Tasmanian
Audit Office

Report of the Auditor-General No. 3 of 2012-13

Auditor-General's Report on the Financial Statements of State entities

Volume 3

Government Business Enterprises, State Owned Companies and Water Corporations 2011-12

November 2012

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The Role of the Auditor-General

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

Our primary responsibility is to conduct financial or 'attest' audits of the annual financial reports of State entities. State entities are defined in the Interpretation section of the Audit Act. We also audit those elements of the Treasurer's Annual Financial Report reporting on financial transactions in the Public Account, the General Government Sector and the Total State Sector.

Audits of financial reports are designed to add credibility to assertions made by accountable authorities in preparing their financial reports, enhancing their value to end users.

Following financial audits, we issue a variety of reports to State entities and we report periodically to the Parliament.

We also conduct performance audits and compliance audits. Performance audits examine whether a State entity is carrying out its activities effectively and doing so economically and efficiently. Audits may cover all or part of a State entity's operations, or consider particular issues across a number of State entities.

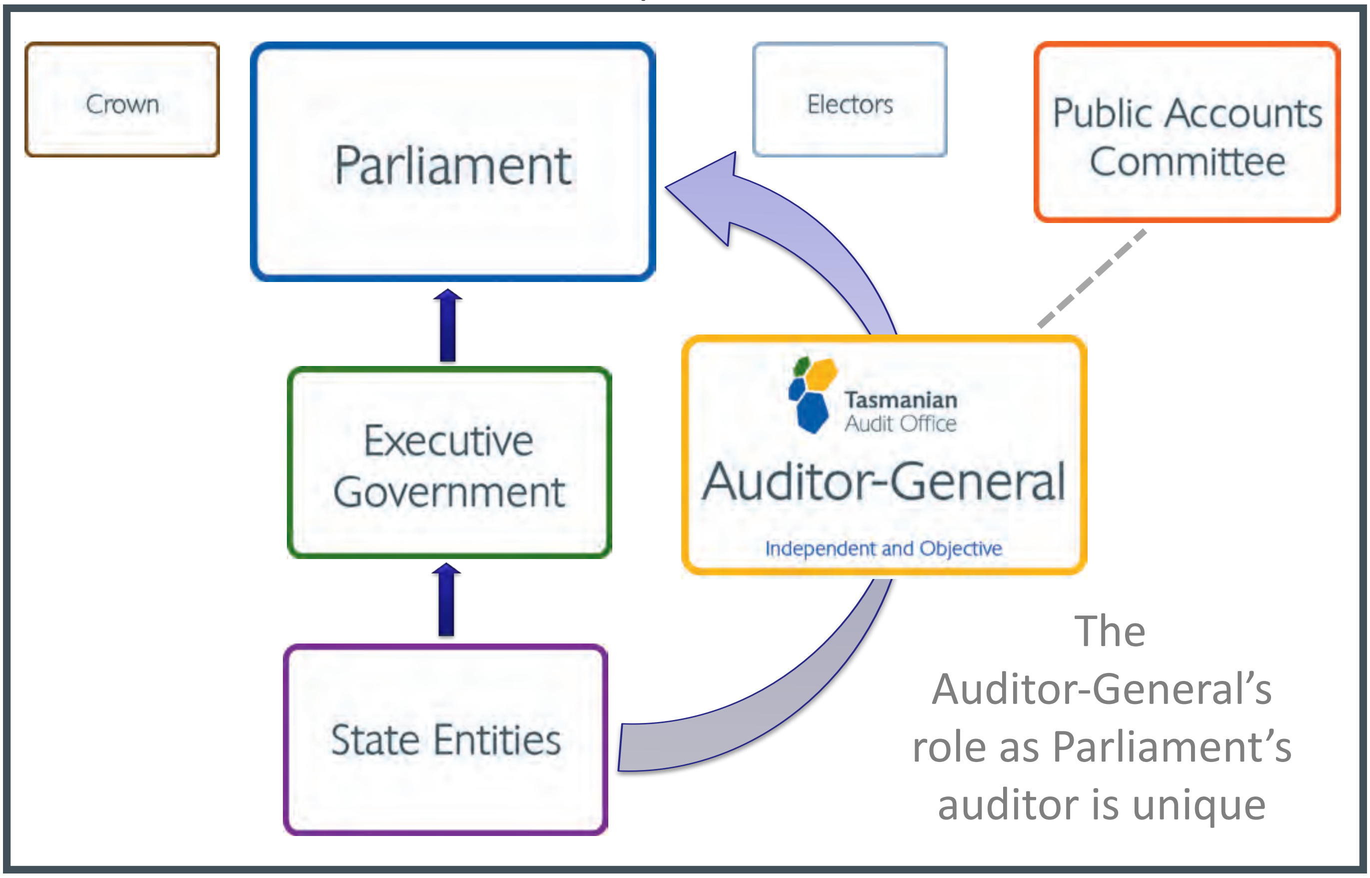
Compliance audits are aimed at ensuring compliance by State entities with directives, regulations and appropriate internal control procedures. Audits focus on selected systems (including information technology systems), account balances or projects.

We can also carry out investigations but only relating to public money or to public property.

Performance and compliance audits 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.

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.

The Auditor-General's Relationship with the Parliament and State Entities



TASMANIA

2012
PARLIAMENT OF TASMANIA

REPORT OF THE AUDITOR-GENERAL
No. 3 of 2012-13

Volume 3

Government Business Enterprises, State Owned Companies and Water Corporations 2011-12

November 2012

Presented to both Houses of Parliament in accordance with the requirements of Section 29 of the Audit Act 2008

Auditor-General's reports are available from the Tasmanian Audit Office, Hobart. This report and other recent reports published by the Office can be accessed via the Office's home page. For further information please contact:

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20 November 2012

President
Legislative Council
HOBART

Speaker
House of Assembly
HOBART

Dear Madam President

Dear Mr Speaker

Report of the Auditor-General No. 3 of 2012-13 – Financial Statements of State entities – Volume 3 – Government Business Enterprises, State Owned Companies and Water Corporations 2011-12

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 Water Corporations for the year ended 30 June 2012.

Yours sincerely

H M Blake
Auditor-General

FOREWORD

This Report is the third Volume of my report to Parliament outlining outcomes of our financial audit work for the 2011-12 financial year. It summarises the results of audits, key findings and developments and financial performance, of those State entities comprising the Public Non-Financial Corporations (PNFC), including Regional Water Corporations, and Public Financial Corporations (PFC) for the year ended 30 June 2012.

In the financial year ended 30 June 2012, entities making up the PNFC sector generated $3.331bn in revenue and incurred $3.219bn in expenditure including asset write downs. They managed total assets of $13.041bn and $7.026bn in liabilities which included borrowings from Tascorp of $2.890bn, superannuation obligations of $0.818bn and other liabilities of $3.318bn mainly comprising deferred tax provisions and financial liabilities.

Not included amongst PNFCs this year were Tote Tasmania Pty Ltd, sold in this financial year, and Rivers and Water Supply Commission whose activities were taken over on 1 July 2011 by Tasmanian Irrigation Pty Ltd.

There are two entities making up the PFC sector; Tascorp and 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 Regional Water Corporations whose net assets totalled $1.740bn at 30 June 2012.

All audits were completed with unqualified audit opinions issued and, with the exception of two PNFCs, reporting obligations were satisfied.

Where relevant, individual chapters in this Report draw attention to key developments and other findings identified during audits. Where matters are material these have been summarised in the 'At a Glance' and 'Audit Summary' sections of this Report.

HM Blake
Auditor-General
20 November 2012

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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 Corporations and Tasmanian Water and Sewerage Corporations, together with comments on other audit findings.

STATUS OF AUDITS

All audits for the year ended 30 June 2012 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 2012 audits.

FORMAT OF THE REPORT

Unless specifically indicated, comments in this Report were current as at 9 November 2012.

In addition to this Introduction, this report includes:

- Audit Summary
- Timeliness and Quality of Financial Statements
- Energy Businesses 2011–12
- Government Business Enterprises
- State Owned Corporations
- Tasmanian Water and Sewerage Corporations.

VARIATIONS FROM 2010-11

During the year TOTE Tasmania was sold (26 March 2012) and Rivers and Water Supply Commission was transferred into Tasmanian Irrigation Pty Ltd.

AUDIT SUMMARY

This Chapter summarises significant matters identified from our audits and analysis of financial statements of Government Businesses and local government owned Water and Sewerage Corporations for the financial year ended 30 June 2012. 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, where applicable, in individual Chapters of this Report are brief outlines of matters reported to those charged with governance, for example, Boards of Directors.

Timeliness of Financial Statements

All State Owned Companies (SOC), Government Business Enterprises (GBE) and Water and Sewerage Corporations met their statutory financial reporting deadlines.

Related Parties Disclosure

Government businesses, GBEs and SOCs, are exempt from making certain disclosures around compensation of key management personnel, otherwise required under AASB 124 *Related Parties Disclosures*. In our 2011 report we recommended all government businesses give consideration to voluntary adoption of AASB 124 and that, in doing so, they follow the lead provided by Tasmania's regional water corporations.

This recommendation was not adopted although we understand that this may be addressed by soon to be released governance guidelines.

FINANCIAL PERFORMANCE - GOVERNMENT BUSINESS ENTERPRISES

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

Tasmania's GBEs collectively had net assets of $2.510bn (2010-11, $2.575bn), employed 1 476 people (1 582), and generated $76.468m after tax losses ($67.577m after tax profits in 2010-11).

Details of GBE's profits and net assets are set out in Table 1.

Table 1 Summarised Financial Results

Government Business Enterprises	Net operating profit (loss) before net finance cost and tax	Net operating profit (loss) before tax	Net Profit (Loss)	Total Comprehensive Profit (Loss)	Net Assets
	$'000s	$'000s	$'000s	$'000s	$'000s
Forestry Tasmania	(30 477)	(39 518)	(70 929)	(69 849)	76 718
Hydro-Electric Corporation	190 127	103 440	13 872	161 558	2 132 047
Motor Accidents Insurance Board *	(59 978)	(43 560)	(27 054)	(28 001)	240 388
Port Arthur Historic Site Management Authority	(349)	(349)	(349)	1 695	16 463
Tasmanian Public Finance Corporation	11 237	11 237	7 866	7 866	42 896
Public Trustee	1 155	476	126	(2 728)	1 847
Total	**114 715**	**31 726**	**(76 468)**	**70 541**	**2 510 359**

**Net operating loss before net financial costs and tax refers to Underwriting results.*

Commentary on the financial performance of these GBEs is provided in the 'At a glance' section of this Volume and in individual chapters.

FORESTRY TASMANIA

Financial statements were approved by the Board and certified on 9 August 2012. The signed financial statements were received on the same day and an unqualified audit report was also issued on this date. The audit report contained the following emphasis of matter paragraph:

> *'I draw attention to Note 2(b) to the financial report which describes circumstances giving rise to uncertainties as to the operations of Forestry Tasmania, the assessment by the directors and their conclusion that it is appropriate for Forestry Tasmania to continue to adopt the going concern basis in preparing this financial report. My audit opinion is not qualified in respect of these matters.'*

The note referred to outlines the reasoning behind the decision of the Board to continue to prepare Forestry's financial statements on the basis that it was a going concern at 30 June 2012. A full extract of this note is provided in the 'At a glance' section later in this Volume.

We made an observation last year that it is not sustainable for Forestry to generate negative cash from its operating activities. This year, Forestry's cash position improved slightly as cash at the end of the year increased from $9.365m at 30 June 2011 to $12.283m at 30 June 2012. This improvement was due to the sale of the GMO joint venture with the proceeds, $70.200m, used to repay borrowings, $29.800m, fund the operating cash deficit of $26.779m, and pay partly for plantation activities, $6.107m, and property, plant and equipment, $11.286m.

The difference between the proceeds from the contract price for the sale of the GMO joint venture of $78.000m and the amount received by 30 June 2012, $70.200m, represents the amount held in an escrow account in accordance with the purchase agreement for a period of six months after the completion of the sale.

HYDRO-ELECTRIC CORPORATION

Woolnorth

Hydro now has a 25% holding in Woolnorth Wind Farms (Woolnorth) following the divestment of 75% in February 2012. This resulted in Hydro consolidating the first eight months of Woolnorth's income and expenditure into its 2012 results. The remaining four months were equity accounted based on Hydro's 25% investment. The divestment of Woolnorth resulted in proceeds from sale of $88.082m.

Capital program

Hydro's capital investment program continued in 2011-12 and was targeted at sustaining generation assets and reducing their availability risks to assist Hydro to actively operate in the National Energy Market (NEM). Over the last four years Hydro invested over $400m in its asset base. In the last twelve months it invested $116.731m in the construction stage of Musselroe Wind Farm.

Carbon price

In 2009 the Corporation included a conservative assumption within the fair value of generation assets determinations to reflect the expected impact on forecast prices of the then proposed carbon trading scheme. The conservative approach was to include a carbon price below the published international carbon prices due to the on-going uncertainties with the Federal Government's carbon policies. This conservative approach continued until more certainty regarding the Federal Government's carbon policy was known.

In July 2011, the legislation for the carbon policy was passed and commenced from 1 July 2012. The introduction of the carbon price created a level of certainty, within the fixed carbon price period for Hydro in the short term, and enabled key strategies to be adopted and implemented to manage the opportunities this presents for Hydro. Beyond the fixed carbon price period, uncertainty still exists in regards to the substance and form of the carbon price within the context of current Commonwealth Government policy.

Valuation of assets and liabilities

Hydro uses an internally developed forward price curve to assist in determining the fair value of its generation assets and its derivative contracts. The forward price curve is reviewed each year in light of developments in the NEM, legislative changes, forecast generation, forecast energy demand and inflows. The forward price curve is approved by the Board each year.

Internally, Hydro has developed a Long Term Pricing Methodology which has undergone extensive internal rigour and review. The methodology considers a number of factors including carbon pricing, volumes, demand, new generation entrants and capacity.

This Forward Price Curve is used in all energy related asset and liability valuation models.

Application of these principles in running Hydro's Asset Revaluation Model resulted in a revaluation uplift in Hydro's generation assets of $321.351m.

Derivative financial instruments

The major market risk exposure of Hydro is the NEM. In order to manage this risk Hydro hedges its various retail and wholesale contractual arrangements using natural positions and market based products. These are entered into at a point in time and are subject to changes in market value as market prices change. Because of the nature of the NEM all of the wholesale contracts and the market based products are derivative financial instruments. Australian Accounting Standards require Hydro to value these derivative financial instruments at fair value. The change in fair value is recorded in the Statement of Financial Performance as the line item Movements in fair value.

Audit findings

Our audit identified the following areas reported to the Board:

1. The current information technology projects being completed by Hydro including the implementation of SAP and Energy Trading Risk Management are enterprise transformational projects. We consider these to be significant and positive responses to the market risk issues associated with operating in the NEM as a vertically integrated energy entity.
2. Hydro operates in a dynamic and ever changing environment and this brings with it associated complex accounting and tax technical matters. This is the case when completing complex acquisitions and disposals. Hydro is addressing its resourcing to handle the complex technical matters that arise in such circumstances.

MOTOR ACCIDENTS INSURANCE BOARD

MAIB reported investment revenue for 2011-12 of $23.292m net of fees (2010-11: $77.148m), representing a return of 2.2% (8.0%). The reduction in investment revenue reflects the impact of the downturn in Australian and international investment markets during the year. MAIB manages the duration of its investments in line with its liability profile and as a result has a significant allocation to growth assets. This investment strategy is designed to maximise long-term returns within acceptable bounds of risk, but this strategy can also result in significant volatility in reported annual results.

