19.164m, primarily due to improved investment income.

Benefits paid to exiting members increased $51.148m. As members retire or resign from the public sector, various options and conditions apply as to how they access funds. Depending upon individual circumstances, members are able to access cash, purchase other retirement products (e.g. a pension) or transfer amounts to another complying superfund.

Another way to assess Benefits paid is to compare them with relevant revenues collected. The table below shows this comparison in percentage terms detailing the movement between Benefits paid compared to the total of Employer and Member contributions and Transfers from other funds.

Table 1 Contributions received as a percentage of benefits paid

	2009-10	2008-09	2007-08	2006-07
Employer contributions ($m)	70	71	71	56
Member contributions ($m)	65	51	77	116
Transfers from other funds ($m)	221	154	158	114
Total Contributions received ($m)	**356**	**276**	**306**	**286**
Benefits paid ($m)	240	189	248	112
Percentage payments to Contributions	**67%**	**68%**	**81%**	**39%**

In 2009-10 the Percentage payments to contributions remained reasonably consistent with proportional increases in contributions and Benefits paid. In 2007-08 there was a significant increase in the Percentage payments to contributions because of a substantial increase of $136m in Benefits paid. This was because 3 227 members reached retirement age exiting the scheme that year.

STATEMENT OF FINANCIAL POSITION

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Cash at bank	7 900	6 598	6 548	960
Interest receivable	265	3 572	3 396	265
Other receivables	18 354	18 508	80 449	47 258
Investments	1 273 928	1 078 473	1 065 352	1 145 116
Deferred tax asset	18 066	20 811	4 955	0
Total Assets	**1 318 513**	**1 127 962**	**1 160 700**	**1 193 599**
Other payables	19	46	108	152
Contributions payable	686	292	0	2 619
General operating provision	13 292	29 035	27 372	20 390
Provision for income tax	13 252	11 539	13 652	11 461
Deferred tax liability	0	0	0	10 471
Total Liabilities	**27 249**	**40 912**	**41 132**	**45 093**
Net Assets Available To Pay Benefits	**1 291 264**	**1 087 050**	**1 119 568**	**1 148 506**
Represented by:				
Liability for Accrued Benefits				
Allocated to members accounts	1 273 814	1 088 872	1 124 040	1 109 867
Not yet allocated	4 062	(1 822)	(4 472)	38 639
Total Liability For Accrued Benefits	**1 277 876**	**1 087 050**	**1 119 568**	**1 148 506**
Equity				
Reserves	13 388	0	0	0
Net Liability for Accrued Benefits and Equity	**1 291 264**	**1 087 050**	**1 119 568**	**1 148 506**

Comment

Net Assets available to pay benefits increased $204.214m, or 18.79%, due to improved investment returns and contributions received noted previously. Total investments increased by a similar amount, $195.455m, or 18.12%.

Other movements in the Statement of Financial Position included:

- A decrease in the General operating provision of $15.743m because amounts required to pay actual administration and income tax expenses were less than that deducted from member accounts. Also deducted from the provision was $11.941m transferred to reserves based on an overestimate of future income tax requirements
- Reserves of $13.388m were established with the aim of protecting the fund and its members against the financial effects of possible future adverse risk events, to fund initiatives, to ensure that the fund is able to continually develop in line with the needs of members and for future expenditure where there are no sources of future external funding. These reserves were funded through surplus tax provisions provided for in excess of expected future needs, bonus interest and an impairment provision no longer required.

STATEMENT OF CASH FLOWS

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Employer contributions	69 921	70 770	71 172	55 959
Member contributions	65 197	51 716	74 624	117 013
Transfers from other funds	220 868	153 625	157 841	113 643
Interest received	8 570	5 473	79	3 069
Dividends received	11 098	7 189	5 623	2 436
Benefits paid	(240 257)	(189 109)	(247 707)	(112 019)
Income tax paid	(11 655)	(14 918)	(11 439)	(7 551)
Direct investment expenses	(3 860)	(3 943)	(3 297)	(3 042)
Interfund transfers	154	61 001	(32 251)	(14 246)
Operating fees paid	(2 442)	(7 408)	(6 432)	(3 256)
Superannuation contribution surcharge	(83)	(164)	(291)	(827)
Cash from operations	**117 511**	**134 232**	**7 922**	**151 179**
Proceeds from the sale of investments	672 572	376 132	529 255	291 509
Payments for purchase of investments	(810 363)	(372 614)	(502 848)	(420 264)
Cash from (used in) investing activities	**(137 791)**	**3 518**	**26 407**	**(128 755)**
Net increase in cash	**(20 280)**	**137 750**	**34 329**	**22 424**
Cash at the beginning of the year	293 883	156 133	121 804	99 380
Cash at end of the year	**273 603**	**293 883**	**156 133**	**121 804**

Comment

Reasons for variations in cash flow receipt and payment amounts reflect the comments made previously in the Comprehensive Income Statement and the Statement of Financial Position sections of this Chapter.

Cash on hand will vary as this amount is determined by the MIC allocation between different types of investments of varying liquidity and risk appetite. The cash position of the Investment Account will therefore fluctuate in line with members' investment strategies. The increase in 2008-09 and 2007-08 was partly due to members increasing investments in cash deposits seeking to avoid risks associated with market volatility. This reversed in 2009-10 as markets stabilised.

FINANCIAL ANALYSIS

	Bench Mark	2009-10	2008-09	2007-08	2006-07
Financial Performance					
Investments ($'000s)		1 273 928	1 078 473	1 065 352	1 145 116
Net investment income ($'000s)		90 326	(112 691)	(75 618)	143 839
Return on investments	7.5%	7.68%	(10.51%)	(6.84%)	14.40%
Other Information					
Members (number)		60 803	59 629	58 382	57 127

Comment

In 2009-10 total funds under management increased slightly by $195.455m, 18.12%, a significant improvement after a period of negative returns. Over the four year period total funds increased $225.917m.

In 2009-10 Net investment revenue was $90.326m providing positive returns to members. MIC allows members access up to 14 different investment options. Returns vary according to the MIC objective and potential risk exposure.

Return on investments represents a return on average net investments for any given year before fees and taxes were deducted. The Return on investment for 2006-07 and 2009-10 both showed positive performance above the bench mark. Return on investments in 2008-09 and 2007-08 were negative due to adverse performance of Financial Markets. Over the four year period Return on investments was slightly favourable at an average of positive 1.18%.

RETIREMENT BENEFITS FUND BOARD – TASMANIAN ACCUMULATION SCHEME

INTRODUCTION

The Tasmanian Accumulation Scheme (TAS) was established under the *Public Sector Reform Act* 1999 and commenced operating on 25 April 2000. On this date, the initial balances of TAS, being the account balances of the Non-Contributory Scheme at that time, were funded using surplus assets from the Contributory Scheme, adjusted to take account of the income taxation differences between the two Schemes.

TAS comprises three components being Superannuation Guarantee (Employer contribution currently 9%), and member funded Allocated Pensions and Term Allocated Pensions. Member Investment Choice (MIC) options are available to members.

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Signed financial statements were received on 23 September 2010 and an unqualified audit report was issued on 27 September 2010.

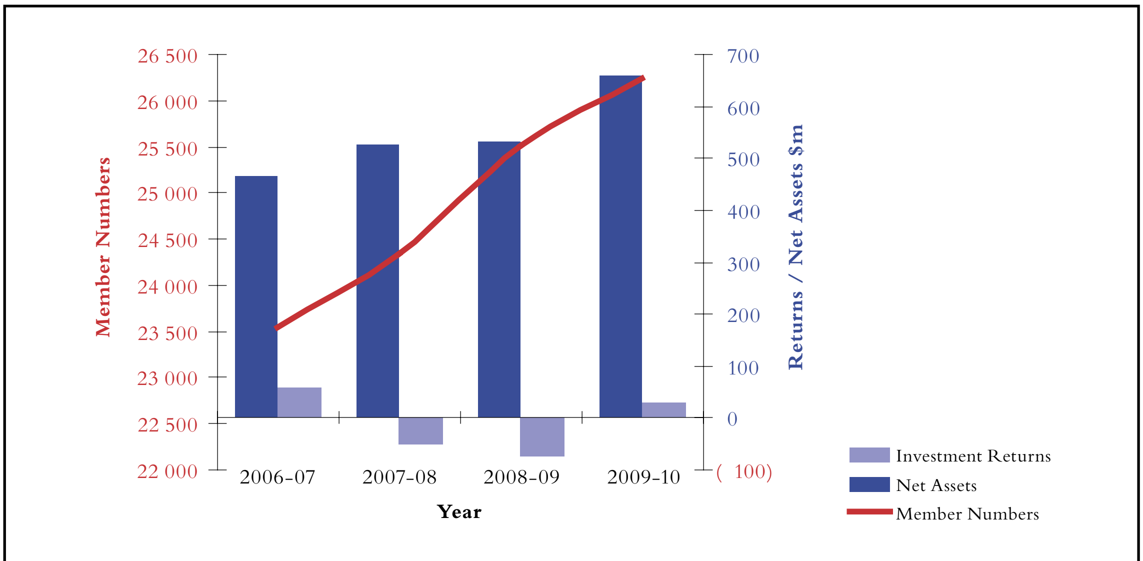
KEY FINDING AND DEVELOPMENTS

The audit was completed satisfactorily with no major items outstanding.