Investment returns in 2011-12 were insufficient to cover the underwriting loss resulting in a net loss before taxation of $43.560m this year (2010-11, profit $69.495m) although the average annual result over the four year period was a net profit before taxation of $25.532m.

Evident from this review is the need to assess MAIB's performance over more than a single 12 month period. The Board manages its investment portfolio for the longer term and in line with its future care responsibilities.

PORT ARTHUR HISTORIC SITE MANAGEMENT AUTHORITY

The Authority has under its control 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, failure to value and record these assets results in an understatement of the value of Property, plant and equipment. Heritage buildings and ruins are also not recognised due to difficulty in determining appropriate values. The Authority is now actively pursuing avenues to facilitate valuations of these historic collections and archives in forthcoming years.

The Authority assumed responsibility for the Cascades Female Factory Historic Site in December 2010. During 2011-12 the Authority took full control of operations and received $0.517m to cover conservation costs. Government has committed to future funding of: 2012-13, $0.440m and 2013-14, $0.402m to continue funding the conservation costs involved in maintaining the site.

In conjunction with the final transfer of operations of the Cascades Female Factory Historic Site to the Authority, the Department of Primary Industries, Parks, Water and Environment (DPIPWE) also transferred ownership of:

- ownership of the associated land and buildings recorded at $0.829m and
- other DPIPWE land at Port Arthur recorded at $3.100m.

TASMANIAN PUBLIC FINANCE CORPORATION

Temporary overnight borrowings

An audit requested adjustment was made to the financial statements resulting in a $650m reduction in Advances to State entities and Deposits from State entities. This adjustment was necessary as a result of a transaction effected on 29 June 2012 whereby the Department of Treasury and Finance took a client advance from TASCORP and simultaneously entered into an equal and offsetting transaction for a client deposit of the same amount also with TASCORP. The nature of this transaction met the definition of a derivative transaction as outlined in AASB 139 Financial Instruments: Recognition and Measurement, and as such the two transactions were recognised on a net basis with only the resulting derivative, interest receivable, $0.781m, being recognised on the Statement of Financial Position and the Statement of Comprehensive Income.

Had this adjustment not been made, Advances to State entities and Deposits from State entities would have each been $650m higher with the same net outcome. However, recognition of Advances and Deposits on this basis would have been inconsistent with the nature of the transaction and thus not in compliance with AASB 139.

Returns to government

Dividends paid for the year were $6.445m and tax paid was $2.881m which was a total return to government of $9.326m. The tax expense incurred in 2011-12 was $3.371m.

Risk management

Note 19(g) in TASCORP's financial statements shows its Value at Risk (VaR) analysis. The one day VaR number reflects the profit or loss that will not be exceeded 99% of the time for daily interest rate and liability margin risk. Note 19(g) discloses TASCORP's average, minimum and maximum VaR exposures during the year and its exposure at 30 June:

	Average		**Minimum**		**Maximum**		**Year end**	
Historical VaR	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11
(99% one-day)	A$'000	A$'000	A$'000	A$'000	A$'000	A$'000	A$'000	A$'000
Total VaR exposure	471	633	343	387	617	770	521	528

These VaR numbers reflect that TASCORP's risk profile is comparable to the position at 30 June 2011 and that over the relevant years the VaR numbers decreased slightly. 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 its Statement of Financial Position which is recorded at fair value.

PUBLIC TRUSTEE

Public Trustee's financial statements only recognise funds controlled by it as a body corporate in accordance with Australian Accounting Standards. As part of its executor and trustee role, Public Trustee also holds funds in trust on behalf of clients during the course of estate and trust administrations. Public Trustee's financial statements disclosed that at 30 June 2012 the Common Fund, and two investment funds, held a total of $133.886m (2011, $130.710m) of client funds. Interest earned on these funds is not treated as income of Public Trustee.

FINANCIAL PERFORMANCE - 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 $1.954bn (2011, $1.795bn), employed 2 810 (2 946) people, and recorded losses of $12.815m (2010-11, profit $27.136m) after taxation in 2011-12.

Details of SOC's profits and net assets are set out in Table 2

Table 2 Summarised Financial Results

State Owned Corporations	Net operating profit (loss) before net finance cost and tax	Net operating profit (loss) before tax	Net Profit (Loss)	Total Comprehensive Profit (Loss)	Net Assets
	$'000s	$'000s	$'000s	$'000s	$'000s
Aurora Energy Pty Ltd	114 086	31 591	21 410	13 800	601 076
Metro Tasmania Pty Ltd	(2 342)	(3 671)	(296)	(5 625)	27 633
Tasmanian Irrigation Pty Ltd	17 877	16 216	(23 326)	(23 326)	63 265
Tasmanian Ports Corporation Pty Ltd	(6 217)	(7 714)	(6 665)	(5 672)	176 096
Tasracing Pty Ltd	(10 028)	(10 379)	(10 379)	(10 379)	40 728
Tasmanian Railway Pty Ltd	(4 315)	(4 315)	(36 294)	(36 830)	99 967
Transend Networks Pty Ltd	106 460	65 905	43 161	118 005	692 644
TT-Line Company Pty Ltd	25 359	25 051	(426)	(2 779)	253 095
Total	**240 880**	**112 684**	**(12 815)**	**47 194**	**1 954 504**

Commentary on the financial performance of these SOCs is provided in the 'At a glance' section of this Volume and in individual chapters.

AURORA ENERGY PTY LTD

Energy reforms

On 15 May 2012, the Minister for Energy announced a comprehensive and integrated energy reform package entitled "Energy for the Future". A key factor driving this reform is the significant increase in customer prices over the past five years. Whilst the increase in electricity prices is a national issue, exacerbating factors for Tasmanian customers include lower than average incomes, higher electricity consumption due to the local climate and the inability of all customers to access alternative fuels such as natural gas.

Subject to final implementation, these energy reforms are likely to impact Aurora, Hydro and Transend although not necessarily in the same way. Further details are provided in the 'At a glance' Chapter, in the Chapter comparing the financial performance of the three energy utilities and in individual entity Chapters.

Regulator's report re: non-contestable tariffs

On 20 June 2012, the Office of the Tasmanian Economic Regulator (the Regulator) approved Aurora Energy's retail tariffs for the period 1 July 2012 to 30 June 2013 (the Regulator also released its Statement of Reasons "Approval of: Retail tariffs for non-contestable tariff customers from 1 July 2012 in accordance with the 2010 Price Determination"). The Regulator approved average increases of 10.56 percent from the previous year's tariffs. These increases together with more favourable hedging arrangements entered into on 1 July 2010 allow Aurora to achieve a positive margin on its sale of electricity to non-contestable customers.

METRO TASMANIA PTY LTD

Metro continued to receive additional funding of $3.250m (2010-11, $3.250m) from the State to improve its bus fleet, assist with its long-term capital replacement program and fund other passenger growth initiatives. This funding has been included in the forward estimates for DIER for the next four years. During 2011-12, Metro spent $4.465m on new capital equipment, primarily on new buses. The buses were funded by the capital component of the additional funding provided and cash generated from operations.

TASMANIAN IRRIGATION PTY LTD

Tas Irrigation's role

Tas Irrigation operates under the new *Irrigation Company Act 2011*. It is responsible for the management of various irrigation schemes and progress of new water and irrigation developments.

The Company is instrumental in delivering the Government's vision for the future of agriculture in the State, outlined in the Tasmanian Infrastructure Strategy. It is currently pursing projects to deliver irrigated water to areas in Northern, Eastern and Central Tasmania.

Transfer of net asset to the Company and further equity contributions during 2011-12

From 1 July 2011, all assets, rights, liabilities and staff of RWSC and Tasmanian Irrigation Schemes (TIS) Pty Ltd were transferred to the Company. This was transacted as a contribution of equity and resulted in the Company's equity increasing by $50.579m on 1 July 2011 at which time its net assets totalled only $0.074m of which its contributed equity was $2.

In addition, in 2011-12 the Company received $35.939m in State Government funding towards capital projects.

These transfers and Government funding resulted in the Company having contributed equity of $86.517m at 30 June 2012.

Financially dependent on government

The Company remains financially dependent on State government support which is provided as grants, equity contributions or loans. During 2011-12, Tas Irrigation reported a Net Loss after tax of $23.326m after accounting for non-operating items, mainly Impairment losses of $40.124m.

Government provided further equity of $35.939m, in cash, primarily to assist the Company with its capital expenditure and feasibility programs. This funding was provided out of the Water Infrastructure Fund.

TASMANIAN PORTS CORPORATION PTY LTD

Tasports financial performance continued to be negatively impacted by structural changes to Tasmanian markets. These changes included a significant decline in woodchip tonnages, the cessation of the AAA Consortium and Patrick Stevedoring operations from Bell Bay, Agility Shipping's withdrawal from its Bass Strait service and the temporary closure of Temco. As a result of these changes freight volumes declined from 13.5 million tonnes in 2010-11 to 11.2 million tonnes in 2011-12, with Trade Revenue reducing by \$3.694m, 6%, on the previous year's result.

As a result of these changes and other factors, Tasports continued to reduce its staff numbers and overhead costs through the implementation of an Operational Efficiency Program. With further reductions in staffing expected Tasports recognised a provision for restructure, in accordance with accounting standards, of \$1.008m (2011, \$1.330m)

TASRACING PTY LTD

Impairment

Tasracing has experienced indicators, including continued losses and negative operating cash flows, suggesting the need to impair its non-current assets.

An impairment calculation was performed to determine whether the value in use of its non-current assets was less than their carrying amounts. The value in use calculation seeks to determine future net cash flows from those assets. These have been based on the Company's Corporate Plan for 2013-17.

After taking these factors into account, the Board impaired the carrying amount of its investments in infrastructure assets by \$5.706m.

Borrowings

Tasracing's borrowings increased over the period from \$4.864m at 30 June 2011 to \$12.247m at 30 June 2012. These borrowings were needed to assist installation of the synthetic track of Spreyton Park.

TASMANIAN RAILWAY PTY LTD

Rail corridor lease

TasRail and DIER signed a lease agreement to finalise the rail corridor lease on 2 December 2010. Under the terms of the lease, TasRail is responsible for remediation of any environmental obligations that may become apparent as a result of its operations, or past operations, of the network. While no environmental liabilities were identified at balance date, if significant environmental liabilities relating to past operations are identified in the future, TasRail will require financial support from the Tasmanian Government to fund remediation.

The Company is also required under the lease to maintain non-operational lines acquired under the terms of the lease in the same condition as existed at the lease commencement date. As at 30 June 2012, the Company had put forward a proposal removing this requirement along with removal of the requirement for it to insure improvements to non-operational lines. The proposal is still under consideration by DIER.

Capital Purchase Contracts

During 2011-12, the Company entered into forward foreign exchange purchase contracts for the acquisition of locomotives and concrete sleepers in order to reduce foreign exchange risk over the Company's largest cash flow capital commitment. The aim is to manage risk and limit the volatility on financial results. As a result, the Company recorded a hedge asset at 30 June 2012 of $0.137m for the purchase of concrete sleepers in New Zealand dollars and a hedge liability at 30 June 2012 of $0.902m for the purchase of Locomotives in US Dollars. The Company has committed to hedge contracts totalling $59.188m (AUS dollar).

Financially dependent on government

Tasrail generated operating losses before tax totalling $8.947m in the past two years of its activities. Operating grants of $33.365m were received over the same period. On-going operating losses are not sustainable. In recognition of this, the State Government has budgeted to spend $65.200m over the next four years to assist the Company to meet rail maintenance and administrative costs. The Company is heavily reliant on this support. The Company's financial position beyond this date is less clear but, based on current levels of profitability, it is unlikely to be able to operate beyond the forward estimates period without on-going financial support.

TRANSEND NETWORKS PTY LTD

Revenue determination

Over 90% of Transend's revenue is from prescribed transmission services. Under the Australian Energy Regulator's (AER) Transmission Determination for 2009-10 to 2013-14 (the determination), the annual maximum allowed revenue was set to increase by 7.8% each year from $164.700m in 2009-10 to $246.300m in 2013-14, totalling $1.583bn over the five-year regulatory period. In response to Tasmania's current economic conditions, Transend decided during 2011-12 to limit future increases in prescribed transmission revenue to less than the increase in the consumer price index. This decision means that for the remaining two years of the current regulatory period, Transend will not recover the maximum revenue allowed under the existing determination. The estimated impact of this policy will be an under recovery of Transend's allocated revenue by approximately $38.000m. This estimate is based on an annual increase in the maximum allowed revenue of 2.25% in 2012-13 and 2.25% in 2013-14 as per Transend's Corporate Plan.

Asset revaluations

In 2011-12, Transend undertook a full revaluation of substations and transmission lines, which resulted in a net revaluation increment of $125.262m.

Payment of dividends, returns of equity and borrowings

In June 2011, the shareholders issued a direction requiring additional dividends and returns of equity from Transend. The policy is now to pay an annual dividend of 60% (previously 50%) of net profit and a $20.000m annual return of equity, subject to operational requirements and borrowing capacity, for 2011-12 and the next two years.

TT-LINE COMPANY PTY LTD

Ship valuations

The Company's two vessels, Spirit of Tasmania I and Spirit of Tasmania II, are valued on the basis of market values. As the prevailing market for these types of vessels is predominately in Europe, the valuation is provided in Euros. The value of each vessel reduced from $103.909m (€78.000m) to $90.121m million (€74.000m) between 2011 and 2012. The reduction in the value of the vessels was due to adverse economic and market conditions in Europe and the movement in the Australian dollar and Euro exchange rate.

Port licencing fees

During 2011-12, the Victorian Government passed legislation requiring the Port of Melbourne Corporation (PoMC) to pay a port licence fee each financial year, starting 1 July 2012. PoMC decided to pass on the fee to users of its port facilities, including TT-Line, through an increase in wharfage and channel fees.

TASMANIAN WATER AND SEWERAGE CORPORATIONS

Collectively the three water corporations and Onstream had net assets of $1.746bn, employed over 742 people, and reported a profit of $19.557m after tax in 2011-12.

Details of Water and Sewerage Corporations' profits and net assets are set out in Table 3. Onstream's results and net assets are included in the results and assets of the Regional Water Corporations by way of respective equity investments.

Table 3 Summarised Financial Results

Water & Sewerage Corporations	Net operating profit (loss) before net finance cost and tax	Net operating profit (loss) before tax	Net Profit (Loss)	Total Comprehensive Profit (Loss)	Net Assets
	$'000s	$'000s	$'000s	$'000s	$'000s
Ben Lomond Water	5 155	2 726	6 960	5 499	495 930
Cradle Mountain Water	5 697	(594	462	350	326 689
Southern Water	11 336	3 217	12 135	10 632	923 138
Total	**22 188**	**5 349**	**19 557**	**16 481**	**1 745 757**

Commentary on the financial performance of these water corporations is provided in the Chapter comparing the financial performance of these three water entities of this Volume and in individual chapters.

Two part pricing

Starting 1 July 2012, the Regional Water Corporations introduced two-part pricing for water charges: a fixed Water Service Charge and a variable Water Usage Charge. A fixed Sewerage Service Charge continues to apply for customers with a sewerage connection. The Water Usage Charge is based on the amount of water used, while Service Charges are levied annually per connection.

Tariffs

The Regional Water Corporations set target tariffs for each year of the regulatory period which will begin to move customers towards the real cost of providing the services. However, annual increases will be capped to 10% or $50, whichever is the larger, for each service where current charges are less than the target tariffs.

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.

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 with our deadline 30 September.

These dates were set to allow sufficient time for audits to be completed and for accountable authorities to prepare annual reports for tabling in Parliament.

However, where the audit of a State entity has been dispensed with, timeframes outlined above do not apply.

Government Businesses Enterprises (GBE)

All GBEs, and their subsidiary entities, must submit financial statements for audit by 15 August. With the exception of HT Wind Operations Pty Ltd, a subsidiary of Hydro Tasmania, signed financial statements for all GBEs were received by this date. We completed all audits prior to 30 September 2012.

The audit report of HT Wind Operations Pty Ltd remains incomplete because signed financial statements have still to be received for this entity. The audit was completed prior to finalising the audit of the financial statements of Hydro Tasmania.

State Owned Corporations (SOC)

All SOCs, and their subsidiary entities, must submit financial statements for audit by 15 August. Signed financial statements for all SOCs were received by this date. We completed all audits prior to 30 September 2012, except for Tasracing Pty Ltd's audit report was signed on 6 November 2012, following receipt of re-signed financial statement on 26 October 2012.

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
- 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.

COMPLIANCE WITH FINANCIAL REPORTING STANDARDS

The Audit Act requires all State 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, the financial statements of the following three entities had to be re-signed:

- Port Arthur Historic Site Management Authority, re-signed on 25 September 2012
- Tasmanian Irrigation Pty Ltd, re-signed on 26 October 2012 and
- Tasracing Pty Ltd, re-signed on 6 November 2012.

In total, we audited the financial statements of 18 GBEs and SOCs. This indicated that overall, the quality of financial statements submitted for audit by GBEs and SOCs were of a high standard.

ENERGY BUSINESSES 2011-12

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 due to the differing nature of each entity's business and 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. However, to facilitate comparison, allocations of some incomes and expenditures in the Income Statements may vary from those reported separately for each entity.

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.

ENERGY TRANSFORMATION PACKAGE

On 15 May 2012, the Minister for Energy announced a comprehensive and integrated energy reform package entitled "Energy for the Future". A key factor driving this reform is the significant increase in electricity prices over the past five years. Whilst the increase in prices is a national issue, exacerbating factors for Tasmanian customers include lower than average incomes, higher electricity consumption due to our climate and the inability of all customers to access alternative fuels such as natural gas.

The reform package included a number of potential initiatives that will impact Tasmania's three power entities: the potential disposal of Aurora Energy (Tamar Valley) Pty Ltd (AETV) or its transfer to Hydro Tasmania; complete disposal of Aurora's retail customer book; commencement of full retail competition by 1 January 2014; the merging of Aurora's distribution network with Transend's transmission network; and the merging Aurora's retail service functions with Momentum Energy's mainland retail business.

At the time of writing this Report, final reforms had still to be decided.

INCOME STATEMENTS

	Hydro	Aurora	Transend
	$'000s	$'000s	$'000s
Electricity sales/transmission/distribution	1 039 693	1 427 235	211 345
Other operating revenue	11 438	59 470	19 337
Total Revenue	**1 051 131**	**1 486 705**	**230 682**
Depreciation and amortisation	82 273	109 103	69 664
Labour	104 802	119 294	29 778
Energy generation, acquisition and transmission	673 929	1 144 222	24 780
Total Expenses	**861 004**	**1 372 619**	**124 222**
Profit (Loss) before interest and tax	190 127	114 086	106 460
Finance costs	86 687	82 495	40 555
Profit (Loss) before tax and fair value movements	**103 440**	**31 591**	**65 905**
Movements in fair value	(85 571)	0	4 215
Net profit (Loss) before taxation	**17 869**	**31 591**	**61 690**
Income tax expense	3 997	10 181	18 529
Net profit (Loss) after taxation	**13 872**	**21 410**	**43 161**
Net Profit (Loss) after taxation in 2010-11	**151 092**	**17 683**	**47 665**
Net Profit (Loss) after taxation in 2009-10	**236 434**	**(19 979)**	**26 358**
Net Profit (Loss) after taxation in 2008-09	**291 206**	**21 503**	**11 911**

Comment

These entities made a combined profit after tax of $78.443m (2010-11, $216.440m) with Hydro contributing 18% (70%), Aurora 27% (8%) and Transend, 55% (22%).

Hydro's sales revenue grew by 29.3% (2010-11, 11.8%) mainly due to additional revenues generated by Momentum Energy and higher generation supported by stronger water inflows into storages. Aurora's increased by 7.9% (15.5%) mainly associated with increases in both the regulated tariff for 2011-12 and growth in national electricity sales and Tasmanian major industrial customers. Transend's revenue increased by 3.2% (19.9%) due to higher sales from regulated electricity transmission.

Aurora's operating expenses included energy generation, acquisition and transmission costs of $1.009bn (2010-11, $943.214m). These generation costs included the Tamar Valley Power Station (TVPS), power acquired from Hydro via the National Energy Market and transmission costs paid to Transend and resulted in electricity sales to its residential and business customers. These costs increased by $65.462m or 6.9% (11.6%), due primarily to increased load purchased during the year to service customers and additional transmission costs associated with delivering this load.

Hydro's net loss from movements in fair values, $85.571m, comprised mainly:

- $105.084m loss (2010-11, $17.725m gain) from fair value movements in electricity derivatives
- $12.552m gain ($76.261m gain) from net favourable movements in re-assessment of Basslink financial assets and liabilities
- $6.488m gain (nil) on the Woolnorth Wind Farms divestment. Hydro now has a 25% holding in the Woolnorth Wind Farm, after it divested 75% in February 2012.

Hydro's operating expenses increased from $447.724m in 2010-11 to $673.929m in 2011-12 primarily due to increased energy purchases, mainly reflective of the continued growth in Momentum Energy.

Labour costs increased for all businesses:

- Hydro by $0.142m, this was relatively consistent with prior year. Labour costs were 12% (2010-11, 17%) of Total Expenses
- Aurora by $10.801m due mainly to the impacts of the new Enterprise Bargaining Agreement (EBA) and redundancy costs. Labour costs were 9% (8%) of Total Expenses
- Transend by $2.282m mainly due to salary and wage increases under a new EBA, which saw a 3.5% increase in July 2011, backdated to April 2011, followed by another 3.5% increase in September 2011, notwithstanding decreased average staff numbers by 13. Labour costs were 24% (23%) of Total Expenses.

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

Financing costs as a percentage of Total costs

	2011-12	2010-11	2009-10	2008-09
Hydro	9.15%	11.29%	12.28%	14.76%
Aurora	5.67%	5.80%	5.37%	4.50%
Transend	24.61%	21.42%	22.25%	22.71%

Hydro's financing costs as a percentage of total costs decreased in 2011-12 mainly because Total expenses increased overall and Hydro also transferred debt of $163m in February 2012 when the Woolnorth Wind Farms was divested. When compared with 2010-11, Hydro's financing costs increased by $6.206m.

Aurora's financing costs remained relatively consistent and increased by only $3.418m in 2011-12 (2010-11, $13.158m) in line with additional borrowings of $10.664m or 1% to fund its capital expenditure program. However, the percentage above only increased by 0.43% in 2010-11 due to higher Total Expenses of $135.356m in that year.

Transend's financing costs increased by $7.860m (2010-11, $0.106m), due primarily to less financing costs capitalised during the year of $5.142m because of the completion of major projects. Transend also acquired additional borrowings to fund its capital expenditure program in light of increased dividends and returns of equity.

STATEMENTS OF FINANCIAL POSITION

	Hydro	Aurora	Transend
	$'000s	$'000s	$'000s
Cash and investments	7 061	89 928	3 818
Receivables	142 062	129 137	21 680
Unbilled energy	0	75 637	0
Inventories	54 706	29 853	4 546
Financial assets	136 021	9 938	0
Financial assets - Basslink	66 347	0	0
Other	116 731	14 808	3 804
Total Current Assets	**522 928**	**349 301**	**33 848**
Payables	124 700	155 742	41 123
Borrowings	211 252	118 325	1 707
Financial liabilities	464 891	9 622	0
Provisions	54 114	20 137	7 794
Tax (assets) liabilities	28 938	1 752	10 456
Other	0	40 679	25 714
Total Current Liabilities	**883 895**	**346 257**	**86 794**
Working Capital	**(360 967)**	**3 044**	**(52 946)**
Property, plant and equipment	4 484 569	1 747 139	1 620 591
Investments	34 557	0	0
Intangible assets	0	59 331	4 860
Financial assets - Basslink	379 166	0	0
Deferred tax assets	0	54 537	0
Goodwill	47 796	0	0
Other financial assets	336 820	10 852	4 927
Total Non-Current Assets	**5 282 908**	**1 871 859**	**1 630 378**
Borrowings	645 554	956 257	608 000
Provisions	413 133	129 098	67 874
Financial liabilities	958 432	9 778	0
Deferred tax liabilities	772 775	175 915	208 914
Other non-current liabilities	0	2 779	0
Total Non-Current Liabilities	**2 789 894**	**1 273 827**	**884 788**
Net Assets	**2 132 047**	**601 076**	**692 644**
Capital	271 100	314 255	46 549
Reserves	296 907	177 603	517 297
Retained profits	1 564 040	109 218	128 798
Total Equity	**2 132 047**	**601 076**	**692 644**
Total Equity at 30 June 2011	**2 013 453**	**561 063**	**623 238**
Total Equity at 30 June 2010	**1 881 930**	**496 416**	**563 911**
Total Equity at 30 June 2009	**1 665 482**	**518 228**	**524 796**

Comment

In previous years, Hydro and Transend 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 repaid rather than re-negotiated.

Hydro's working capital position at 30 June 2012 was negative $360.967m (2010-11, negative $235.567m). The worsening working capital position was primarily due to an increase in Financial liabilities to $464.891m (2011, $94.831m), caused by the classification of the Basslink facility fee swap into current. Short term borrowings decreased by $169.031m to $211.252m, with these borrowings likely to be re-negotiated.

Aurora's working capital deteriorated from $49.793m in 2010-11 to $3.044m in 2011-12, mainly due to the reclassification of $93.325m of borrowings to current.

Hydro and Aurora retired a portion of their debt as noted in the Statement of Cash Flows section of this Chapter.

Despite Transend's profitability, working capital continued to be negative, $52.946m at 30 June 2012 (2010-11, $48.999m).

In all three cases, these entities' levels of borrowings were within total borrowing limits.

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 established yield curves, enabled 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 2009	941 235	932 705	488 000
Borrowings at 30 June 2010	872 864	1 029 917	518 000
Borrowings at 30 June 2011	983 366	1 085 246	548 000
Borrowings at 30 June 2012	856 806	1 074 582	609 707
Increase (decrease) in borrowings 2009-12	(84 429)	141 877	121 707
Percentage change in borrowings 2009-12	(9.0%)	15.21%	24.94%

Total Borrowings of all three entities grew by $179.155m over the four years under review. This was primarily due to their on-going capital investment programs, the purchase of TVPS and development of new systems. Other observations include:

- Hydro's debt fluctuated over the four year period:
    - in 2009-10 it was lower due to stronger cash flows enabling it to retire debt

- debt reduction continued during 2010-11, however, was higher on 30 June 2011 due to Hydro fully consolidating the $154.000m debt of HT Wind Operations Pty Ltd. This had no impact on interest costs because acquisition took place on 30 June 2011
- In 2011-12 total borrowings decreased by $126.560m due predominantly to the divestment of Woolnorth Wind Farms in February 2012 when borrowings of $163m were settled.

- Aurora's debt increased over the period 30 June 2009 to 30 June 2011 due to further investment required in building and maintaining a safe and reliable distribution network and the completion of the TVPS in October 2009. Aurora's debt decreased by $10.664m in 2011-12 due mainly to funding its capital expenditure program partly through cash flows generated from operations.
- Transend's debt increased in the period 2008-09 to 2011-12 due to operating demands, extensive capital works programs, while meeting the requirements of the new dividend policy and decision to return equity.

STATEMENTS OF CASH FLOWS

	Hydro	**Aurora**	**Transend**
	$'000s	$'000s	$'000s
Receipts from customers	1 015 259	1 605 813	255 248
Payments to suppliers and employees	(784 011)	(1 361 709)	(77 737)
Interest received	873	3 784	6
Finance costs	(61 289)	(63 682)	(28 881)
Income tax equivalents paid	(54 799)	0	(30 843)
Government guarantee fee paid	(8 697)	(8 519)	(7 066)
Cash from (used in) operations	**107 336**	**175 687**	**110 727**
Payments for investments	(13 041)	0	0
Proceeds from financial assets	0	0	0
Payments for assets and intangibles	(167 379)	(118 767)	(122 512)
Business acquisition	0	0	0
Proceeds from investments and asset sales	88 591	1 889	283
Cash from (used in) investing activities	**(91 829)**	**(116 878)**	**(122 229)**
Proceeds from borrowings	565 600	756 486	61 707
Repayment of borrowings	(538 237)	(767 150)	0
Dividend paid	(49 008)	(11 879)	(28 600)
Proceeds from equity issue	0	0	0
Return of shareholder's capital	0	0	(20 000)
Cash from (used in) financing activities	**(21 645)**	**(22 543)**	**13 107**
Net increase (decrease) in cash	**(6 138)**	**36 266**	**1 605**
Cash at the beginning of the year	13 199	53 662	2 213
Cash at end of the year	**7 061**	**89 928**	**3 818**

Comment

The three entities continue to generate significant cash from operations, which totalled $393.750m in 2011-12, a slight reduction of $5.770m compared to the previous year (2010-11, $399.520m; 2009-10, $328.904m; 2008-09, $229.963m).

Hydro's Cash from operations decreased from $160.806m in 2010-11 to $107.336m in 2011-12. This decline of $53.470m was primarily due to Income tax equivalents paid of $54.799m (2010-11, $16.249m).

Aurora's Cash from operations increased by $49.259m to $175.687m in 2011-12. This was mainly driven by higher Receipts from customers of $155.096m reflecting increased tariffs, higher consumption and growth in national customers' consumption.

Transend's Cash from operations decreased from $112.286m in 2010-11 to $110.727m in 2011-12, due predominantly to an increase in Income tax equivalents paid, reflecting the higher profit in the previous year and higher finance costs offset by increased TUOS (transmission use of system) revenue.

All three utilities continued to invest strongly in capital expenditure with $408.658m expended in 2011-12 (2010-11, $368.454m; 2009-10, $476.028m; 2008-09, $634.824m).

Hydro's Proceeds from investments and asset sales was $87.838m higher than 2010-11, due primarily to $88.082m received from the divestment of Woolnorth Wind Farms.

Transend's payment of Return of shareholder's capital, $20.000m, was incurred for the first time in 2010-11 as part of a five year equity reduction strategy. Transend will make an annual return of equity of $20.000m, subject to its operating and expenditure requirements and borrowing capacity over a further two year period.