There were no key developments impacting the Contributory Scheme in 2009-10.

FINANCIAL RESULTS

The graph below provides a snapshot of the scheme's financial performance.



Member numbers and Net assets grew over the period. Investment returns were strong in 2006-07 but declined in 2007-08 and 2008-09 due to the downturn in financial markets.

COMPREHENSIVE INCOME STATEMENT

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Investment income	31 361	34 548	34 439	29 357
Changes in net market values	24 138	(96 081)	(73 631)	39 672
Direct investment expense	(2 683)	(2 192)	(1 641)	(1 615)
Employer contributions	97 949	88 248	78 867	73 391
Member contributions	49 705	85 509	132 651	45 991
Other income	4	38	0	37
Total Revenue	**200 474**	**110 070**	**170 685**	**186 833**
Other Revenue – General operating provision	**5 851**	**0**	**0**	**0**
General operating fee	(1 085)	3 651	6 007	3 868
Death and incapacity insurance	5 734	5 214	4 646	4 341
Superannuation contributions surcharge	18	1	40	530
Total Expenses	**4 667**	**8 866**	**10 693**	**8 739**
Benefits Accrued before Tax	**201 658**	**101 204**	**159 992**	**178 094**
Income tax expense	(17 586)	(7 477)	(6 184)	(13 680)
Benefits Accrued after Tax	**184 072**	**93 727**	**153 808**	**164 414**
Benefits paid	(58 716)	(86 265)	(93 729)	(62 973)
Liability for accrued benefits at year start	533 769	526 307	466 228	364 787
Liability for Accrued Benefits at Year End	**659 125**	**533 769**	**526 307**	**466 228**

Comment

Benefits accrued after tax as a result of operations in 2009-10 were $184.072m, an increase of $90.345m, on the 2008-09 result. The increase was predominantly due to:

- improvements in the net market value of investments, $120.219m. This was due predominantly to realised gains from Australian equities, $36.013m, International equities, $21.208m, and Diversified fixed interest, $6.339m. The improvement was assisted by a reduction in Unrealised losses of $52.325m in Australian and International equities, to $10.528m at year end
- increased Employer contributions of $9.701m primarily attributed to higher numbers of members and salary increases
- decreased General operating fees, $4.736m, due to the effect of tax credits in 2009-10
- increased Other Revenue, $5.851m, discussed further in the Statement of Financial Position section of this Chapter

The above factors were partially offset by:

- Member contributions decreased $35.804m as members in prior years made additional contributions seeking to maximise entitlements as changes under the *Better Super* initiatives came into effect
- increased Income tax, $10.109m, primarily due to improved investment income.

Benefits paid were lower by $27.549m in 2009-10 as fewer members exited. Where members resign or withdraw funds, all or part can be rolled over into the Investment account, used to purchase other retirement products (e.g. a pension) or transferred to another complying superfund.

STATEMENT OF FINANCIAL POSITION

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Cash at bank	3 233	2 793	2 479	167
Interest receivable	154	1 854	1 886	139
Other receivables	0	0	37	0
Investments	759 444	622 546	573 932	522 265
Deferred tax asset	6 506	8 497	2 046	0
Total Assets	**769 337**	**635 690**	**580 380**	**522 571**
Payables	78 821	61 416	15 216	20 486
Provision for death and incapacity insurance	15 056	15 322	14 678	12 528
General operating provisions	819	11 731	11 883	7 627
Provision for income tax	15 514	13 450	12 288	11 653
Deferred tax liability	0	0	0	4 049
Superannuation contribution surcharge payable	2	2	8	0
Total Liabilities	**110 212**	**101 921**	**54 073**	**56 343**
Net Assets Available To Pay Benefits	**659 125**	**533 769**	**526 307**	**466 228**
Represented by:				
Liability for Accrued Benefits				
Allocated to members accounts	655 388	540 693	524 102	426 288
Not yet allocated	(2 114)	(6 924)	2 205	39 940
Total Liability For Accrued Benefits	**653 274**	**533 769**	**526 307**	**466 228**
Equity				
Reserves	5 851	0	0	0
Net Liability for Accrued Benefits and Equity	**659 125**	**533 769**	**526 307**	**466 228**

Comment

Net Assets available to pay benefits increased by $125.356m, 23.49%, during 2009-10. The most significant movements were in Investments and Payables. While Investments increased $138.898m, 21.99%, this was offset to an extent by higher Payables of $17.405m, 28.34%, which included the Inter-fund Payable. The Inter-fund Payable comprised the majority of the Payables balance. It was a result of rebalancing asset allocations and other transactions between the various funds managed by the RBFB.

Other movements in the Statement of Financial Position included:

- A decrease in the General operating provision of $10.912m as amounts required to pay actual administration and income tax expenses were less than that deducted from member accounts. Also deducted from the provision was $4.759m transferred to reserves based on an overestimate of future income tax requirements.
- Reserves of $5.851m were established with the aim to protect the fund and its members against the financial effects of possible future adverse risk events, to fund initiatives to ensure that the fund is able to continually develop in line with the needs of members and for future expenditure where there are no sources of future external funding. These reserves were funded through surplus tax provisions provided for in excess of expected future needs, bonus interest and an impairment provision no longer required.

The Provision for death and invalidity insurance represented the accumulation of surpluses of the Scheme's Death and Invalidity insurance arrangements. This Scheme is a self-administrated insurance arrangement which experienced strong membership growth and low expense claims contributing to successive surpluses. The Actuary reviews this insurance arrangement annually.

STATEMENT OF CASH FLOWS

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Employer contributions	97 948	88 248	78 861	73 391
Member contributions	49 705	85 509	132 651	45 995
Other contributions	4	75	(37)	37
Interest received	4 995	2 842	427	1 472
Investment income received	6 889	3 827	3 008	1 164
Benefits paid	(58 650)	(86 198)	(93 592)	(62 762)
Direct investment expenses	(2 217)	(2 286)	(1 712)	(1 453)
Management fees paid	(5 051)	(3 561)	(1 765)	(2 282)
Income tax paid	(13 531)	(12 766)	(11 647)	(10 057)
Interfund transfers	17 339	46 133	(5 398)	12 572
Death and incapacity benefits paid	(6 000)	(4 570)	(2 496)	(1 731)
Superannuation contribution surcharge	(18)	(7)	(32)	(530)
Cash from operations	**91 413**	**117 246**	**98 268**	**55 816**
Proceeds from the sale of investments	415 258	215 727	283 893	158 823
Payments for purchase of investments	(516 472)	(272 329)	(363 081)	(204 097)
Cash (used in) investing activities	**(101 214)**	**(56 602)**	**(79 188)**	**(45 274)**
Net increase in cash	**(9 801)**	**60 644**	**19 080**	**10 542**
Cash at the beginning of the year	128 670	68 026	48 946	38 404
Cash at end of the year	**118 869**	**128 670**	**68 026**	**48 946**

Comment

Reasons for variations in cash flow receipt and payment amounts reflected the comments made previously in the Comprehensive Income Statement and the Statement of Financial Position sections of this Chapter.

Cash on hand will vary as this amount is determined by member investment choice allocation between different types of investments of varying liquidity and risk appetite. The cash position will therefore fluctuate in line with members' investment strategies. The increase in 2008-09 and 2007-08 was partly due to members increasing investments in cash deposits seeking to avoid risks associated with market volatility. This reversed in 2009-10 as markets stabilised.

FINANCIAL ANALYSIS

	2009-10	2008-09	2007-08	2006-07
Financial Performance				
Investments ($'000s)	759 444	622 546	573 932	522 265
Net investment income ($'000s)	52 816	(63 725)	(40 833)	67 414
Return on investments	7.64%	(10.65%)	(7.45%)	14.62%
Other Information				
Members (number)	26 246	25 503	24 332	23 546

Comment

In 2009-10, total funds under management increased by $136.898m, 21.99%. Over the four year period total funds increased $237.179m.

In the current and prior year, Net investment income provided positive returns to members. MIC allows members to access up to 14 different investment options. Returns vary according to the MIC objective and potential risk exposure.

Return on investments represents a return on average net investments for any given year before fees and taxes are deducted. The Return on investment for 2006-07 and 2009-10 both showed positive performance. Return on investments in 2008-09 and 2007-08 were negative due to adverse performance of Financial Markets. Over the four year period Return on investments was slightly favourable at an average of positive 1.04%.

PARLIAMENTARY SUPERANNUATION FUND

INTRODUCTION

The Parliamentary Superannuation and Retiring Benefits Trust was responsible for the management and administration of the Parliamentary Superannuation Fund (the PSF) established under the *Parliamentary Superannuation Act 1973*. The PSF was closed to new members as at 11 November 1985 with the Retirement Benefits Fund being the default scheme for their superannuation.

Legislation was enacted by Parliament in 2002 to facilitate the winding up of the PSF and the transfer of funds to a sub-fund of the Retirement Benefits Fund Board (RBFB) effective from 1 January 2003. This sub-fund prepares an annual financial report for audit and inclusion with the annual report of the RBFB and retains its status as a defined benefits scheme. The PSF provides members with a benefit paid as a pension. There were three fund members in all years reported in this Chapter.

The PSF's growth and performance will be affected by the lack of new members and as existing members leaving the fund. Nevertheless, as a defined benefit scheme, any unfunded liability must be met over time from the Consolidated Fund by appropriations through Finance-General.

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Signed financial statements were received on 23 September 2010 and an unqualified audit report was issued on 27 September 2010.

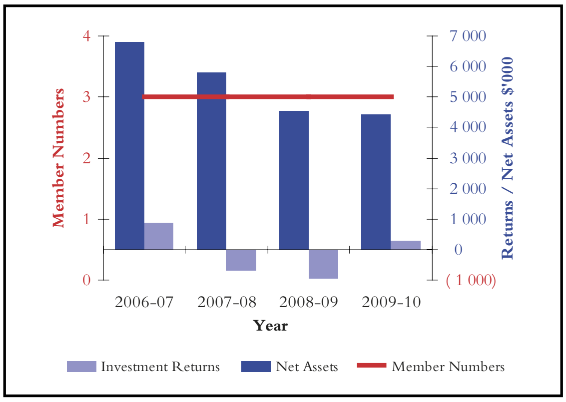
KEY FINDINGS AND DEVELOPMENTS

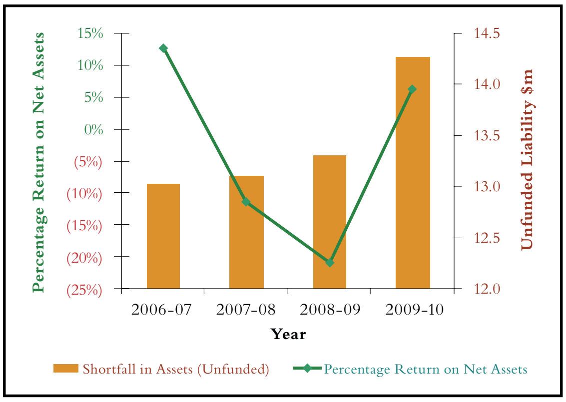
The audit was completed satisfactorily with no major items outstanding.

There were no key developments impacting the PSF in 2009-10.

FINANCIAL RESULTS

The graphs below provide a snapshot of the PSF's financial performance.





Whilst Member numbers remained stable, Investment returns declined in 2008-09 and 2007-08 attributable to deficits due to the downturn in financial markets. Net assets declined over all years due to negative returns, pensions paid and administration costs incurred. The Unfunded liability is funded by the State Government on an emerging cost basis.

The Unfunded liability is funded by the State Government on an emerging cost basis. This liability increased significantly over the period 2006-07 to 2009-10. There is no single factor causing this increase. Contributing factors included:

- Lower interest rates leading to application of lower discount rates
- Salary and wages increments at a rate greater than the actuary
- Pension options available to benefit recipients
- Life expectancy
- Tax changes.

STATEMENT OF CHANGES IN NET ASSETS

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Investment income	259	365	471	425
Changes in net market values	254	(1 159)	(908)	598
Direct investment expense	(22)	(28)	(29)	(33)
Employer contributions	969	994	931	973
Member contributions	40	40	40	32
Total Revenue	**1 500**	**212**	**505**	**1 995**
Pensions	1 298	1 366	1 332	1 335
Administration expenses	209	131	200	126
Superannuation contributions surcharge	3	(2)	(2)	1
Total Expenses	**1 510**	**1 495**	**1 530**	**1 462**
Change in net assets before tax	**(10)**	**(1 283)**	**(1 025)**	**533**
Income tax benefit (expense)	(15)	34	28	(166)
Change in net assets after tax	**(25)**	**(1 249)**	**(997)**	**367**
Net Assets available to pay benefits at year start	4 542	5 791	6 788	6 421
Net Assets Available to Pay Benefits at Year End	**4 517**	**4 542**	**5 791**	**6 788**

Comment

In 2009-10 the Fund recorded a loss of $0.010m, an improvement of $1.273m on the loss in 2008-09. The improved result was predominantly due to positive market returns, an increase of $1.413m, offset by a decline in Investment income, a decrease of $0.106m, a net movement of $1.307m. The positive market returns was mainly due to improved performance in Australian and international equities. As expected, Employer and Member contributions remained stable.

Employer contributions to the PSF are determined by the actuary. Employee contributions, which are fully funded by members and vest fully in them, are made at a specified rate of salary.

STATEMENT OF NET ASSETS

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Cash at bank	0	0	0	0
Receivables	18	24	20	39
Investments	5 921	5 549	6 921	7 698
Total Assets	**5 939**	**5 573**	**6 941**	**7 737**
Payables	735	540	681	463
General operating provision	641	468	402	241
Deferred tax liabilities	46	23	67	245
Total Liabilities	**1 422**	**1 031**	**1 150**	**949**
Net Assets Available To Pay Benefits	**4 517**	**4 542**	**5 791**	**6 788**

Comment

The Net Assets Available to Pay Benefits decreased $0.025m, (0.55%), consistent with the Statement of Changes in Net Assets for the year. Whilst Investments improved, $0.372m, this was more than offset by increased liabilities. In view of the absence of new members and as existing members exit, subject to improved investment performance, net assets will gradually decline.

The liability for accrued benefits (scheme as a whole) determined by the State Actuary as at 30 June 2010 was $18.683m, resulting in an unfunded portion of accrued benefits of $14.166m. State liabilities are not matched by assets in the PSF, as they are unfunded liabilities which are met by the State as and when they become payable. The liability for vested benefits (scheme as a whole) was $19.245m.

FINANCIAL ANALYSIS

	2009-10	2008-09	2007-08	2006-07
Financial Performance				
Investments ($'000s)	5 921	5 549	6 921	7 698
Net investment income ($'000s)	491	(822)	(466)	990
Return on investments	8.53%	(13.14%)	(6.35%)	13.6%

Comment

As with most small funds, the PSF's performance varies considerably due to the volatility of the investment market and the amount of benefits paid out in any one financial year. The poor return on investments in 2008-09 and 2007-08, being negative returns of 13.14% and 6.35% respectively, impacted the performance of the fund. These compare unfavourably with the strong returns experienced in 2006-07 and 2009-10. Over the four year period, the Return on investments was only slightly favourable at an average of positive 0.66%.

PARLIAMENTARY RETIRING BENEFITS FUND

INTRODUCTION

The Parliamentary Superannuation and Retiring Benefits Trust was responsible for the management and administration of the Parliamentary Retiring Benefits Fund (the PRBF) established under the *Parliamentary Retiring Benefits Act 1985*. The PRBF was closed to new members as at 1 July 1999 with the Retirement Benefits Fund being the default scheme for their superannuation.

Legislation was enacted by Parliament in 2002 to facilitate the winding up of PRBF and transfer of funds to a sub-fund of the Retirement Benefits Fund Board (RBFB) effective from 1 January 2003. This sub-fund prepares an annual financial report for audit and inclusion in the annual report of the RBFB and it retains its status as a defined benefits scheme. The PRBF provides members with a benefit paid as a lump sum. The number of fund members as at 30 June 2010 was 7 (2009, 11, 2008, 13, and 2007, 13,). The PRBF's performance was affected by the lack of new members and payments to existing members on retirement.

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Signed financial statements were received on 23 September 2010 and an unqualified audit report was issued on 27 September 2010.