FINANCIAL ANALYSES

	Bench Mark	Hydro	Aurora	Transend
Financial Performance				
Net profit after tax ($'000s)		13 872	13 800	43 161
EBIT ($'000s)		190 127	103 214	106 460
EBITDA ($'000s)		272 400	221 053	176 124
Operating margin	>1.0	1.35	1.01	1.86
Return on assets		3.4%	4.4%	6.7%
Return on equity		0.7%	2.4%	6.6%
Financial Management				
Debt to equity		40.2%	178.8%	88.0%
Debt to total assets		14.8%	48.4%	36.6%
Interest cover - EBIT	>2	2.19	1.3	2.4
Interest cover - cash from operations	>2	2.75	3.1	3.5
Current ratio	>1	0.59	1.01	0.39
Cost of debt	6.9%	7.2%	7.5%	7.7%
Debt collection	30 days	50	48	4
Creditor turnover	30 days	20	20	8
Asset Management				
Investment gap %	100%	203.4%	109%	176%
Returns to Government				
Dividends paid ($'000s)		49 008	0	28 600
Income tax paid or payable ($'000s)		54 799	1 752	30 843
Government guarantee fees paid ($'000s)		8 697	8 519	7 066
Total return to the State ($'000s)		112 504	10 271	66 509
Dividends payable ($'000s)		50 685	16 000	25 900
Dividend payout ratio		365.4%	115.9%	60.0%
Dividend to equity ratio		2.5%	2.8%	3.7%
CSO funding		8 000	31 795	0
Other Information				
Average staff numbers (FTEs)		916	1 113	271
Average staff costs ($'000s)		114	107	126
Average leave balances per employee ($'000s)		24	21	31

Comment

Hydro's Return on equity reduced from 7.8% in 2010-11 to 0.7% in 2011-12, primarily due to its Net profit after tax in 2011-12, $13.872m being significantly lower than previous years (2010-11, $151.092m; 2009-10, $236.434m; 2008-09, $291.206m).

Hydro's Debt to equity ratio declined by 8.6% to 40.2% in 2011-12. Debt to equity ratios of Aurora and Transend indicated they relied to a greater extent on debt funding than Hydro. Aurora's Debt to equity ratio decreased from 193.4% in 2010-11 to 178.8% in 2011-12 and Transend's remained steady.

Hydro's Investment gap % improved from 80.9% in 2010-11 to 203.4% in 2011-12, due to higher payments for property, plant and equipment of $167.379m in 2011-12 (2010-11, $64.618m). Aurora invested strongly in distribution networks and Transend invested strongly in capital expenditure as indicated by their Investment gap ratios.

Average staff numbers (FTE's) for the three entities decreased from 2 477 in 2010-11 to 2 300 in 2011-12, due primarily to Aurora reducing its average FTE's from 1 294 to 1 113. In addition, Aurora's Average staff costs increased from $0.084m to $0.107m, as a result of redundancy costs from restructuring and a new EBA.

In total these three entities returned $189.284m in the form of taxes, dividends and guarantee fees (2010-11, 96.618m; 2009-10, $49.340m; 2008-09, $54.321m) to the State in 2011-12.

ENERGY PRICES

The table below presents the average annual wholesale spot prices of electricity as published by the Australian Energy Market Operator (AEMO).

Average Annual Prices (per financial year) $/MWh

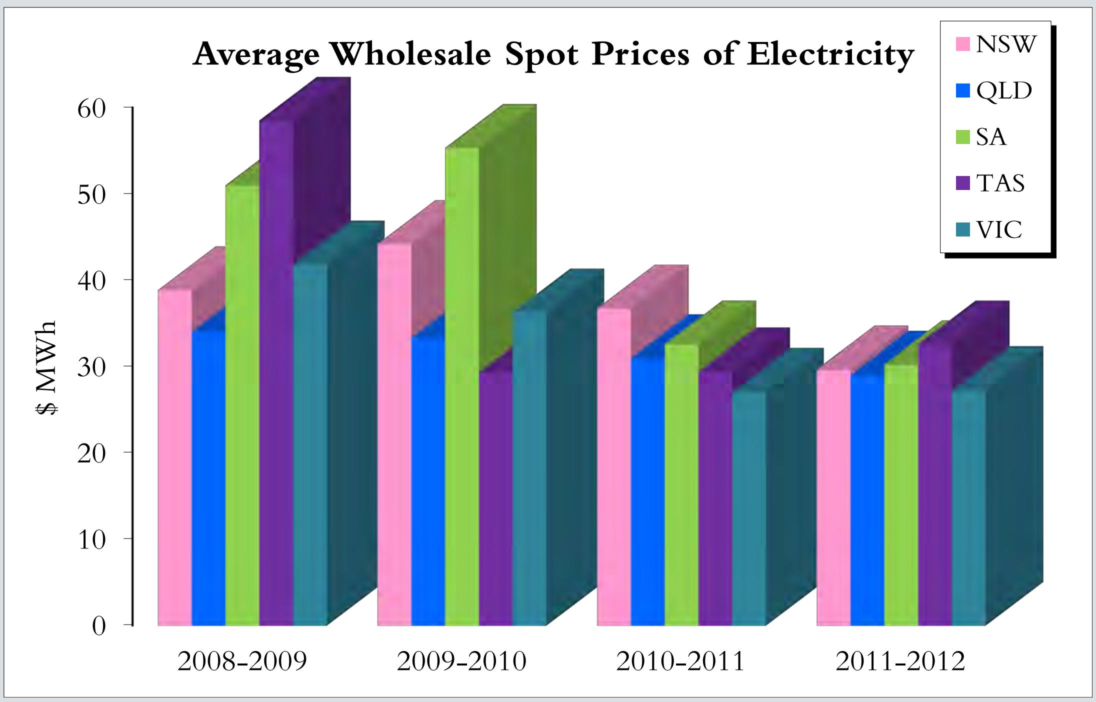
Year	NSW	QLD	SA	TAS	VIC
2008-2009	38.85	34.00	50.98	58.48	41.82
2009-2010	44.19	33.30	55.31	29.37	36.28
2010-2011	36.74	30.97	32.58	29.45	27.09
2011-2012	29.67	29.07	30.28	32.58	27.28

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

Since connecting to the National Electricity Market (NEM) in 2005, Tasmania has been participating in one of the world's longest interconnecting power systems that runs for more than 5,000 kilometres from Port Douglas in Queensland to Port Lincoln in South Australia and supplies more than $10 billion of electricity annually to meet the demand of more than 8 million end users. The wholesale (spot) price of electricity has been subject to volatility since the inception of the NEM in 1997. Average electricity wholesale prices in the NEM, for Tasmania were consistent in 2010-11 at $29.45/MWh, compared to $29.37/MWh in 2009-10.

Under the existing market rules for the NEM average spot prices can range between a floor of negative $1 000 to a ceiling 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 a range of hedging instruments.

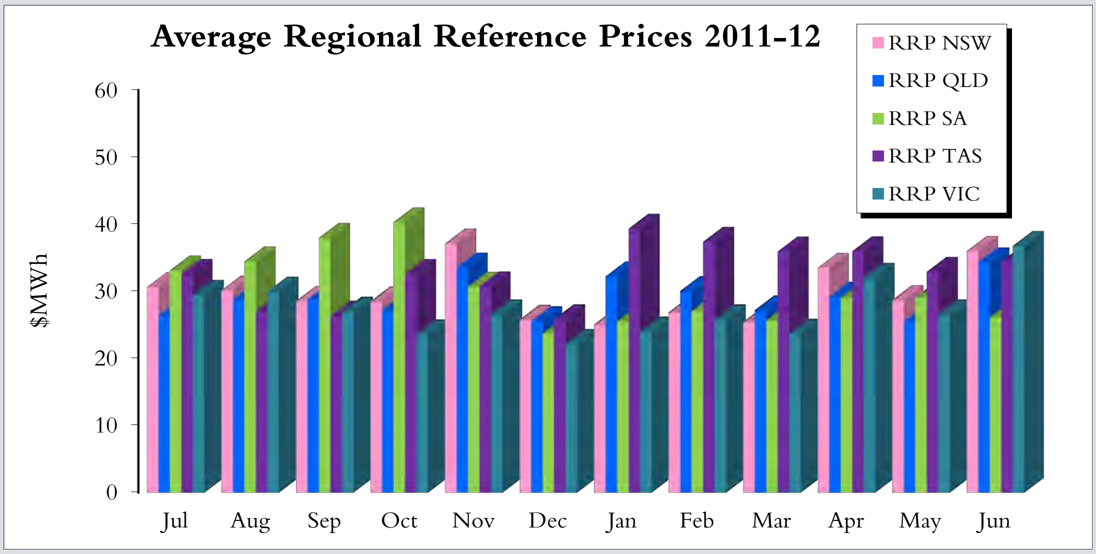
The graph below illustrates movement in the average annual wholesale spot prices of electricity for the past four years.



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 start their generators at short notice compared to mainland coal generators.

The average regional reference prices (RRP) for each month per region over the financial year is shown in the following graph:



Source: AEMO: NEM Data

The Tasmanian market fluctuated again in 2011-12, with the highest and lowest electricity prices recorded in 2011-12 being:

- lowest average daily price was negative $94.67/MWh on 31 July 2011 (2010-11, negative $1.36/MWh on 27 November 2010)
- highest average daily price was $139.05/MWh on 18 April 2012 ($805.06/MWh on 8 August 2010)
- lowest half-hour price was negative $ 956.35/MWh on 31 July 2011 at 11.30am (negative $463.84/MWh on 27 November 2010 at 5.00am)
- highest half-hour price was $4 928.30/MWh on 18 April 2012 at 4.30pm ($12 400.26/MWh on 7 August 2010 at 6.30pm).

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 profitability in future years.

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

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 former 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.

This summary provides financial information on all GBEs, being:

- Forestry Tasmania (Forestry)
- Hydro-Electric Corporation (Hydro)
- Motor Accidents Insurance Board (MAIB)
- Port Arthur Historic Site Management Authority (the Authority)
- Tasmanian Public Finance Corporation (TASCORP)
- Public Trustee.

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

- Audit of the 2011-12 Financial Statements
- Key Findings and Developments
- Financial Results:
    - Statement of Comprehensive Income
    - Statement of Financial Position
    - Statement of Cash Flows
    - Financial Analysis.

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

KEY OUTCOMES, DEVELOPMENTS AND FINDINGS FROM AUDITS

Key outcomes from audits included:

- The audits of the financial statements of all six GBEs were completed with all audit opinions unqualified. Our audit opinion on the financial statements of Forestry drew attention to its reliance on financial support from government.
- All audits were completed satisfactorily with no major items outstanding.
- With the exception of HT Wind Operations Pty Ltd, a subsidiary of Hydro Tasmania, signed financial statements for all GBEs were received by 15 August 2012. We completed all audits prior to 30 September 2012.

Key developments and findings included:

FORESTRY TASMANIA

Financial statements were approved by the Board and certified on 9 August 2012. The signed financial statements were received on the same day and an unqualified audit report was also issued on this date. The audit report contained the following emphasis of matter paragraph:

> *'I draw attention to Note 2(b) to the financial report which describes circumstances giving rise to uncertainties as to the operations of Forestry Tasmania, the assessment by the directors and their conclusion that it is appropriate for Forestry Tasmania to continue to adopt the going concern basis in preparing this financial report. My audit opinion is not qualified in respect of these matters.'*

The Notes to Forestry's financial statements includes the following:

> *'In the 2011 Annual report it was noted that Forestry Tasmania's operating result, together with the continued ongoing uncertainty around the Tasmanian Forests Intergovernmental Agreement (the Agreement) and the Statement of Principles (the Principles) and their possible impacts on the business, caused the Directors to review the appropriateness of continuing to prepare the financial accounts on a going concern basis.*
>
> *The situation at 30 June 2012 is not materially different to that which existed at 30 June 2011.*
>
> *The current trading outlook presents significant challenges in terms of sales volumes and pricing and in these circumstances there are material uncertainties over future trading results and cash flows.*
>
> *In addition, while the effect on the business of the Agreement and Principles is yet to be finalised, it is possible that they will lead to a significant reduction in the resource available for harvest and sale.*
>
> *Further in July 2011 the State Government initiated a strategic review of Forestry Tasmania. The outcome of the review has not yet been determined, and the possible impact remains unknown.*
>
> *The Directors have concluded that under these circumstances there continues to be material uncertainty about the operations of the business.*
>
> *However, the Directors note that whilst demand and pricing remains challenging, demand and pricing for some products has improved.*
>
> *Further, Forestry Tasmania has reduced its costs and measures have been instituted to preserve cash.*

In addition Directors have received assurances from the relevant ministers that Forestry Tasmania will receive such ongoing support as is necessary to continue its operations for the foreseeable future. This assurance is supported by inclusion in the State Budget and forward estimates of financial support of up to $110m, $35m of which is available in 2012 13.

Taking into account all the above factors the Directors have concluded that it is appropriate to continue to adopt the going concern basis in preparing the financial report.'

We made an observation last year that it is not sustainable for Forestry to generate negative cash from its operating activities. This year, Forestry's cash position improved slightly as cash at the end of the year increased from $9.365m at 30 June 2011 to $12.283m at 30 June 2012 due to the sale of the GMO joint venture with the proceeds, $70.200m, used to repay borrowings, $29.800m, fund the operating cash deficit of $26.779m, and pay partly for plantation activities, $6.107m, and property, plant and equipment, $11.286m.

The difference between the proceeds from the contract price for the sale of the GMO joint venture of $78.000m and the amount received by 30 June 2012, $70.200m, represents the amount held in an escrow account in accordance with the purchase agreement for a period of six months after the completion of the sale.

HYDRO-ELECTRIC CORPORATION

Woolnorth

Hydro now has a 25% holding in Woolnorth Wind Farms (Woolnorth) following the divestment of 75% in February 2012. This resulted in Hydro consolidating the first eight months of Woolnorth's income and expenditure into its 2012 results. The remaining four months were equity accounted based on Hydro's 25% investment. The divestment of Woolnorth resulted in proceeds from sale of $88.082m. After alignment of accounting policies in regards to the valuation of financial instruments, the joint venture contributed a net profit of $16.324m to Hydro's performance.

Capital program

Hydro's capital investment program continued in 2011-12 and was targeted at sustaining generation assets and reducing their availability risks to assist Hydro to actively operate in the National Energy Market (NEM). Over the last four years Hydro has invested over $400m in its asset base. In the last twelve months it invested $116.731m in the construction stage of Musselroe Wind Farm.

Carbon price

In 2009 the Corporation included a conservative assumption within the fair value of generation assets determinations to reflect the expected impact on forecast prices of the then proposed carbon trading scheme. The conservative approach was to include a carbon price below the published international carbon prices due to the on-going uncertainties with the Federal Governments carbon policies. This conservative approach continued until more certainty regarding the Federal Government's carbon policy was known.

In July 2011, the legislation for the carbon policy was passed and was to commence from 1 July 2012. The introduction of the carbon price created a level of certainty, within the fixed carbon price period for Hydro in the short term and enabled key strategies to be adopted and implemented to manage the opportunities this presents for Hydro. Beyond the fixed carbon price period, uncertainty still exists in regards to the substance and form of the carbon price within the context of current Commonwealth Government policy.

These prices are reflected in the Forward Price Curve which is used in all valuation models relating to energy assets and liabilities.

Valuation of assets and liabilities

Hydro uses an internally developed forward price curve to assist in determining the fair value of its generation assets and its derivative contracts. The forward price curve is reviewed each year in light of developments in the NEM, legislative changes, forecast generation, forecast energy demand and inflows. The forward price curve is approved by the Board each year.

Internally, Hydro has developed a Long Term Pricing Methodology which has undergone extensive internal rigour and review. The methodology considers a number of factors including carbon pricing, volumes, demand, new generation entrants and capacity.

This Forward Price Curve is used in all energy related asset and liability valuation models.

Application of these principles in running Hydro's Asset Revaluation Model resulted in revaluation uplift in Hydro's generation assets of $321.351m.