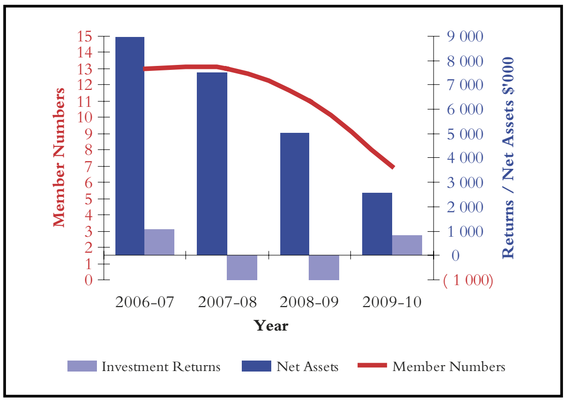
KEY FINDINGS AND DEVELOPMENTS

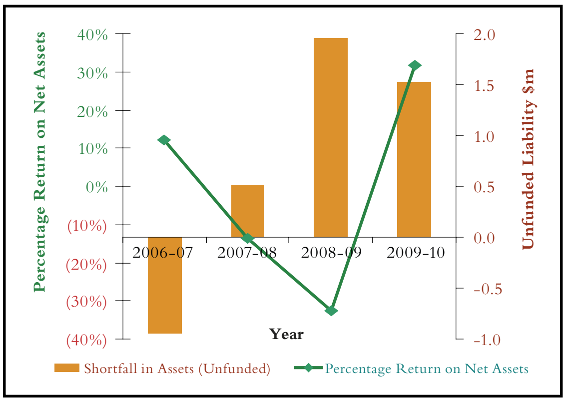
The audit was completed satisfactorily with no major items outstanding.

There were no key developments impacting the PRBF in 2009-10.

FINANCIAL RESULTS

The graphs below provide a snapshot of the Fund's financial performance.





Net assets and Investment returns declined in both 2008-09 and in 2007-08. Fund membership also decreased resulting in fewer members available to share increasing administration costs. The high number of retirements increased lump sum payments contributing to losses in each of 2007-08 to 2009-10 and to declining net assets available to pay benefits. Another year like 2009-10 could see net assets become negative.

The Unfunded liability is funded by the State Government on an emerging cost basis. This liability increased significantly from 2007-08 despite declining fund membership. There is no single factor causing this increase. Contributing factors included:

- Lower interest rates leading to application of lower discount rates
- Salary and wages increments at a rate greater than the actuary
- Life expectancy
- Tax changes.

STATEMENT OF CHANGES IN NET ASSETS

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Investment income	277	441	645	565
Changes in net market values	417	(1 460)	(1 237)	804
Direct investment expense	(25)	(31)	(39)	(42)
Employer contributions	294	338	385	405
Member contributions	113	131	173	142
Other revenue	0	0	1	0
Total Revenue	**1 076**	**(581)**	**(72)**	**1 874**
Lump sum benefits paid	3 455	1 803	1 050	0
General operating fees	32	167	217	205
Superannuation contributions surcharge	0	(3)	181	38
Total Expenses	**3 487**	**1 967**	**1 448**	**243**
Change in net assets before tax	**(2 411)**	**(2 548)**	**(1 520)**	**1 631**
Income tax expense (benefit)	(86)	84	63	(128)
Change in net assets before tax	**(2 497)**	**(2 464)**	**(1 457)**	**1 503**
Net Assets available to pay benefits at year start	5 048	7 512	8 969	7 466
Net Assets available to Pay Benefits at Year End	**2 551**	**5 048**	**7 512**	**8 969**

Comment

In 2009-10 the scheme recorded a decline in net assets before tax of $2.411m, a slight decline on the loss of $2.548m in 2008-09, a movement of $0.137m. The improved result was predominantly due to increased net market value of investments, $1.877m, mainly due to better performance in Australian and international equities.

This improvement was offset by:

- higher Benefits paid, $1.652m, due to members exiting the Fund
- lower Investment revenues, $0.164m, due to reduced returns on investments.

STATEMENT OF NET ASSETS

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Receivables	19	65	75	87
Investments	4 201	6 323	8 942	10 152
Other assets	140	109	1	1
Total Assets	**4 360**	**6 497**	**9 018**	**10 240**
Payables	974	675	660	566
General operating provision	510	495	442	335
Other liabilities	325	279	404	370
Total Liabilities	**1 809**	**1 449**	**1 506**	**1 271**
Net Assets Available To Pay Benefits	**2 551**	**5 048**	**7 512**	**8 969**

Comment

The decrease of Net Assets Available to Pay Benefits in 2009-10 of $2.497m, or 49.47%, was predominantly due to the increase in Benefits paid of $1.652m, as noted in the Statement of Changes in Net Assets section of this Chapter. The absence of new members and drop in existing members, subject to improvements in market performance, will see Net Assets gradually decline. If financial performance achieved in 2009-10 is repeated in 2010-11, that is, a decline in net assets of $2.497m, the PRBF may have few net assets left at 30 June 2011.

The liability for accrued benefits (scheme as a whole) when last determined by the State Actuary as at 30 June 2010 was $4.078m, resulting in the PRBF being unfunded by $1.527m. The liability for vested benefits (scheme as a whole) was $4.993m.

However, the PRBF receives regular contributions from the State at a multiple of member contributions. The objective of such funding is to ensure that the benefit entitlement of members and other beneficiaries are fully financed from the PRBF by the time they become payable.

FINANCIAL ANALYSIS

	2009-10	2008-09	2007-08	2006-07
Financial Performance				
Investments ($'000s)	4 201	6 323	8 942	10 152
Net Investment Income ($'000s)	669	(1 050)	(631)	1 327
Return on investments	12.32%	(13.54%)	(6.55%)	14.2%

Comment

The PRBF's performance may vary considerably depending on the volatility of financial markets and benefits paid out in any one financial year. Whilst Investments declined further in 2009-10 due to member departures, the Fund recorded a positive Return on investments, 12.32%. This was in contrast to the poor performance of financial markets in 2008-09 and 2007-08 which resulted in negative returns of 13.54% and of 6.55% respectively. Over the four year period the Return on investments was favourable at an average of positive 1.61%.

RETIREMENT BENEFITS FUND BOARD – TASMANIAN AMBULANCE SERVICE SUPERANNUATION SCHEME

INTRODUCTION

The Tasmanian Ambulance Service Superannuation Scheme (TASSS or the Scheme) is a Defined Benefit Scheme. Membership was open to permanent employees of Ambulance Tasmania (formerly the Tasmanian Ambulance Service) who were employed prior to 30 June 2006 from which date the Scheme was closed to new members.

The TASSS was transferred to the Retirement Benefits Fund Board (RBFB) on 30 June 2006 under a Successor Fund arrangement. This arrangement involved the trustee, fund administration and investment functions of the Scheme being transferred to the RBFB.

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Signed financial statements were received on 23 September 2010 and an unqualified audit report was issued on 27 September 2010.

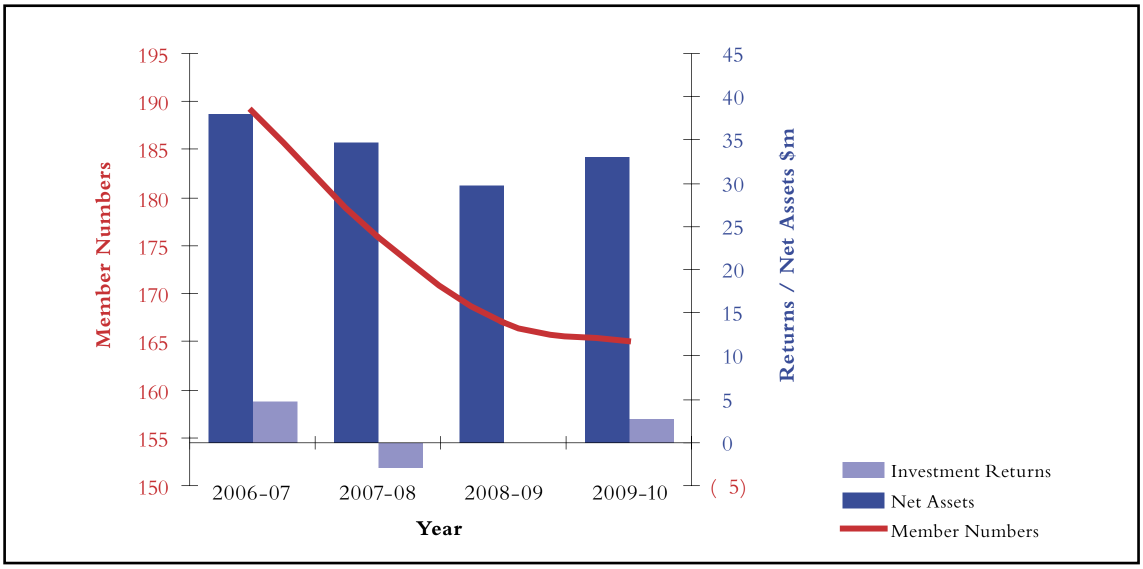
KEY FINDINGS AND DEVELOPMENTS

The audit was completed satisfactorily with no major items outstanding.

There were no developments impacting the TASSS in 2009-10.

FINANCIAL RESULTS

The graph below provides a snapshot of the Scheme's financial performance.



Being a closed scheme member numbers have fallen since commencement with the RBF. Net Assets and Investment returns were positive in 2006-07 but declined in 2008-09 and 2007-08 in line with poor market performance and departure of members. In 2009-10 investment returns and Net Assets improved.

At 30 June 2009 the fund's net assets of $29.695m, exceeded the actuary's estimate of accrued benefits of $27.833m by $1.862m, but did not fully cover the liability for vested benefits of $31.829m, a deficit of $2.134m. The unfunded liability is funded by the State Government on an emerging cost basis.

STATEMENT OF CHANGES IN NET ASSETS

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Investment revenue	1 538	2 020	2 569	2 157
Changes in net market values	1 360	(6 409)	(5 039)	3 216
Direct investment expenses	(123)	(146)	(126)	(156)
Employer contributions	1 839	1 819	1 388	1 388
Member contributions	429	511	811	908
Transfers from other funds	0	0	1	0
Total Revenue	**5 043**	**(2 205)**	**(396)**	**7 513**
Benefits Paid	1 083	2 477	2 729	638
Administration expenses	94	433	462	396
Total Expenses	**1 177**	**2 910**	**3 191**	**1 034**
Change in net assets before tax	**3 866**	**(5 115)**	**(3 587)**	**6 479**
Income tax benefit (expense)	(540)	189	146	(553)
Change in net assets after tax	**3 326**	**(4 926)**	**(3 441)**	**5 926**
Net assets available to pay benefits at beginning of year	29 695	34 621	38 062	32 136
Net assets available to pay benefits at end of year	**33 021**	**29 695**	**34 621**	**38 062**

Comment

In 2009-10 the Scheme recorded a positive Change in net assets before tax of $3.866m, compared to the loss of $4.926m in 2008-09, a movement of $8.981m. The improved result was predominantly due to:

- higher net market value of investments, $7.769m, mainly due to improved performance in Australian and international equities
- lower Benefits paid, $1.394m, due to fewer member exits
- these improvements were was partially offset by lower Investment revenues, $0.482m, due to reduced dividend, interest and other investment returns.

STATEMENT OF NET ASSETS

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Other receivables	119	140	236	132
Investments	36 416	31 239	38 016	39 350
Deferred tax assets	862	899	364	0
Total Assets	**37 397**	**32 278**	**38 616**	**39 482**
Payables	3 585	1 837	3 256	739
General Operating Provision	287	445	346	130
Provision for income tax	504	301	393	377
Deferred tax liabilities	0	0	0	174
Total Liabilities	**4 376**	**2 583**	**3 995**	**1 420**
Net Assets Available To Pay Benefits	**33 021**	**29 695**	**34 621**	**38 062**

Comment

Net Assets Available to Pay Benefits increased by $3.326m, 11.20%, in 2009-10 consistent with the Change in net assets for the year. This was mainly due to improved investment returns noted in the Statement of Changes in Net Assets section earlier in this Chapter.

The liability for accrued benefits (scheme as a whole) as at 30 June 2009 was $27.833m when last determined by the Fund's actuary. Vested benefits were $31.829m as at 30 June 2009 when last determined by the actuary. TASSS receives regular contributions from Ambulance Tasmania. The objective of such funding is to ensure that the benefit entitlement to members and other beneficiaries are financed from Ambulance Tasmania by the time they become payable.

FINANCIAL ANALYSIS

	2009-10	2008-09	2007-08	2006-07
Financial Performance				
Investments ($'000s)	36 416	31 239	38 016	39 350
Net investment income ($'000s)	2 775	(4 535)	(2 596)	5 217
Return on investments	7.62%	(14.52%)	(6.83%)	13.26%
Other Information				
Members (number)	165	167	176	189

Comment

The performance of TASSS will vary depending on the volatility of the investment market and the amounts of benefits paid out in any one financial year.

In 2009-10 Investments grew aided by positive Returns on investments and contributions. This was in contrast to the poor performance of financial markets in 2008-09 and 2007-08 which resulted in negative returns of 14.52% and of 6.83% respectively. Over the four year period the Return on investments was slightly favourable at an average of positive 0.12%.

RETIREMENT BENEFITS FUND BOARD – STATE FIRE COMMISSION SUPERANNUATION SCHEME

INTRODUCTION

The State Fire Commission Superannuation Scheme (SFCSS or the Scheme) is a defined benefit scheme. The Scheme was closed to new members from 1 July 2005. It had been established for permanent uniformed employees of the Tasmania Fire Service (TFS). The SFCSS was transferred to the Retirements Benefit Fund Board (RBFB) on 1 May 2006 under a Successor Fund arrangement. This arrangement involved the trustee, fund administration and investment functions of the Scheme being transferred to the RBFB. Accumulation entitlements in SFCSS were rolled over to the RBF Investment Account effective 1 May 2006.

Members receive benefits based on their final average salary and years of service and they contribute at the rate of 5%. Member Investment Choice does not apply to these contributions. Members wishing to contribute more than 5% do so via the RBF Investment Account. The employer, State Fire Commission (SFC), contributes at the rate of 11% for each employee and it retains responsibility for any shortfall in fund assets.

Being a closed scheme, growth and performance will be affected by the lack of new members in future years and as existing members exit from the scheme. Nevertheless, as a defined scheme, any future unfunded liability must be met over time by the SFC.

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Signed financial statements were received on 23 September 2010 and an unqualified audit report was issued on 27 September 2010.

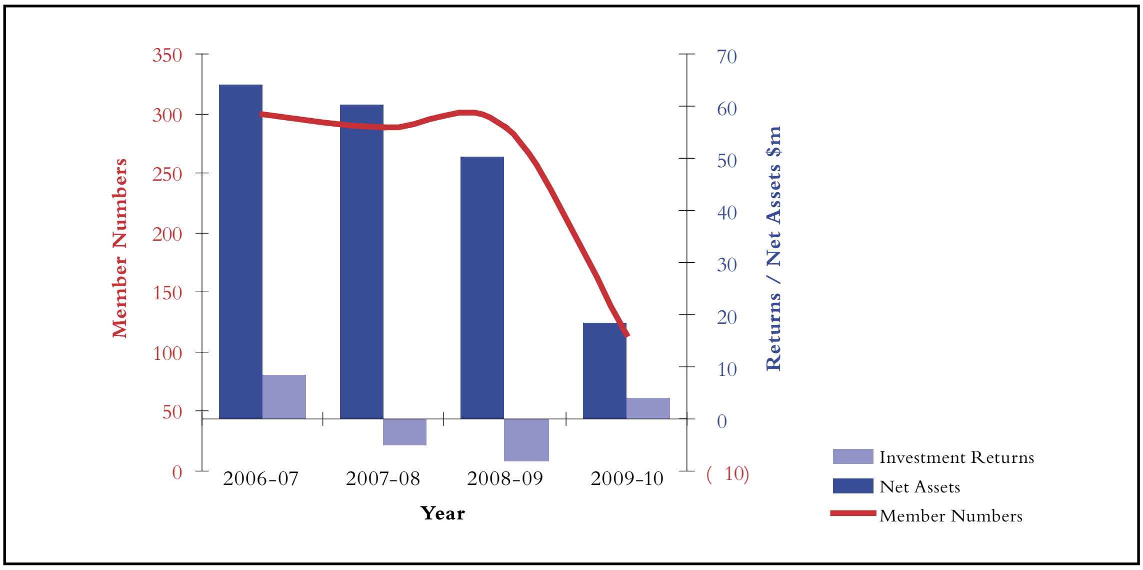
KEY FINDINGS AND DEVELOPMENTS

The audit was completed satisfactorily with no major items outstanding.

There were no developments impacting the SFCSS in 2009-10.

FINANCIAL RESULTS

The graph below provides a snapshot of the scheme's financial performance.



Member numbers have fallen since commencement with the RBFB. Net Assets and Investment returns declined in 2008-09 and 2007-08 in line with poor market performance and departure of members. In 2009-10 Investment returns improved however Net Assets declined inline with further departures resulting in high benefits paid this financial year.

At 30 June 2010 the amount of the fund's Unfunded liability, which is funded by the State Government on an emerging cost basis, was $1.658m.