Derivative financial instruments

The major market risk exposure of Hydro is the NEM. In order to manage this risk Hydro hedges its various retail and wholesale contractual arrangements using natural positions and market based products. These are entered into at a point in time and are subject to changes in market value as market prices change. Because of the nature of the NEM all of the wholesale contracts and the market based products are derivative financial instruments. Australian Accounting Standards require Hydro to value these derivative financial instruments at fair value. The change in fair value is recorded in the Statement of Financial Performance as the line item Movements in fair value. The sign associated with this item is reflective of the change in market prices since the original contracts were entered into.

Audit findings

The audits were completed satisfactorily with no major items outstanding. However, the audit identified the following areas reported to the Board:

1. The current information technology projects being completed by Hydro including the implementation of SAP and Energy Trading Risk Management are enterprise transformational projects. We consider these to be significant and positive responses to the market risk issues associated with operating in the NEM as a vertically integrated energy entity.
2. Hydro operates in a dynamic and ever changing environment and this brings with it associated complex accounting and tax technical matters. This is the case when completing complex acquisitions and disposals. Hydro is addressing its resourcing to handle the complex technical matters that arise in such circumstances.

MOTOR ACCIDENTS INSURANCE BOARD

MAIB reported investment revenue for 2011-12 of $23.292m net of fees (2010-11: $77.148m), representing a return of 2.2% (2010-11: 8.0%). The reduction in investment revenue reflects the impact of the downturn in Australian and international investment markets during the year. MAIB manages the duration of its investments in line with its liability profile and as a result has a significant allocation to growth assets. This investment strategy is designed to maximise long-term returns within acceptable bounds of risk, but this strategy can also result in significant volatility in reported annual results.

Investment returns in 2011-12 were insufficient to cover the underwriting loss resulting in a net loss before taxation of $43.560m this year (2010-11, profit $69.495m) although the average annual result over the four year period was a net profit before taxation of $25.532m.

Evident from this review is the need to assess MAIB's performance over more than a single 12 month period. The Board manages its investment portfolio for the longer term and in line with its future care responsibilities.

PORT ARTHUR SITE MANAGEMENT AUTHORITY

Valuation of historic collections and archives

The Authority has under its control 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 results in an understatement of the value of Property, plant and equipment. Heritage buildings and ruins are also not recognised due to difficulty in determining appropriate values. The Authority is now actively pursuing avenues to facilitate valuations of these historic collections and archives in forthcoming years.

Cascade Female factory

The Authority assumed responsibility for the Cascades Female Factory Historic Site (the Site) in December 2010. During 2011-12 the Authority took full control of operations and received $0.517m to cover conservation costs. Government has committed to future funding of $0.440m in 2012-13 and $0.402m in 2013-14, $0.402m which will be used to continue funding the conservation costs involved in maintaining the Site.

In conjunction with the final transfer of operations of the Site to the Authority, the Department of Primary Industries, Parks, Water and Environment (DPIPWE) also transferred:

- ownership of the associated land and buildings recorded at $0.829m and
- other DPIPWE land at Port Arthur recorded at $3.100m.

TASMANIAN PUBLIC FINANCE CORPORATION

TASCORP's role

TASCORP's 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 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.

Temporary overnight borrowings

An audit requested adjustment was made to the financial statements resulting in a $650m reduction in Advances to State entities and Deposits from State entities. This adjustment was necessary as a result of a transaction effected on 29 June 2012 whereby the Department of Treasury and

Finance took a client advance from TASCORP and simultaneously entered into an equal and offsetting transaction for a client deposit of the same amount also with TASCORP. The nature of this transaction met the definition of a derivative transaction as outlined in AASB 139 Financial Instruments: Recognition and Measurement, and as such the two transactions were recognised on a net basis with only the resulting derivative, interest receivable, $0.781m, being recognised on the Statement of Financial Position and the Statement of Comprehensive Income.

Had this adjustment not been made, Advances to State entities and Deposits from State entities would have each been $650m higher with the same net outcome. However, recognition of Advances and Deposits on this basis would have been inconsistent with the nature of the transaction and thus not in compliance with AASB 139.

Returns to government

Dividends paid for the year were $6.445m and tax paid was $2.881m which was a total return to government of $9.326m. The tax expense incurred in 2011-12 was $3.371m.

Risk management

Note 19(g) in TASCORP's financial statements shows its Value at Risk (VaR) analysis. The one day VaR number reflects the profit or loss that will not be exceeded 99% of the time for daily interest rate and liability margin risk. Note 19(g) discloses TASCORP's average, minimum and maximum VaR exposures during the year and its exposure at 30 June:

	Average		Minimum		Maximum		Year end	
Historical VaR	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11
(99% one-day)	A$'000	A$'000	A$'000	A$'000	A$'000	A$'000	A$'000	A$'000
Total VaR exposure	471	633	343	387	617	770	521	528

These VaR numbers reflect that TASCORP's risk profile is comparable to the position at 30 June 2011 and that over the relevant years the VaR numbers decreased slightly. 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 its Statement of Financial Position which is recorded at fair value.

PUBLIC TRUSTEE

Public Trustee's financial statements only recognise funds controlled by it as a body corporate in accordance with Australian Accounting Standards. As part of its executor and trustee role, Public Trustee also holds funds in trust on behalf of clients during the course of estate and trust administrations. Note 24 to the financial statements disclosed that at 30 June 2012 the Common Fund, and two investment funds, held a total of $133.886m (2011, $130.710m) of client funds. Interest earned on these funds is not treated as income of Public Trustee.

SUMMARY FINANCIAL PERFORMANCE

Tasmania's GBEs collectively had net assets of $2.510bn (2010-11, $2.575bn), employed 1 476 people (1 582), and generated $76.468m after tax losses ($67.577m after tax profits in 2011-12).

The following three GBEs made up 98% of the net assets controlled by all GBEs:

- Forestry
- Hydro
- MAIB.

They contributed $63.708m profit after tax in the current year compared to $73.385m in the prior year.

FORESTRY TASMANIA

In 2011-12, Forestry recorded a Net operating loss before tax of $39.581m, which was $21.867m higher than the loss reported last year mainly because sales deteriorated significantly. On an after tax basis, the operating loss was $27.598m, which was $15.516m higher than last year's loss after tax. The most notable was a reduction in the volume of pulpwood sales, down from 1 547 759 tonnes for twelve months until June 2011 to 376 340 tonnes for the same period this year. This decline was a direct result of major customers halting or reducing their production and the closure of essential infrastructure, including the woodchip mill at Triabunna.

In response to the declining demand for its products in Australia, Forestry continued to develop new markets in Asia. In 2011-12, Forestry derived 16.2% of its revenue from sales to Asian countries, compared to 6.0% in the previous year.

Overall, Forestry reported a Comprehensive loss of $69.849m following:

- actuarial reassessment of its superannuation obligation, which resulted in a loss of $44.219m, mainly reflecting the reduction in discount rates from 5.5% to 3.45% caused by the lower yields on Commonwealth bonds during the year and in particular at 30 June 2012
- Loss on the sale of the GMO JV, $17.316m
- recognition of an Income tax benefit, $30.554m, a result of this year's loss

Total Equity decreased from $146.636m to $76.718m at 30 June 2012. The decrease, $69.918m, reflected the comprehensive loss for the year, $69.849m, and a tax benefit credited directly to Equity, $0.069m.

HYDRO-ELECTRIC CORORATION

On an earnings before interest and tax basis, Hydro's results improved by $9.630m in 2011 12 to $190.127m. Total Expenses represented 81.91% of Total Revenue (2010-11, 77.80%). Total revenue increased by $238.359m, or 29.33%, primarily due to additional revenues generated by Momentum Energy and stronger water inflows into storages. Direct operating expenses increased by $215.071m or 57.36%. This was reflective of the continued growth in Momentum which contributed $7.748m to Hydro's net profit after tax this year.

Hydro's Net working capital position at 30 June 2012 was negative $360.967m (2010-11, negative $235.567m). The decrease in Net working capital of $125.400m was primarily due to higher other financial liabilities, $370.060m, partly offsetting lower short term borrowing obligation of $169.031m and higher Assets held for sale relating to Musselroe Wind Farm of $116.731m.

Hydro's generation assets are carried at fair value and must be assessed annually for any indication that carrying value exceeds fair value. With the revision of the forward price curve and the update of operational strategies detailed in the corporate plan, including:

- Strategic management of water storages
- The higher value attributed to the Carbon Price in the early years of the program

- The opportunity to use Basslink as originally intended,

increased the carrying value of its generation assets by $321.351m.

Hydro's financial position improved in the current year with total equity increasing by $0.119bn from $2.013bn to $2.132bn and its borrowings decreasing by $126.560m from $983.366m to $856.806m. This decrease in borrowings was largely driven by the divestment of Woolnorth in February when borrowings of $163m were transferred.

Hydro's debt to equity ratio improved by 8.6% during the year due to the revaluation of its generation assets and debt repayments. Overall, Hydro improved its trading performance through 2011-12 generating a profit before tax and fair value movements of over $100m for the second consecutive year.

MOTOR ACCIDENTS INSURANCE BOARD

In 2011-12 MAIB recorded an operating loss before taxation of $43.560m (2011, profit $69.495m). MAIB's operating result from year to year is subject to significant volatility due to the long term nature of its claims liabilities and corresponding investment in growth assets and it is therefore more appropriate to assess MAIB's financial performance over longer periods.

MAIB's Net assets decreased by $48.250m, being the Comprehensive loss of $28.001m and dividends paid of $20.249m.

The major component of MAIB's total assets is its investment portfolio (including cash), which at 30 June 2012 totalled $1.116bn (2011, $1.063bn) and represented 92.82% of total assets (94.74%). Total investments increased by $0.054bn, 5.07%, from 30 June 2011.

The major component of MAIB's total liabilities is its outstanding claims liability, which at 30 June 2012 represented 92.88% of total liabilities (2011, 91.97%). An independent actuary is engaged by the Board to undertake the valuation of the year end claims liability.

PORT ARTHUR SITE MANAGEMENT AUTHORITY

The Authority remains economically dependent on funding from the State Government This funding covers the Authority's conservation activities. It recorded an operating deficit of $0.349m this year compared to a profit of $0.160m in 2010-11 before recognition of the actuarial superannuation expense, asset revaluation adjustment and impairment of non-current assets. The operating deficit in 2011-12 was associated with the continued drop in visitor numbers which for this year was 11% (2010-11, negative 3%).

Despite the deficit for the year, contributed assets increased by $3.929m, which resulted from the final transfer of operations of the Cascades Female Factory Historic Site to the Authority referred to earlier. As a result, there was a significant increase in Equity at 30 June 2012. Total Equity increased by $1.695m to $16.463m.

TASMANIAN PUBLIC FINANCE CORPORATION

TASCORP achieved a net profit before tax for the year of $11.237m (2010 11, $9.604m) and at 30 June 2012 it had net assets of $42.896m (30 June 2011, $41.475m).

TASCORP's Total Comprehensive Income for the year ended 30 June 2012 was $7.866m (2010-11, $6.723m). The increase in Total Comprehensive Income was due to higher net interest revenue (being interest revenue less interest expense) of $7.173m, ($4.833m decrease) caused by a number of factors including:

- better returns on investments made in 2011-12 compared to 2010-11
- improved lending margins resulting from lower hedging costs and reduced issuance costs.

These factors were partly offset by higher income tax expense of $3.371m ($2.881m).

TASCORP's Total Equity increased by $1.421m in 2011-12, being its net profit after tax for the financial year less dividends paid.

PUBLIC TRUSTEE

Public Trustee's Net profit after tax was $0.126m, a decrease of $0.407m on the prior year profit of $0.860m. While Commission and fees rose by $0.421m (2010-11, $0.138m), due partly to increased billings, this was more than offset by the decline in Income from investments which decreased by $0.435m, due to lower dividends received of $0.467m from Corporate managed investment funds. A significant non-operating item impacting on the decrease in Public Trustee's Net profit was unrealised losses on managed investments of $0.252m.

Equity decreased by $2.952m due to the Total comprehensive loss of $2.728m plus dividend paid, $0.225m.

RESPONSIBLE MINISTER

The Ministers responsible at 30 June 2012 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
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*. It is responsible for the management of approximately 1.5 million hectares of State forest and commercial plantations, a role that includes managing forests for multiple uses and delivering both economic and social benefits to the Tasmanian public. Consistent with requirements of other Government Business Enterprises, its principle objectives under the *Government Business Enterprises Act 1995* (GBE Act) are to perform its functions by operating in accordance with sound commercial practice and to achieve a sustainable commercial rate of return.

Forestry holds a 100% interest in Newood Holdings Pty Ltd (Newood).

Forestry has developed eco-tourism adventure attractions in regional Tasmania including the Tahune Airwalk, Hollybank Treetops Adventure (as a 50% equity partner with a private investor), Tarkine Forest Adventures and the Maydena Adventure Hub. These operate under the Adventure Forests brand.

Forest Services International (FSI) provides technical and consultancy services to other forest and land managers. It capitalises on experience in forest management, research and industry knowledge.

All results in the following tables and analysis are based upon consolidated figures.

At the time the financial statements were signed, Forestry's Board comprised six members, five appointed by the Governor on the recommendation of the Minister, and the Managing Director who is appointed by the Board. At the time of writing this Report, Forestry's Board comprised five members, four appointed by the Governor and the Managing Director.

AUDIT OF THE 2011-12 FINANCIAL STATEMENTS

Financial statements were approved by the Board and certified on 9 August 2012. The signed financial statements were received on the same day and an unqualified audit report was also issued on this date. The audit report contained the following emphasis of matter paragraph:

> *'I draw attention to Note 2(b) to the financial report which describes circumstances giving rise to uncertainties as to the operations of Forestry Tasmania, the assessment by the directors and their conclusion that it is appropriate for Forestry Tasmania to continue to adopt the going concern basis in preparing this financial report. My audit opinion is not qualified in respect of these matters.'*

Note 2(b) in Forestry's financial report noted the following:

> *'In the 2011 Annual report it was noted that Forestry Tasmania's operating result, together with the continued ongoing uncertainty around the Tasmanian Forests Intergovernmental Agreement (the Agreement) and the Statement of Principles (the Principles) and their possible impacts on the business, caused the Directors to review the appropriateness of continuing to prepare the financial accounts on a going concern basis.*
>
> *The situation at 30 June 2012 is not materially different to that which existed at 30 June 2011.*
>
> *The current trading outlook presents significant challenges in terms of sales volumes and pricing and in these circumstances there are material uncertainties over future trading results and cash flows.*

In addition, while the effect on the business of the Agreement and Principles is yet to be finalised, it is possible that they will lead to a significant reduction in the resource available for harvest and sale.

Further in July 2011 the State Government initiated a strategic review of Forestry Tasmania. The outcome of the review has not yet been determined, and the possible impact remains unknown.

The Directors have concluded that under these circumstances there continues to be material uncertainty about the operations of the business.

However, the Directors note that whilst demand and pricing remains challenging, demand and pricing for some products has improved.

Further, Forestry Tasmania has reduced its costs and measures have been instituted to preserve cash.

In addition Directors have received assurances from the relevant ministers that Forestry Tasmania will receive such ongoing support as is necessary to continue its operations for the foreseeable future. This assurance is supported by inclusion in the State Budget and forward estimates of financial support of up to $110.000m, $35.000m of which is available in 2012-13.

Taking into account all the above factors the Directors have concluded that it is appropriate to continue to adopt the going concern basis in preparing the financial report.'

We concurred with the conclusion reached by the Directors.

KEY FINDINGS AND DEVELOPMENTS

The audit was completed satisfactorily with no major items outstanding.