STATEMENT OF CHANGES IN NET ASSETS

	2009-10	**2008-09**	**2007-08**	**2006-07**
	$'000s	$'000s	$'000s	$'000s
Investment revenue	1 577	3 443	4 342	3 640
Changes in net market values	3 366	(10 932)	(8 484)	5 388
Direct investment expenses	(144)	(248)	(213)	(232)
Employer contributions	1 994	3 195	2 220	2 016
Member contributions	139	271	782	916
Transfers from other funds	0	0	3	0
Total Revenue	**6 932**	**(4 271)**	**(1 350)**	**11 728**
General operating fee	379	377	621	279
Other expenses	206	113	167	191
Superannuation Contributions Surcharge	0	(2)	0	0
Benefits paid	37 542	5 597	1 787	2 699
Total Expenses	**38 127**	**6 085**	**2 575**	**3 169**
Change in Net Assets Before Tax	**(31 195)**	**(10 356)**	**(3 925)**	**8 559**
Income tax benefit (expense)	(714)	291	256	(897)
Change in Net Assets after Tax	(31 909)	(10 065)	(3 669)	7 662
Net assets availble to pay benefits at year start	50 351	60 416	64 085	56 423
Net Assets Available to Pay Benefits at Year End	**18 442**	**50 351**	**60 416**	**64 085**

Comment

Net Assets Available to Pay Benefits in 2009-10 declined $31.945m, or 63.37%. The movement was mainly due to:

- higher Benefits paid, $37.542m, an increase of $31.945m from 2008-09. This represented significant numbers of resignations, retirements and withdrawals of funds as members exited under an incentive program. All or part of member funds may be rolled over into the Investment account, used to purchase other retirement products (e.g. an allocated pension) or transferred to another complying superfund
- lower Investment revenues, $1.866m, due to reduced returns and the effect of exiting members reducing net assets available to invest
- lower Employer contributions, $1.201m, or 37.59%, and Member contributions, $0.132m, or 48.71%, due to the decline in members.

These negative movements were partially offset by improvements in the net market value of investments, $14.298m, mainly due to improved performance in Australian and international equities.

STATEMENT OF NET ASSETS

	2009-10	2008-09	2007-08	2006-07
	$'000s	$'000s	$'000s	$'000s
Interest receivable	13	234	202	27
Other receivables	0	0	0	166
Investments	25 647	54 078	63 833	66 883
Deferred tax asset	2 063	1 626	720	0
Total Assets	**27 723**	**55 938**	**64 755**	**67 076**
Other payables	7 704	4 424	3 169	2 020
General operating provision	428	623	519	181
Provision for income tax	1 149	540	651	604
Deferred tax liability	0	0	0	186
Total Liabilities	**9 281**	**5 587**	**4 339**	**2 991**
Net Assets Available To Pay Benefits	**18 442**	**50 351**	**60 416**	**64 085**

Comment

The decrease of Net Assets Available to Pay Benefits in 2009-10 of $30.909m, or 63.37%, was predominantly due to the high level of Benefits noted in the Statement of Changes in Net Assets section of this Chapter.

The increase in Other payables in 2009-10 of $3.280m represented inter-fund payables as part of monthly rebalancing of allocations between funds.

The liability for accrued benefits was estimated by the actuary as at 31 March 2010 at $20.100m resulting in an unfunded liability of $1.658m.

The SFCSS receives regular contributions from the SFC. The objective of such funding is to ensure that the benefits members and other beneficiaries are entitled to can be financed by the SFCSS by the time they become payable.

FINANCIAL ANALYSIS

	2009-10	2008-09	2007-08	2006-07
Financial Performance				
Investments ($'000s)	25 647	54 078	63 833	66 883
Net investment income ($'000s)	4 799	(7 737)	(4 355)	8 796
Return on investments	18.71%	(14.31%)	(6.82%)	13.15%
Other Information				
Members (number)	115	288	299	305

Comment

The SFCSS's performance may vary considerably depending on the volatility of financial markets and benefits paid out in any one financial year. Whilst Investments declined further in 2009-10, due to member departures, the Scheme recorded a positive Return on investments, 18.71%. This is in contrast to the poor performance of financial markets in 2008-09 and 2007-08 which resulted in negative returns of 14.31% and of 6.82% respectively. Over the four year period the Return on investments was favourable at an average of positive 2.68%.

RETIREMENT BENEFITS FUND BOARD – RBF FINANCIAL PLANNING PTY LTD

INTRODUCTION

RBF Financial Planning, previously named RBF Tas-Planning, is wholly owned by the RBF Board. This Company provides financial planning advice to RBF members relating to their individual circumstances and financial goals. It was established to meet the needs of members for a cost-effective financial planning service. The Company's operating revenue is derived primarily from the financial plan fees charged to RBF members.

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Signed financial statements were received on 11 August 2010 and an unqualified audit report was issued on 11 August 2010.

The audit was completed with satisfactory results with no major issues outstanding.

SUMMARY OF FINANCIAL RESULTS

Key financial measures for the year	2009-10 $	2008-09 $
Total Receipts	167 516	170 366
Total Payments	151 692	151 732
Profit before income tax expense	**15 824**	**18 634**
Income tax expense	4 747	5 590
Net Surplus	**11 077**	**13 044**
Total Assets	201 730	166 680
Total Liabilities	52 027	28 054
Net Assets	**149 703**	**138 626**
Total Equity	**149 703**	**138 626**

Whilst Total Equity increased in line with the Net Surplus, Total Assets and Total Liabilities were higher due to:

- increased trade receivable outstanding at year end remaining uncollected, $11 816
- a higher cash position from the provision of financial planning services during the year to cover additional accrued expenses, $23 973. This included significant salary reimbursement of consulting RBFB staff for the whole year, invoiced on 30 June 2010.

APPENDIX 1 – GUIDE TO USING THIS REPORT

This Report is prepared under section 29 of the *Audit Act 2008* (the Audit Act)*,* which requires the Auditor-General, on or before 31 December in each year, to report to Parliament in writing on the audit of State entities and audited subsidiaries of State entities in respect of the preceding financial year. The issue of more than one report now satisfies this requirement each year.

During the 2010 calendar year two reports were tabled:

- Report No. 1 of 2010 tabled on 10 June 2010 – this report dealt with June 2009 financial statement audits incomplete at the time of tabling the November 2009 report and those financial statement audits with 31 December 2009 balance dates
- Report No. 2 of 2010 tabled on 16 and 18 November 2010 – which is this Report. It deals with those audits of financial statements of entities with a 30 June 2010 financial year-end completed on 31 October 2010 with the exception of local government authorities. The outcomes from audits of local government authorities together with those audits completed after this date will be reported in the first half of 2011.

Report No. 2 of 2010 comprises three volumes:

- Volume 1 – Analysis of the General Government Sector Financial Statements, the Public Account Statements and the Total State Sector Financial Statements
- Volume 2 – Executive and Legislature, Government Departments and other General Government Sector State entities
- Volume 3 – Government Business Enterprises, State Owned Corporations, and local government owned Water Corporations and Superannuation Funds.

Where relevant, State entities are provided with the opportunity to comment on any of the matters reported. Where they choose to do so, responses are detailed within that particular section.

FORMAT OF THE FINANCIAL ANALYSIS

Each entity's financial performance is analysed by discussing the Comprehensive Income Statement, Statement of Financial Position and Statement of Cash Flows supplemented by financial analysis applying the indicators documented in the Financial Performance sections of this Report. The layout of some of these primary statements has been amended from the audited statements to, where appropriate:

- make the statements more relevant to the nature of the entity's business
- highlight the entity's working capital, which is a useful measure of liquidity.

FINANCIAL ANALYSIS

The following tables illustrate the methods of calculating:

- performance indicators used in the individual financial analysis sections of this Report, together with a number of benchmarks used to measure financial performance.

Financial Performance Indicator	Benchmark[1]	Method of Calculation
Financial Performance		
Earnings Before Interest and Tax (EBIT) ($'000s)		Result from Ordinary Activities before Tax and before Gross Interest Expense
EBITDA ($'000s)		Result from Ordinary Activities before Tax, before Gross Interest Expense, Depreciation and Amortisation
Operating margin	>1.0	Operating Revenue divided by Operating Expenses
Own source revenue		Total Revenue less Total Grant Revenue, Contributed Assets and Asset Revaluation Adjustments
Result from operations ($'000s)		Operating Revenue less Operating Expenses
Return on assets		EBIT divided by Average Total Assets
Return on equity		Result from Ordinary Activities after Taxation divided by Average Total Equity
Return on investments	5.5%	Net Investment income divided by Average Investments
Self financing ratio		Net Operating Cash Flows divided by Operating Revenue
Underlying result ratio		Operating Net Surplus divided by Operating Revenue