Restructure of Forestry's Operations

In late August 2012, and following completion of our audit, Government announced its decision to restructure Forestry, following a strategic review by URS Corporation Australia. Our understanding of the proposed restructure, but which at the time of writing had not been finalised, is that:

- Forestry will remain a standalone corporate entity responsible for commercial wood production and
- most non-commercial functions, mainly the management of reserves will be transferred to separate Government agencies.

Details of the restructure are being resolved and their impact on Forestry at this time is uncertain.

Sale of Softwood Joint Venture

In 1999-2000 Forestry sold 50% of its softwood plantation estate and formed a softwood joint venture with Grantham, Mayo and Osterloo (GMO). The sale realised $49.668m at that time. On 30 January 2012, GMO joint venture sold its assets and Forestry realised $78.000m. Forestry's share of GMO joint venture's income and expenses represented in the financial statements reflected trading up to the date of sale. Details of the transaction and reconciliation of the loss on sale are shown in the table below:

Sale of GMO Joint Venture Reconciliation	$'000s
Proceeds from sale - received	70 200
Proceeds from sale - escrow	7 800
Proceeds From Sale	**78 000**
Value of biological assets (30 June 2011)	(85 650)
Net assets attributed to Foresty (30 January 2012)	(4 902)
Value of Assets Sold	**(90 552)**
Stamp duty payable	(4 450)
Other transaction costs	(314)
Cost of Sale	**(4 764)**
Total Loss on Sale	**(17 316)**

Total Loss on Sale, $17.316m, represented the economically assessed value of Forestry's share of the joint venture's biological assets at 30 June 2011, $85.650m, and the value of the joint venture's net assets (cash, receivables, inventory and payables) at the date of sale, $4.902m, less the proceeds of $78.000m. Another comparison would be to compare the proceeds with the valuation of the plantations taken up in the year 2000, $71.800m, plus costs capitalised since that time less trees harvested. We have not completed such an assessment.

Tasmanian Forests Intergovernmental Agreement

The Tasmanian forestry industry is going through a process of structural transformation brought about by changing markets and community values. On 7 August 2011, the Australian and Tasmanian Governments signed the *Tasmanian Forests Intergovernmental Agreement* (TFIA), which was designed to support the forest industry in becoming more sustainable and diversified while further protecting native forest.

Under the TFIA a total of $277.000m, including $15.500m from the Tasmanian Government was to be provided in the following key areas:

- $85.000m to support contractors and their families affected by the downturn in the industry, and in particular Gunns Limited's decision to exit native forest harvesting, including $15.000m to ForestWorks Ltd to administer and provide transition support payments to workers directly impacted by industry restructuring, including employees of contractors who are made redundant;
- $45 million (subject to demand) in assistance for voluntary exits from public native forest operations for haulage, harvest and silvicultural contractors;
- at least $14 million and up to $25 million (subject to demand) to provide immediate employment and training support for redundant forest workers through Job Services Australia and other providers, for workers made redundant from eligible businesses in the forestry industry in Tasmania. In addition, support will include accelerated access to the Commonwealth's ―Connecting People with Jobs‖ program, which will provide relocation support for redundant Tasmanian forestry workers;
- $43.000m to facilitate protection of new areas of high conservation value forests. At least $15.000m of this funding will be used by the Tasmanian Government to support voluntary compensable exits by saw-millers wishing to exit the industry, and $5.000m is to be used in

accordance with purposes and conditions to be agreed with the Australian Government to support provision of information and consultation with affected communities;

- subject to formal legislative protection by the Tasmanian Government of areas to be placed in reserves, the Commonwealth Government will provide $120.000m over a period of 15 years, including an initial payment of $20.000m in 2011-12, to identify and fund appropriate regional development projects for improving the productivity and income-earning capacity of the Tasmanian economy;
- $7.000m per annum on-going to manage new reserves. This funding is indexed to CPI, with a review of the base funding after 5 years; and
- $1.000m over two years to support Rural Alive and Well Inc. mental health counselling and community well-being services for forest workers and contractors, their families and associated businesses adversely affected by the current forestry industry changes.

Negotiations to finalise the agreement ended in October 2012 without resolution. Forestry did not receive any funding under the TFIA during 2011-12.

Settlement with Gunns Limited

In September 2011, the State Government reached agreement with Gunns Limited to buy back all residual rights to logging in native forests. As part of the agreement, Forestry accepted an $11.500m payment from the Australian Government to settle a debt owed to it by Gunns Limited, the majority of which was in dispute, totalling $23.904m net of GST.

Tasmanian Community Forest Agreement

The Tasmanian Community Forest Agreement (TCFA) was signed in 2005 to supplement the 1997 Regional Forest Agreement. TCFA provided funding to facilitate plantation development and compensation for transferring productive forest into reserves. The total TCFA program amounted to $221.000m of which the Australian Government provided $131.200m and the State Government $90.000m. By June 2010 Forestry had received $140.137m, with $115.000m allocated for intensive forest management (IFM) programs comprising of existing plantation productivity improvement and development, new plantation establishment and enhanced native forest thinning programs. Forestry has received all TCFA funds allocated to it and the program is on-going. At 30 June 2012, Forestry still had to acquit $6.000m (2010-11, $10.000m) of these funds.

Forestry recognises the TCFA funding as income over the periods necessary to match related costs. Unearned TCFA funding is recognised in the Statement of Financial Position as revenue received in advance and as income when related expenditure is incurred. At 30 June 2012, Forestry's Statement of Financial Position reported that of the $140.137m received, $34.044m (2011, $40.560m) was 'unearned'. This represents that element of the funding invested in capitalised costs which will be transferred to income over the life of the associated assets. Plantation establishment commitments were $29.957m at 30 June 2012 (2011, $34.752m), with $6.759m committed to be spent in the next 12 months (2011, $9.007m). Forestry's obligations under the TCFA, and its related contractual obligations, will need to be closely monitored by the Board in light of Forestry's weak cash position.

Cash Position

We made the observation last year that it was not sustainable for Forestry to generate negative cash from its operating activities. This year, Forestry's cash position improved slightly as cash at the end of the year increased from $9.365m at 30 June 2011, to $12.283m at 30 June 2012 due to the sale of

GMO joint venture with the proceeds, $70.200m, used to repay borrowings, $29.800m, fund the operating cash deficit of $26.779m, and pay partly for plantation activities, $6.107m, and property, plant and equipment, $11.286m. The difference between the proceeds from the contract price for the sale of GMO joint venture of $78.000m and the amount received by 30 June 2012, $70.200m, represents the amount held in an escrow account in accordance with the purchase agreement for a period of six months after the completion of the sale.

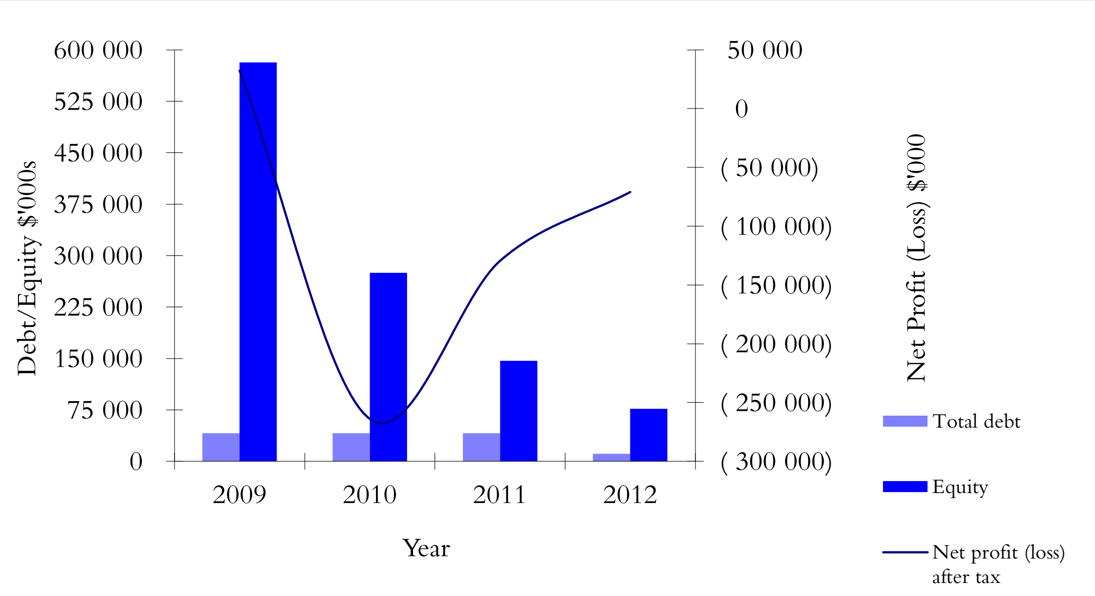
The 2012-13 State Budget includes a provision of $35.000m and a further $25.000m per annum over the next three years available to Forestry to ensure it can continue to operate, meet its contractual obligations and perform its non-commercial functions in the current market environment.

Gunns Limited

On 25 September 2012, Gunns Limited, which was one of Forestry's major customers, entered into voluntary administration. At that time, the net amount owed to Forestry was $0.530m.

FINANCIAL RESULTS

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



Forestry's results fluctuated significantly over the last four years as the downturn in the forest industry and the uncertainty about the industry's future led to significant write-downs in the value of biological and forest estate assets, impairment of forest land and the recognition of the obligations for non-commercial forest zones. Forestry's results were also significantly affected by movements in the actuarial valuation of its defined benefit superannuation liability.

Debt remained constant in the period prior to 30 June 2011. In 2011-12 Forestry repaid $29.800m of its borrowings using funds received from the sale of its share of the GMO joint venture.

Equity decreased significantly between 2009 and 2011 caused by losses incurred predominantly due to the impact of the revised valuation approach, which decreased the carrying amount of Forestry's integrated biological and forest estate assets as shown in the table below. The decrease in Equity at 30 June 2012 was due primarily to the sale of Forestry's interest in GMO joint venture and the significant increase in the amount of the superannuation liability.

Components of integrated forest valuation	**2012**	**2011**	**2010**	**2009**
	$'000	$'000	$'000	$'000
Standing timber	147 860	145 927	247 846	293 997
Land	0	0	0	277 127
Roads and structures	116 140	116 749	114 654	115 295
Total biological and forest estate assets	**264 000**	**262 676**	**362 500**	**686 419**
Obligations for non-commercial forest zones	(55 300)	(57 100)	(65 800)	0
GMO joint venture timber resource	0	85 650	70 891	91 300
Net biological and forest estate assets	**208 700**	**291 226**	**367 591**	**777 719**

The value of biological assets is determined as a residual amount of the present value of the combined asset, less the fair value of land and improvements. This complex calculation is performed by a specialised valuer engaged by Forestry and is subject to numerous assumptions. Changes in market conditions, discount rates and key assumptions impact on the value of biological assets.

The approach adopted to valuing biological assets at 30 June 2012 remained fundamentally unchanged. The underlying assumptions were updated to reflect the price impact of difficult trading circumstances being experienced in both domestic and international markets, changes in costs and in the discount rate applied.

Three scenarios were considered, reflecting relevant market information and economic factors:

1. a base case scenario of business as usual, meeting the historically legislated 300,000 cubic metre annual commitment for high quality eucalypt saw logs
2. a reflection of Forestry's current contractual commitments of 163,000 cubic metres per year for high quality eucalypt saw logs, 265,000 cubic metres per year of eucalypt peeler billets, and 1.4 million tonnes of pulpwood. It also closely resembles the wood supply guarantee stated in the TFIA
3. the possibility that all logging will cease in 572,000 hectares.

Forestry elected to adopt a valuation based on Scenario 2, resulting in the valuation of $208.700m, which represents an increase, compared to the position at 30 June 2011, in the value of biological and forest estate assets of $1.933m and a reduction in the obligation for non-commercial zones of $1.800m.

STATEMENT OF COMPREHENSIVE INCOME

	2011-12	2010-11	2009-10	2008-09
	$'000s	$'000s	$'000s	$'000s
Revenue from forest sales	78 564	135 260	114 136	136 773
Share of GMO Joint Venture revenues	10 851	21 199	21 046	18 499
Forest management services revenue	3 222	5 733	5 982	7 624
Tasmanian Community Forest Agreement	1 010	3 716	4 282	3 504
Other revenue	9 827	10 145	14 861	14 068
Total Revenue	**103 474**	**176 053**	**160 307**	**180 468**
Employee benefits	26 232	30 345	33 029	33 036
Contractors expenses	57 325	94 493	83 772	85 726
Share of GMO JV expenses	9 559	17 089	16 689	15 674
Depreciation	10 362	10 514	11 797	14 279
Costs attributable to non commercial forest zones#	5 269	5 255	6 390	9 090
Other expenses	25 204	26 858	16 036	15 701
Total Expenses	**133 951**	**184 554**	**167 713**	**173 506**
Net operating profit (loss) before net finance cost and tax	**(30 477)**	**(8 501)**	**(7 406)**	**6 962**
Finance revenue	2 050	2 331	2 023	2 499
Finance costs	(1 852)	(2 386)	(1 934)	(2 287)
Finance lease costs	(976)	(993)	(1 006)	(1 019)
Interest cost on defined benefit superannuation plan	(8 326)	(8 165)	(7 894)	(7 573)
Net operating profit (loss) before tax	**(39 581)**	**(17 714)**	**(16 217)**	**(1 418)**
Income tax benefit (expense) relating to operating items	11 983	5 632	4 009	(2 784)
Net operating profit (loss) after tax	**(27 598)**	**(12 082)**	**(12 208)**	**(4 202)**
Biological asset valuation adjustment	(4 175)	(95 253)	(74 630)	43 449
Movement in obligations for non commercial zones	1 800	8 700	(65 800)	0
TCFA capital grant income earned	5 345	7 496	5 836	9 484
Superannuation actuarial gains (losses)	(44 219)	3 232	(11 131)	(4 276)
Accumulated increments realised on sale of softwood joint venture	(17 316)	0	0	0
Gain/(loss) on sale of assets	(3 198)	(8)	(53)	0
Investment market value adjustment	(139)	1 314	1 299	(2 217)
Impairment of forest land	0	0	(217 198)	0
Impairment of other assets	0	0	(1 736)	(773)
Income tax benefit (expense) relating to these items	18 571	(42 875)	111 739	(9 179)
Net Profit (Loss)	**(70 929)**	**(129 476)**	**(263 882)**	**32 286**
Increase (decrease) in the revaluation of land and buildings	1 444	1 150	(59 631)	1 291
Income tax on revaluation of land and buildings	(364)	(468)	17 844	(363)
Total Comprehensive Profit (Loss)	**(69 849)**	**(128 794)**	**(305 669)**	**33 214**

 # Costs attributable to non-commercial zones not calculated for 2007-08 due to the unavailability of information.

Comment

In 2011-12, Forestry recorded a Net operating loss before tax of $39.581m, which was $21.867m, or 123.44%, higher than the loss reported last year mainly because sales deteriorated significantly. The most notable was a reduction in the volume of pulpwood sales, down from 1 547 759 tonnes for twelve months until June 2011 to 376 340 tonnes for the same period this year. This decline was a direct result of major customers halting or reducing their production and the closure of essential infrastructure, including the woodchip mill at Triabunna.

In response to the declining demand for its products in Australia, Forestry continued to develop new markets in Asia. In 2011-12, Forestry derived 16.2% of its revenue from sales to Asian countries, compared to 6.0% in the previous year.

The reduction in the volume of sales resulted in a decrease in Revenue from forest sales of $56.696m, or 41.9%. Contractors' expenses, which include the cost of harvesting, haulage and other associated costs, declined in line with the weakening sales by $37.168m or 39.3%. Forest management service revenue also declined, $2.511m, due to clients scaling down their forest management activities.

For several years, Forestry has been making changes to its cost structure to align it with a smaller revenue base, including reducing its workforce. At 30 June 2012, Forestry's workforce was 360 full time equivalents (FTE), compared to 386 FTE and 468 FTE at the end of 2011 and 2010 respectively. As a result of this, Employee benefits decreased by $4.113m in the current year.

Overall, Forestry reported a Net Loss of $70.929m following:

- actuarial reassessment of Forestry's superannuation obligation, which resulted in a loss of $44.219m, mainly reflecting the reduction in discount rates from 5.5% to 3.45% caused by the lower yields on Commonwealth bonds during the year and in particular at 30 June 2012
- Loss on the sale of the GMO JV, $17.316m
- recognition of an Income tax benefit, $30.554m, a result of this year's loss.

STATEMENT OF FINANCIAL POSITION

	2012	2011*	2011	2010	2009
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash	12 283	5 097	9 365	29 546	37 043
Investments	0	7 147	7 147	0	0
Receivables and prepayments	25 566	29 279	34 702	38 540	31 561
Inventories	13 349	12 537	12 684	12 189	10 825
Biological assets	10 923	6 741	6 741	5 559	23 864
Total Current Assets	**62 121**	**60 801**	**70 639**	**85 834**	**103 293**
Payables	12 431	13 583	15 170	20 509	17 613
Unearned revenue - TCFA	9 518	12 988	12 988	14 191	20 154
Borrowings	11 228	29 800	29 800	19 800	19 800
Employee benefits	5 296	4 943	4 943	5 540	5 766
Superannuation	5 348	4 556	4 556	4 187	4 685
Obligations for non commercial forest zones	2 288	1 463	1 463	5 354	0
Total Current Liabilities	**46 109**	**67 333**	**68 920**	**69 581**	**68 018**
Net Working Capital	**16 012**	**(6 532)**	**1 719**	**16 253**	**35 275**
Biological assets	136 937	139 186	224 836	313 178	361 433
Forest estate	116 140	116 749	116 749	114 654	392 422
Property, plant and equipment	42 998	43 999	43 999	46 385	58 475
Investments	0	0	0	13 666	12 680
Deferred tax assets	19 877	0	0	27 467	0
Other	1 155	1 289	1 289	1 714	1 358
Total Non-Current Assets	**317 107**	**301 223**	**386 873**	**517 064**	**826 368**
Borrowings	0	11 000	11 000	21 000	21 000
Finance lease and other payables	11 311	11 522	11 522	11 716	11 895
Unearned revenue - TCFA	31 193	34 744	34 744	45 775	35 792
Deferred tax liabilities	0	10 244	10 244	0	106 126
Employee benefits	0	911	911	1 080	914
Superannuation	160 885	117 898	117 898	118 228	104 390
Obligations for non commercial forest zones	53 012	55 637	55 637	60 446	0
Total Non-Current Liabilities	**256 401**	**241 956**	**241 956**	**258 245**	**280 117**
Net Assets	**76 718**	**52 735**	**146 636**	**275 072**	**581 526**
Contributed equity	234 457	234 457	234 457	234 457	235 457
(Accumulated losses)/Retained profits	(166 464)	(189 596)	(95 695)	33 423	58 254
Reserves	8 725	7 874	7 874	7 192	287 815
Total Equity	**76 718**	**52 735**	**146 636**	**275 072**	**581 526**

* *Excludes assets and liabilities representing Forestry's interest in GMO joint venture. This column was added to facilitate comparison.*

Comment

Total Equity decreased from $146.636m to $76.718m at 30 June 2012. The decrease, $69.918m, reflected the comprehensive loss for the year, $69.849m, and a tax benefit credited directly to Equity, $0.069m.

The corresponding decrease in Net Assets of $69.918m related to:

- higher Cash balance, $2.918m, which is discussed further in the Statement of Cash Flows section of this Chapter
- lower Investments, $7.147m, which were fully realised earlier in the financial year and the proceeds used for redundancies and other operating requirements. These investments were set aside in the past to fund future superannuation obligations
- lower Receivables and prepayments, $9.136m, predominantly due to a decrease in debtors, $15.358m, because of reduced sales volumes. This decline in Receivables was offset by an outstanding $7.800m from the sale of GMO joint venture and a decrease in the provision for impairment, $3.524m
- lower value of Biological assets, $83.717m, as a result of the sale of GMO joint venture, $85.650m, which was offset by a revaluation increment of the remaining general forest zones, $1.933m
- lower total Unearned revenue – TCFA, $7.021m. The movement represented funding consumed in operating and intensive forest management activities during the year
- decreased total Borrowings, $29.572m, as Forestry used proceeds from the sale of GMO joint venture to repay the majority of its debt
- a decrease in future tax obligations, $30.121m, from a net Deferred tax liability of $10.244m at 30 June 2011 to a net Deferred tax asset of $19.877m in the current year. The movement represented the income tax credits on the reported loss
- higher total Superannuation liability, $43.779m, due primarily to a combination of the lower discount rate, from 5.5% to 3.45%, caused by the reduction in the yield on Government bonds during the year and the actuarial reassessment of future pension obligations.

If assets and liabilities, representing Forestry's interest in GMO joint venture, were eliminated from 2011 balances, we estimate that material movements in individual line items between 2011 and 2012 not addressed above were due to:

- increased Cash balance, $7.186m, due to the proceeds from the sale of GMO joint venture
- lower Receivables and prepayments, $3.713m, mainly due to lower sales activity and partly offset by a decrease in the provision for impairment, $3.524m
- higher value of Biological assets, $1.933m, representing a valuation increment discussed previously.

STATEMENT OF CASH FLOWS

	2011-12	2010-11	2009-10	2008-09
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	94 596	161 799	151 292	162 861
Distributions from GMO	4 641	2 250	1 695	1 875
Interest received	1 995	1 796	2 023	2 166
Payments to suppliers and employees	(126 159)	(172 807)	(165 193)	(161 633)
Finance Costs	(1 852)	(2 386)	(1 934)	(1 954)
Cash from (used in) operations	**(26 779)**	**(9 348)**	**(12 117)**	**3 315**
Proceeds from investments	7 008	7 926	0	0
TCFA Grants	0	0	21 966	41 792
Payments for plantation activities	(6 107)	(8 094)	(8 070)	(12 094)
Payments for property, plant and equipment	(11 286)	(10 185)	(14 282)	(17 775)
Proceeds from sale of assets	71 020	690	6 176	2 069
Cash from (used in) investing activities	**60 635**	**(9 663)**	**5 790**	**13 992**
Repayment of borrowings	(29 800)	0	0	0
Finance lease payments	(1 138)	(1 170)	(1 170)	(1 183)
Cash from (used in) financing activities	**(30 938)**	**(1 170)**	**(1 170)**	**(1 183)**
Net increase (decrease) in cash	2 918	(20 181)	(7 497)	16 124
Cash at the beginning of the year	**9 365**	**29 546**	**37 043**	**20 919**
Cash at end of the year	**12 283**	**9 365**	**29 546**	**37 043**

Comment

Despite Forestry receiving $71.020m from the sale of GMO joint venture, Cash at the end of the year increased by only $2.918m from $9.365m at 30 June 2011 to $12.283m. The proceeds were used to repay borrowings, $29.800m, fund the operating cash deficit of $26.779m, and pay partly for plantation activities, $6.107m, and property, plant and equipment, $11.286m.

The deficit in operating cash increased by $17.431m as Receipts from customers dropped $67.203m or 41.5%, but Payments to suppliers and employees decreased by only $46.648m or 27.0%. Apart from reduced sales, to some degree, this disparity was caused by customers taking longer to pay their outstanding invoices but Forestry having to pay its suppliers and employees on time.

Cash from investing activities, $60.635m, comprised mainly of the previously mentioned proceeds from the sale of GMO joint venture, $71.020m, and proceeds of investments drawn down, $7.008m. In the current year, Forestry reduced its level of annual investments in plantation activities by $1.987m as part of limiting capital expenditure. Payments for property, plant and equipment, $11.286m, included $3.300m advanced to a third party for the purchase of Southwood Sawmill, previously owned by Gunns Limited. The third party was unable to meet its obligations and consequently Forestry took possession of the mill. Without this transaction, Payments from property, plant and equipment were $2.199m lower and in line with the strategy of reducing capital expenditure.

Financing activities decreased by $29.768m due primarily to the repayment of borrowings, $29.800m. At 30 June 2012, Forestry had an unused loan facility with Tascorp of $20.000m.

Forestry did not propose a dividend for the 2011-12 financial year, and no dividend was paid during the preceding three financial years.

FINANCIAL ANALYSIS

	Bench Mark	2011-12	2010-11	2009-10	2008-09
Financial Performance					
Net Profit (Loss) ($'000s)		(70 929)	(129 476)	(263 882)	32 286
EBIT ($'000s)		(30 477)	(8 501)	(7 406)	6 962
Operating margin	>1.0	0.77	0.95	0.96	1.04
Return on assets		(7.3%)	(1.6%)	(0.9%)	0.8%
Return on equity		(63.5%)	(61.4%)	(61.6%)	5.7%
Financial Management					
Debt to equity		14.6%	27.8%	14.8%	7.0%
Debt to total assets		3.0%	8.9%	6.8%	4.4%
Interest cover - EBIT	>2	(3.0)	(0.8)	(0.8)	0.7
Interest cover - operating cash flows	>2	(2.6)	(0.9)	(1.2)	0.3
Current ratio	>1	1.3	1.0	1.2	1.5
Cost of debt		7.1%	5.8%	4.7%	5.6%
Debt collection	30 days	130	95	89	63
Creditor turnover	30 days	43	37	53	49
Other Information					
Average staff numbers (FTEs)		369	433	479	483
Average staff costs ($'000s)		71	70	69	75
Average leave balance per FTE ($'000s)		16	14	12	12

Comment

Forestry continued to operate in a difficult economic and political environment. The downturn in the forest industry and the uncertainty about the industry's future led to significant losses during the period under review, mainly due to the write-down of biological assets by $130.609m over the four years under review. In addition, Net Profit over the last four years was significantly affected by the impairment of forest land, $217.198m, the recognition of and movements in the obligations for non-commercial forest zones, $55,300m, and movements in the actuarial valuation of the defined benefit superannuation liability, $56.394m.

EBIT was calculated on the result inclusive of Costs attributable to non-commercial zones and some components of movements in superannuation liability (employer service cost and expected return on plan assets), as these are regarded as operating expenses. Therefore, EBIT is a better measure of operations. The decline in EBIT over the four years under review, and especially the sharp drop this year, $21.976m, was primarily caused by weakening sales.

The repayment of $29.800m in borrowings drove the lower Debt to equity and Debt to total assets ratios. Interest cover ratios weakened despite lower finance costs due to the higher loss incurred this year. Cost of debt increased due to the timing of the borrowings repayment in the second half of the year.

Debt collection ratio worsened to 130 days as some major customers, on which Forestry relies for most of its sales, were not paying their commitments within the standard credit terms. Creditor turnover also worse than benchmark of 30 days in all years under review.

Average staff numbers decreased as Forestry restructured its operations and reduced its workforce.

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 sites to other users. The Huon Valley and Smithton sites are now housing interrelated forest product processing operations including rotary peeled veneer plants and saw mills. The merchandising yard at Huon was sold in 2011-12.

The table below summarises the consolidated financial performance and position Newood Holdings Pty Ltd.

	Consolidated	
	2011-12	**2010-11**
	$'000	$'000
Total Revenue	2 921	3 124
Total Expenditure	3 200	3 463
Profit/(Loss)	**(280)**	**(339)**
	2012	**2011**
	$'000	$'000
Current Assets	2 400	1 383
Non-Current Assets	21 227	22 348
Total Assets	**23 627**	**23 731**
Current Liabilities	664	685
Non-Current Liabilities	23 157	22 984
Total Liabilities	**23 821**	**23 669**
Net Assets	**(194)**	**62**
Equity	**(194)**	**62**

The significant revenue items for the Newood group are the sale of power and site rental. The significant expenditure items are electricity charges and finance lease repayments.

Newood Energy entered into a 25-year finance lease with Transend Networks Pty Ltd relating to the repayment of the capital contribution towards the construction of the transmission line onto the Huon Wood Centre site. The ongoing viability of Newood Energy is dependent on an investor being found for a wood fired power station which would convert residues to electricity and heat.

HYDRO-ELECTRIC CORPORATION

INTRODUCTION

The Hydro-Electric Corporation (Hydro or the Corporation, or the Organisation) 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
- operates 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 activities in Australia
- has a 25% ownership in the Woolnorth Wind Farms on the North-west coast of Tasmania
- operates a number of wind farm development sites through its subsidiary HT Wind Operations Pty Ltd.

Following 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), has the responsibility for demolition of this station which ceased operations in April 2009. BBP has previously raised a provision for demolition and site restoration. This provision remained unchanged at $18.635m.
- **Bell Bay Three Pty Ltd.** This company's assets have been disposed of and it did not operate in 2011-12.
- **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 $0.047m in 2011-12 (2010-11, $0.038m).
- **Hydro Tasmania Consulting (Holding) Pty Ltd** is the holding company for Hydro's consulting activities in India, undertaken through its wholly owned Indian company, Hydro Tasmania Consulting India Private Limited. The Indian subsidiary made a profit of $0.02m during 2011-12 (2010-11, $0.03m).
- **RE Storage Project Holding Pty Ltd** has entered into a joint venture to investigate renewable energy commercial opportunities. However at 30 June 2012 it was not operating.
- **HT Wind Operations Pty Ltd** (HT Wind Operations) is a subsidiary that was fully incorporated into the group on 30 June 2011 following dissolution of the Roaring 40s joint venture. In February 2012, a 75% interest in the Woolnorth Wind Farms (Bluff Point and Studland Bay) was divested to Shenhua Clean Energy Holdings Pty Ltd. The remaining companies of the HT Wind Operations Group are holding companies for potential future developments. The operation will be discussed later in this Chapter.
- **Momentum Energy Pty Ltd** (Momentum Energy) is an energy retailer with licences in Victoria, South Australia, New South Wales, Queensland and the ACT. The operation will be discussed later in this Chapter.

The Auditor-General is the auditor of all wholly-owned subsidiary companies other than Hydro Tasmania Consulting India Private Limited.

AUDIT OF THE 2011-12 FINANCIAL STATEMENTS

The Directors signed Hydro's financial statements on 13 August 2012 and an unqualified audit report was issued on the same day.

The audits of Hydro's 100% owned subsidiaries, excluding HT Wind Operations, were completed at the same time, with unqualified audit opinions being issued for all entities by 13 August 2012. The financial statements for HT Wind Operations are yet to be received. However through the course of our audit for the Group we performed audit procedures to satisfy ourselves that the records and accounts were true and fair. The net assets of HT Wind Operations are $160m, which was primarily generated from the cash contribution from the divestment of its Woolnorth Wind Farms and the on-going construction of Musselroe.

The audits were completed satisfactorily with no major items outstanding. However, the audit identified the following areas reported to the Board:

1. The current information technology projects being completed by Hydro including the implementation of SAP and Energy Trading Risk Management are enterprise transformational projects. We consider these to be significant and positive responses to the market risk issues associated with operating in the NEM as a vertically integrated energy entity.