Financial Management		
Capital expenditure/ depreciation (Investment ratio)	>100%	Payments for Property, plant and equipment divided by Depreciation expenses
Capital expenditure on existing assets/depreciation (Renewal ratio)	100%	Payments for Property, plant and equipment on existing assets divided by Depreciation expenses
Cost of debt	6.9%	Gross Interest Expense divided by Average Borrowings (include finance leases)
Creditor turnover	30 days	Payables divided by credit purchases multiplied by 365
Current ratio	>1	Current Assets divided by Current Liabilities
Debt collection	30 days	Receivables divided by billable Revenue multiplied by 365
Debt service ratio		Borrowing costs plus Repaid borrowings divided by Operating revenue
Debt to equity		Debt divided by Total Equity
Debt to total assets		Debt divided by Total Assets
Indebtedness Ratio		Non Current Liabilities divided by Own Source Revenue
Interest cover – EBIT	>2	EBIT divided by Gross Interest Expense
Interest cover – Funds from Operations	>2	Cash from Operations plus Gross Interest Expense divided by Gross Interest Expense
Leverage ratio		Total Assets divide by Shareholders' Equity

Financial Performance Indicator	Benchmark[1]	Method of Calculation
Returns to Government		
Dividends paid or payable ($'000s)		Dividends paid or payable that relate to the year subject to analysis
Dividend payout ratio	50%	Dividend divided by Result from Ordinary Activities after Tax
Dividend to equity ratio		Dividend paid or payable divided by Average Total Equity
Effective tax rate	30%	Income Tax paid or payable divided by Result form Ordinary Activities before Tax
Income tax paid or payable ($'000s)		Income Tax paid or payable that relates to the year subject to analysis
Total return to the State ($'000s)		Dividends plus Income Tax and Loan Guarantee fees
Total return to equity ratio		Total Return divided by Average Equity

Other Information		
Average staff costs[2] ($'000s)		Total employee expenses (including capitalised employee costs) divided by Staff Numbers
Average leave per FTE ($'000s)		Total employee annual and long service leave entitlements divided by Staff Numbers
Days annual leave due	20 days	Actual average days due extracted from personnel records
Days long service leave due	Not more than 100 days	Actual average days due extracted from personnel records
Employee costs[2] as a % of operating system		Total employee costs divided by Total Operating Expenses
Employee costs capitalised ($'000s)		Capitalised employee costs
Employee costs expensed ($'000s)		Total employee costs per Income Statement
Government Funding %		Income from Government divided by Surplus/ Deficit excluding Income from Government.
Staff numbers FTEs		Effective full time equivalents
Self Sufficiency %		Own Source Revenue divided by Operating Expenses.

1 Benchmarks vary depending on the nature of the business being analysed. For the purposes of this Report, a single generic benchmark has been applied.

2 Employee costs include capitalised employee costs, where applicable, plus on-costs.

An explanation of the performance indicators is provided below:

FINANCIAL PERFORMANCE

- Earnings before interest and tax (EBIT) – measures how well an entity can earn a profit, regardless of how it is financed (debt or equity) and before it has to meet external obligations such as income tax. This is a measure of how well it goes about its core business.
- Earnings before income tax, depreciation and amortisation (EBITDA) – measures how well an entity can generate funds without the effects of financing (debt or equity), depreciation and amortisation and before it has to meet external obligations such as income tax. This measure is of particular relevance in cases of entities with large amounts of non-current assets as the distortionary accounting and financing effects on the entity's earnings are removed, enabling comparisons to be made across different entities and sectors.
- Operating margin – this ratio serves as an overall measure of operating effectiveness.
- Own source revenue – represents revenue generated by a council' through its own operations. It excludes any external government funding, contributed assets and revaluation adjustments.
- Result from operations – summarises revenue transactions and expense transactions incurred in the same period of time and calculates the difference.
- Return on assets – measures how efficiently management used assets to earn profit. If assets are used efficiently, they earn profit for the entity. The harder the assets work at generating revenues, and thus profit, the better the potential return for the owners.
- Return on equity – measures the return the entity has made for the shareholders on their investment.
- Return on investments – measures how effective management have been in earning interest income from available investment assets.
- Self financing ratio – this is a measure of council's ability to fund the replacement of assets from cash generated from operations.
- Underlying results ratio – this ratio provides a measure of the strength of the operating result. The higher the ratio, the stronger the result. Negative results indicate an operating deficit that can not be sustained in the longer term.

FINANCIAL MANAGEMENT

- Capital expenditure/depreciation (investment ratio) – indicates whether the entity is maintaining its physical capital by reinvesting in or renewing non-current assets (caution should be exercised when interpreting this ratio for entities with significant asset balances at cost as the level of depreciation may be insufficient).
- Capital expenditure on existing assets/depreciation (renewal ratio) – indicates whether the entity is maintaining its physical capital by reinvesting in or renewing existing non-current assets (caution should be exercised when interpreting this ratio as the amount of capital expenditure on existing assets has largely been provided by the respective councils and not subject to audit).
- Cost of debt – reflects the average interest rate applicable to debt.
- Creditors turnover – indicates how extensively the entity utilises credit extended by suppliers.
- Current ratio – current assets should exceed current liabilities by a 'considerable' margin. It is a measure of liquidity that shows an entity's ability to pay its short term debts.
- Debt collection – indicates how effectively the entity uses debt collection practices to ensure timely receipt of monies owed by its customers.
- Debt service ratio – indicates the capacity of the entity to service debt by repaying principal as well as interest on borrowings.

- Debt to equity – an indicator of the risk of the entity's capital structure in terms of the amount sourced from borrowings and the amount from Government.
- Debt to total assets – an indicator of the proportion of assets that are financed through borrowings.
- Indebtedness ratio – compliments the liquidity ratio and illustrates a council's ability to meet longer term commitments.
- Interest cover – EBIT – an indicator of the ability to meet periodic interest payments from current profit (before interest expense). The level of interest cover gives a guide of how much room there is for interest payments to be maintained in the face of interest rate increases or reduced profitability.
- Interest cover – Funds from operations – examines the exposure or risk in relation to debt, an indicator of the ability to meet periodic interest payments from funds from operations (before interest expense). The level of interest cover gives a guide of how much room there is for interest payments to be maintained in the face of interest rate increases or reduced funds from operations.
- Leverage ratio – measures the proportion of equity funding in the asset base.

RETURN TO GOVERNMENT

- Dividends paid or payable – payment by the entity to its shareholders (whether paid or declared as a payable).
- Dividend payout ratio – the amount of dividends relative to the entity's net income.
- Dividend to equity – the relative size an entity's dividend payments to shareholders' equity. A low dividend to equity ratio may indicate that profits are being retained by the entity to fund capital expenditure.
- Effective tax rate – is the actual rate of tax paid on profits.
- Income tax paid or payable – tax payments (paid or payable) by the entity to the State.
- Total return to the State – is the funds paid to the Owners consisting of income tax, dividends and guarantee fees.
- Total return to equity ratio – measures the Government's return on its investment in the entity.

OTHER INFORMATION

- Average staff costs – measures the average cost of employing staff in the entity for the year.
- Average leave balance per FTE ($'000s) – indicates the extent of unused leave at balance date.
- Days annual leave due – records the average number of days annual leave accumulated per staff member. In general public service employees accrue 20 days annual leave per annum.
- Days long service leave due – records the average number of days long service leave accumulated per staff member. In general public servants cannot accrue more than 100 days annual leave.
- Employee costs as a percentage of operating expenses indicates the relative significance of employee costs compared to other operating expenses.
- Employee costs capitalised ($'000s) – represents employee costs that have been capitalised rather than expensed.
- Employee costs expensed ($'000s) – represents the level of employee costs expensed, ie. included in the Income Statement. This together with the Employee costs Capitalised will provide a total employee cost figure for use in other related ratios.
- Government funding percentage – indicates the level of reliance on government funding.

- Staff numbers FTEs – as at the end of the reporting period the number of staff employed expressed as full-time equivalents (FTEs).
- Self sufficiency percentage – shows the level of independent funding that the entity generated for use in achievement of its objectives.

The above indicators are used because they are commonly applied to the evaluation of financial performance. Care should be taken in interpreting these measures, as by definition they are only indicators, and they should not be read in isolation.

APPENDIX 2 – AUDIT STATUS

Entity	Financial Statement deadline	Signed Financial Statements Received	Clear opinion issued	Audit opinion signed	Timeliness of audit opinion issue from balance date					
					< 8 weeks	8 to 10 weeks	10 to 12 weeks	12 to 14 weeks	14 to 16 weeks	> 16 weeks
Government Business Enterprises, State Owned Companies and Superannuation Funds										
GOVERNMENT BUSINESSES										
Government Business Enterprises										
Forestry Tasmania	15 August 2010	12 August 2010	✓	13 August 2010	✓					
Newood Holdings Pty Ltd	15 August 2010	12 August 2010	✓	12 August 2010	✓					
Hydro-Electric Corporation	15 August 2010	12 August 2010	✓	12 August 2010	✓					
Momentum Energy Pty Ltd	15 August 2010	12 August 2010	✓	***12 August 2010***	✓					
Motor Accidents Insurance Board	15 August 2010	17 August 2010	✓	18 August 2010	✓					
Port Arthur Historic Site Management Authority	15 August 2010	13 August 2010	✓	24 September 2010				✓		
Public Trustee	15 August 2010	16 August 2010	✓	13 September 2010			✓			
Rivers and Water Supply Commission	15 August 2010	13 August 2010	✓	27 September 2010				✓		
Tasmanian Irrigation Schemes Pty Ltd	15 August 2010	13 August 2010	✓	27 September 2010				✓		
Tasmanian Irrigation Development Board Pty Ltd	15 August 2010	13 August 2010	✓	24 September 2010				✓		
Tasmanian Public Finance Corporation	15 August 2010	11 August 2010	✓	11 August 2010	✓					
State Owned Corporations										
Aurora Energy Pty Ltd	No date	30 September 2010	✓	1 October 2010				✓		
Metro Tasmania Pty Ltd	No date	12 August 2010	✓	12 August 2010	✓					
Tasmanian Railway Pty Ltd	No date	13 August 2010	✓	10 September 2010			✓			
Tasmanian Ports Corporation Pty Ltd	No date	24 September 2010	✓	27 September 2010				✓		

Entity	Financial Statement deadline	Signed Financial Statements Received	Clear opinion issued	Audit opinion signed	Timeliness of audit opinion issue from balance date					
					< 8 weeks	8 to 10 weeks	10 to 12 weeks	12 to 14 weeks	14 to 16 weeks	> 16 weeks
King Island Ports Corporation Pty Ltd	No date	10 August 2010	✓	17 August 2010	✓					
Tasracing Pty Ltd	15 August 2010	13 August 2010	✓	28 September 2010				✓		
TOTE Tasmania Pty Ltd	No date	26 August 2010	✓	27 August 2010		✓				
Transend Networks Pty Ltd	No date	30 August 2010	✓	3 September 2010		✓				
TT-Line Company Pty Ltd	No date	19 August 2010	✓	20 August 2010	✓					
Superannuation Funds										
Retirement Benefits Fund Board	No date	23 September 2010	✓	27 September 2010				✓		
Retirement Benefits Fund Board – Contributory Scheme	No date	23 September 2010	✓	28 September 2010				✓		
Retirement Benefits Fund Board – Investment Account	No date	23 September 2010	✓	29 September 2010				✓		
Retirement Benefits Fund Board – Tasmanian Accumulation Scheme	No date	23 September 2010	✓	30 September 2010				✓		
Parliamentary Superannuation Fund	No date	23 September 2010	✓	1 October 2010				✓		
Parliamentary Retiring Benefits Fund	No date	23 September 2010	✓	2 October 2010				✓		
Retirement Benefits Fund Board – Tasmanian Ambulance Service Superannuation Scheme	No date	23 September 2010	✓	3 October 2010				✓		

Entity	Financial Statement deadline	Signed Financial Statements Received	Clear opinion issued	Audit opinion signed	Timeliness of audit opinion issue from balance date					
					< 8 weeks	8 to 10 weeks	10 to 12 weeks	12 to 14 weeks	14 to 16 weeks	> 16 weeks
Retirement Benefits Fund Board – State Fire Commission Superannuation Scheme	No date	23 September 2010	✓	4 October 2010				✓		
RBF Tas Planning Pty Ltd	No date	13 August 2010	✓	13 August 2010	✓					
Tasmanian Water and Sewerage Corporations										
The Tasmanian Water and Sewerage Corporation (Northern Region) Pty Ltd	15 August 2010	13 August 2010	✓	18 August 2010	✓					
The Tasmanian Water and Sewerage Corporation (North Western Region) Pty Ltd	15 August 2010	13 August 2010	✓	18 August 2010	✓					
The Tasmanian Water and Sewerage Corporation (Southern Region) Pty Ltd	15 August 2010	13 August 2010	✓	18 August 2010	✓					
The Tasmanian Water and Sewerage Corporation (Common Services) Pty Ltd	15 August 2010	13 August 2010	✓	18 August 2010	✓					

APPENDIX 3 – ACRONYMS AND ABBREVIATIONS

AAS	Australian Accounting Standard
AASB	Australian Accounting Standards Board
ACT	Australian Capital Territory
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
AETV	Aurora Energy Tamar Valley
BBP	Bell Bay Power Pty Ltd
BLW	Ben Lomond Water
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CLP	China Light and Power
CMW	Cradle Mountain Water
CPI	Consumer Price Index
CPOL	Cargo and Port Operation Logistics
DIER	Department of Infrastructure, Energy and Resources
DORC	Depreciated Optimised Replacement Cost
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EEP	Environmental Energy Products
FCAS	Frequency Control Ancillary Services
FMAA	Financial Management and Audit Act 1990
FTE	Full-time equivalent
GBE	Government Business Enterprise
GMO	Grantham, Mayo and Otterloo
GWh	Gigawatt Hour
HEC	Hydro-Electric Corporation
HR	Human Resources
IRRs	Inter Regional Revenues
IT	Information Technology
KIPC	King Island Ports Corporation
LGAT	Local Government Association of Tasmania
LSL	Long Service Leave
MAIB	Motor Accidents Insurance Board
MIC	Member Investment Choice
MWh	Megawatt Hour
NEM	National Electricity Market
NEMMCO	National Electricity Market Management Company Limited
Newood	Newood Holdings Pty Ltd
NTER	National Taxation Equivalent Regime
PNT	Pacific National Tasmania
POAGS	P&O Automotive & General Stevedoring Pty Limited
PRBF	Parliamentary Retiring Benefits Fund
PSF	Parliamentary Superannuation Fund
PWC	Price WaterhouseCoopers
R40s	Roaring 40s Renewable Energy Pty Ltd

RBF	Retirement Benefits Fund
RBFB	Retirements Benefits Fund Board
REC	Renewable energy certificates
RSTF	Road Safety Task Force
SEV	Soil expectation value
SFC	State Fire Commission
SFCSS	State Fire Commission Superannuation Scheme
SOC	State Owned Company
SW	Southern Water
TAS	Tasmanian Accumulation Scheme
TASCORP	Tasmanian Public Finance Corporation
Tasracing	Tasracing Pty Ltd
TASSS	Tasmanian Ambulance Service Superannuation Scheme
TCFA	Tasmanian Community Forest Agreement
TFS	Tasmania Fire Service
TIDB	Tasmanian Irrigation Development Board Pty Ltd
TIS	Tasmanian Irrigation Schemes Pty Ltd
TRB	Tasmanian Racing Board
TVPS	Tamar Valley Power Station
TWSC	Tasmanian Water and Sewerage Corporation
VaR	Value at Risk

APPENDIX 4 – RECENT REPORTS

Date	Report Title
October 2010	Annual Report 2009-10
October 2010	Special Report No. 92 – Public sector productivity: a ten-year comparison
September 2010	Special Report No. 91 – Follow up of special reports: 62-65 and 70
July 2010	Special Report No. 90 – Science education in public high schools
June 2010	Auditor-General's Report No. 1 of 2010 – Local Government Authorities, Including Business Units and Other State Entities 2008-2009
June 2010	Special Report No. 89 – Post-Year 10 enrolments
June 2010	Special Report No. 88 – Public Trustee: management of deceased estates
June 2010	Special Report No. 87 – Employment of staff to support MPs

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To provide independent assurance to the Parliament and Community on the performance and accountability of the Tasmanian Public sector

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AUDIT MANDATE AND STANDARDS APPLIED

MANDATE

Section 17(1) of the *Audit Act 2008* states that "… An accountable authority other than the Auditor-General, as soon as possible and within 45 days after the end of each financial year, is to prepare and forward to the Auditor-General a copy of the financial statements for that financial year which are complete in all material respects. …"

Under the provisions of section 18, the Auditor-General:

"...(1) is to audit the financial statements and any other information submitted by a State entity or an audited subsidiary of a State entity under section 17(1)."

Under the provisions of section 19, the Auditor-General:

"...(1) is to prepare and sign an opinion on an audit carried out under section 18(1) in accordance with requirements determined by the Australian Auditing and Assurance Standards.

(2) is to provide the opinion prepared and signed under subsection (1), and any formal communication of audit findings that is required to be prepared in accordance with the Australian Auditing and Assurance Standards, to the State entity's appropriate Minister and provide a copy to the relevant accountable authority."

STANDARDS APPLIED

Section 31 specifies that:

"… The Auditor-General is to perform the audits required by this or any other Act in such a manner as the Auditor-General thinks fit having regard to –

(a) the character and effectiveness of the internal control and internal audit of the relevant State entity or audited subsidiary of a State entity; and

(b) the Australian Auditing and Assurance Standards. …"

The auditing standards referred to are Australian Auditing Standards as issued by the Australian Auditing and Assurance Standards Board.

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