2. Hydro operates in a dynamic and ever changing environment and this brings with it associated complex accounting and tax technical matters. This is the case when completing complex acquisitions and disposals. Hydro is addressing its resourcing to handle the complex technical matters that arise in such circumstances.

KEY FINDINGS AND DEVELOPMENTS

Divestment of Woolnorth Wind Farm

Hydro now has a 25% holding in the Woolnorth Wind Farms following the divestment of 75% in February 2012. This resulted in Hydro consolidating the first eight months of income and expenditure into its 2012 results. The remaining four months have been equity accounted at Hydro's 25% investment holding. The divestment of the Woolnorth Wind Farm resulted in proceeds from sale of $88.082m. The Woolnorth Wind Farm joint venture had revenue of $10.606m. After alignment of accounting policies in regards to the valuation of financial instruments, the joint venture contributed a net profit of $16.324m.

Hydro's Corporate Plan

In developing its corporate plan for 2011-12, 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 National Electricity Market (NEM).
- The Momentum Energy retail strategy in building its TWh sales. Momentum has achieved 5TWh of contracted sales; two years ahead of target.
- Assessing the impacts on the Organisation and the National Energy Market (NEM)of the carbon price implemented on 1 July 2012.
- Funding the Corporation's capital refurbishment program.

- Achieved BBB rating during 2012. This increases Hydro's financial flexibility, reduces borrowing costs, and reflects a more competitive capital structure.
- Water storages at 30 June 2012 were at 53.6% (2011: 45.9%). This is the highest 30 June level since 2000. The 2011-12 year has seen the continuation of Hydro's 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 is projected to be completed in the current five year corporate plan period.

Risk Management

The major market risk exposure of Hydro is the NEM. In order to manage this risk Hydro hedges its various retail and wholesale contractual arrangements using natural positions and market based products. These are entered into at a point in time and are subject to changes in market value as market prices change. Because of the nature of the NEM all of the Wholesale contracts and the market based products are derivative financial instruments. Australian Accounting Standards require Hydro to value these derivative financial instruments at fair value. The change in fair value is recorded in the Statement of financial Performance as the line item Movements in Fair Value. The value associated with this item is reflective of the change in market prices since the original contracts were entered into.

Hydro's capital investment program

Hydro's capital investment program continued in 2011-12 and was targeted at sustaining generation assets and reducing their availability risks to assist Hydro to actively operate in the NEM. Over the last four years Hydro has invested over $400m in its asset base. In the last twelve months it invested $116.731m in the construction stage of Musselroe Wind Farm.

Carbon Price

In 2009 the Corporation included a conservative assumption within the fair value of generation assets determinations to reflect the expected impact on forecast prices of the then proposed carbon trading scheme. The conservative approach was to include a carbon price below the published international carbon prices due to the on-going uncertainties with the Federal Government's carbon policies. This conservative approach continued until more certainty regarding the Federal Government's carbon policy was known.

In July 2011, the Carbon Policy legislation was passed and was to commence from 1 July 2012. The introduction of the carbon price has created a level of certainty, within the short term fixed carbon price period for Hydro and has enabled key strategies to be adopted and implemented to manage the opportunities this presents to the Organisation. Beyond the fixed carbon price period, uncertainty still exists in regards to the substance and form of the carbon price within the context of current Commonwealth Government policy.

These prices are reflected in the Forward Price Curve which is used in all valuation models relating to energy assets and liabilities.

Forward Price Curve

Hydro uses an internally developed forward price curve to assist in determining the fair value of its generation assets and its derivative contracts. The forward price curve is also used as a proxy for prices in business case evaluation and is reviewed each year in light of developments in the NEM, legislative changes, forecast generation, forecast energy demand and inflows. The forward price curve is approved by the Board each year.

Internally, Hydro has developed a Long Term Pricing Methodology which has undergone extensive internal rigour and review. The methodology considers a number of factors including carbon pricing, volumes, demand, new generation entrants and capacity.

This Forward Price Curve is used in all energy related asset and liability valuation models.

Asset Revaluation Model

The running of the Asset Revaluation Model resulted in a revaluation uplift in Hydro's generation assets of $321.351m. The recognised uplift was through a combination of factors including the Long Term Pricing Methodology, the forward price curve, the corporate strategy for trading in the short to medium term, favourable water storages and utilising Basslink as it was intended. As the previous impairment of the generation asset was fully recovered through the statement of financial Performance in the Year Ended 30 June 2010 this revaluation was taken on an after tax basis to the Asset Revaluation Reserve through the Statement of Comprehensive Income.

Major Industry contracts

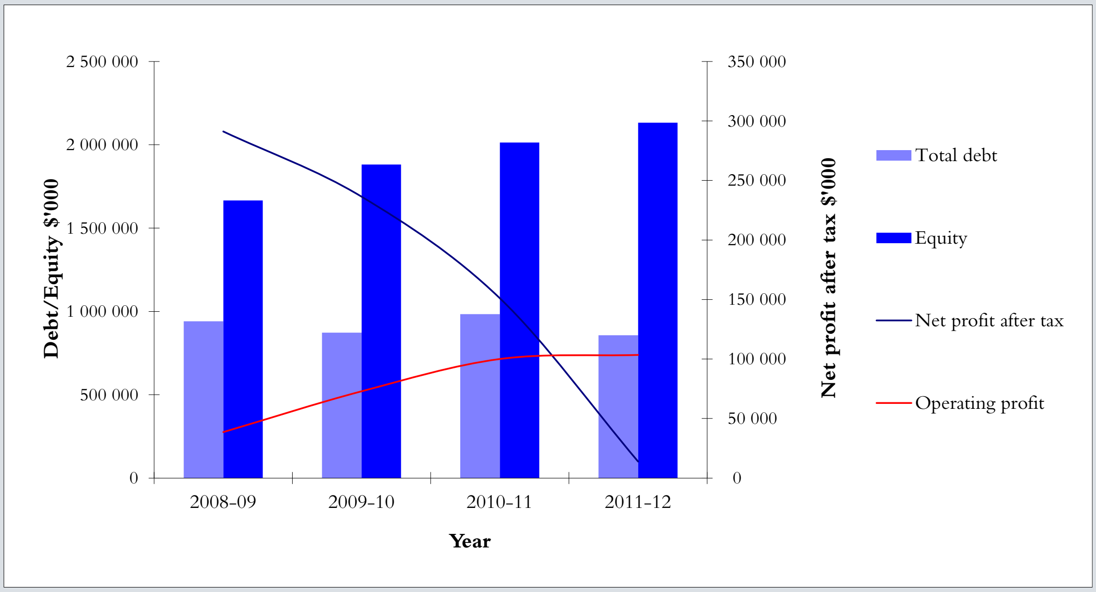
In June 2012, Hydro signed a new power supply agreement with Pacific Aluminium which reflected the commercial provisions of the Carbon Tax and supported the on-going operation of its smelter. Hydro also negotiated a new power supply agreement for BHP Temco.

FINANCIAL RESULTS

The financial information presented below summarises the consolidated financial statements of Hydro and its subsidiaries. When assessing Hydro's operating performance in 2011-12, the following matters need to be considered:

1. As mentioned previously, Hydro achieved a BBB stand-alone credit rating in 2012. This increases Hydro's financial flexibility, reduces borrowing costs, and reflects a more competitive capital structure.
2. As discussed above, Hydro divested 75% of its interest in the Woolnorth Wind Farms.
3. During the year Hydro continued to negotiate new contracts with major industrial customers.
4. As mentioned previously Hydro revalued its generation assets in line with the results from its Asset Revaluation Model.

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 past four years Hydro generated net operating profits before tax and fair value movements. In the past two years, the operating profits before tax and fair value adjustments have exceeded $100 million. However, the net profit after tax and fair value adjustments in 2011-12 were significantly impacted by mark to market valuations resulting in an unfavourable charge of $85.571m for the Group at 30 June 2012. This was largely attributable to the favourable derivative contracts held at 30 June 2011 being settled during 2012. It needs to be borne in mind that the derivatives being valued form part of Hydro's economic risk management strategies and are valued in accordance with Australian Accounting Standards. The future income streams which are being economically risk managed are not valued. The 2009 and 2010 movements in fair value include revaluations of previously impared Generation assets. In 2010 this impairment was fully recovered and the 2012 revaluation of the generation assets is recorded in the Statement of Comprehensive Income, not through the Statement of Financial Performance.
- Since 30 June 2008, Hydro's equity has improved mainly due to retained profits and, in 2012, the revaluation of its generation assets.

COMPREHENSIVE INCOME STATEMENT

	2011-12	2010-11	2009-10	2008-09
	$'000s	$'000s	$'000s	$'000s
Sales of goods and services	1 039 693	804 181	717 246	609 241
Other operating revenue	11 438	8 591	9 687	16 496
Total Revenue	**1 051 131**	**812 772**	**726 933**	**625 737**
Direct operating expenses	590 001	374 930	319 018	262 518
Labour	104 802	104 660	100 763	88 822
Other operating expenses	83 544	68 932	70 204	73 242
Share of loss of joint venture	384	3 880	6 044	2 092
Depreciation	82 273	79 873	77 681	73 766
Total Expenses	**861 004**	**632 275**	**573 710**	**500 440**
Operating profit before interest and taxation	**190 127**	**180 497**	**153 223**	**125 297**
Finance costs	(86 687)	(80 481)	(80 337)	(86 684)
Operating profit	**103 440**	**100 016**	**72 886**	**38 613**
Share of profit of joint venture from asset sale	0	0	0	6 715
Gain on R40s restructure	0	22 645	0	0
Movements in fair value	(85 571)	93 744	259 194	372 563
Profit (Loss) before taxation	**17 869**	**216 405**	**332 080**	**417 891**
Income tax expense	(3 997)	(65 313)	(95 646)	(126 685)
Net Profit (Loss)	**13 872**	**151 092**	**236 434**	**291 206**
Other Comprehensive income				
Cash flow hedge fair value gain taken to equity	(18 581)	2 653	1 660	(22 327)
Actuarial gains (losses) on RBF provision	(91 503)	6 210	(24 302)	(4 446)
Revaluation of Property, Plant and Equipment	321 351	0	0	0
Other	(287)	(264)	95	(87)
Income tax relating to these items	(63 294)	(2 659)	6 793	8 033
Other Comprehensive income (loss)	**147 696**	**5 940**	**(15 754)**	**(18 827)**
Total Comprehensive Profit	**157 032**	**220 680**	**272 379**	**168 250**

Comment

Operating profits before interest and tax

On an earnings before interest and tax basis, Hydro's results improved by $9.630m in 2011-12. Total Expenses represented 81.91% of Total Revenue (2010-11, 77.80%). Total revenue increased by $238.359m, or 29.33%, primarily due to additional revenues generated by Momentum Energy and higher generation resulting from improved water inflows into storages. Direct operating expenses increased by $215.071m or 57.36%. This is reflective of the continued growth in Momentum.

Finance Costs

Finance costs are relatively consistent with the prior year mainly due to consistent debt levels throughout the period. Finance costs associated with the Musselroe wind farm development were minimal during the period and were capitalised to the project.

Fair Value Movements

Under this category Hydro presents those items which reflect changes in the fair value of assets and liabilities and other significant gains or losses:

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.

Gain on Woolnorth Wind Farms Divestment: Reflects the gain on the divestment in the subsidiaries. The gain on sale was $6.488m.

Previously in this Chapter we discussed the movements in fair value within the Forward Price Curve and Asset Revaluation Model sections.

Other Comprehensive Income

The major items of Other comprehensive income were:

Revaluation of property, plant & equipment: Hydro's generation assets are carried at fair value and must be assessed annually for any indication that carrying value exceeds fair value. Following the revision of the forward price curve and the update of operational strategies detailed in the corporate plan including:

- strategic management of water storages
- revenues resulting from the Carbon Price in the early years of the program
- the opportunity to use Basslink to optimise revenues,

generation assets were revalued upward by $321.351m. The fair value adjustment has been discussed previously in this Chapter under the Asset Revaluation and Forward Price Curve sections.

Actuarial gains/(loss) on RBF provision: The actuarial loss is as advised by the State Actuary and is primarily caused by the significant reduction in the discount rate used to value the future liability, from 5.50% to 3.45%, reflecting the reduction in yields on Government bonds during the year.

Momentum Energy

Hydro's investment in Momentum Energy has delivered benefits from vertical integration and created natural hedging opportunities for generation capacity in Tasmania.

Momentum's financial performance in recent years is set out in the following table:

	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s
Income Statement			
Total revenue	463 808	244 856	113 646
Energy purchases and operating costs	(451 816)	(243 644)	(119 711)
Depreciation and amortisation	(893)	(452)	(207)
Profit before fair value movements	**11 099**	**760**	**(6 272)**
Movements in fair value	0	0	4 677
Earnings before interest and tax (EBIT)	**11 099**	**760**	**(1 595)**
Interest expense	0	0	(232)
Profit/(loss) before tax	**11 099**	**760**	**(1 827)**
Income tax benefit/(expense)	(3 351)	(298)	534
Net profit/(loss)	**7 748**	**462**	**(1 293)**
	2012	**2011**	**2010**
Balance Sheet			
Current assets	98 659	41 002	20 130
Non-current assets	17 153	12 148	8 178
Total Assets	**115 812**	**53 150**	**28 308**
Current liabilities	(83 602)	(35 651)	(15 501)
Non-current liabilities	(20 796)	(13 176)	(8 946)
Total Liabilities	**(104 398)**	**(48 827)**	**(24 447)**
Equity	**11 414**	**4 323**	**3 861**

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 2012, Momentum generated an after tax profit of $7.750m (2010-11, $0.462m). Hydro set Momentum a short-term goal to increase sales to 5TWh by financial year 2013. Strong progress was made and this was achieved during the year and is reflected in the growth of Momentum's revenue.

STATEMENT OF FINANCIAL POSITION

	2012	2011	2010	2009
	$'000s	$'000s	$'000s	$'000s
Cash	7 029	7 680	2 791	4 315
Receivables	142 062	114 253	82 657	154 356
Investments	32	5 519	247	26 247
Inventories	54 706	65 461	57 168	51 815
Financial assets	202 368	201 892	117 554	166 005
Tax refund receivable	0	0	0	16 948
Assets held for sale	116 731	0	0	0
Total Current Assets	**522 928**	**394 805**	**260 417**	**419 686**
Payables	124 700	81 260	69 935	171 576
Borrowings	211 252	380 283	206 835	146 241
Other financial liabilities	464 891	94 831	148 537	152 916
Tax liabilities	28 938	29 388	11 392	0
Provisions	54 114	44 610	36 017	70 384
Total Current Liabilities	**883 895**	**630 372**	**472 716**	**541 117**
Working Capital	**(360 967)**	**(235 567)**	**(212 299)**	**(121 431)**
Property, plant and equipment	4 484 569	4 414 220	4 161 631	4 146 346
Investments	34 557	0	121 790	122 826
Other financial assets	715 986	649 773	537 368	476 245
Goodwill	47 796	47 796	47 796	47 796
Total Non-Current Assets	**5 282 908**	**5 111 789**	**4 868 585**	**4 793 213**
Borrowings	645 554	603 083	666 029	794 994
Provisions	413 133	326 544	327 444	295 195
Other financial liabilities	958 432	1 157 846	1 043 176	1 238 430
Deferred tax liabilities	772 775	775 296	737 707	677 681
Total Non-Current Liabilities	**2 789 894**	**2 862 769**	**2 774 356**	**3 006 300**
Net Assets	**2 132 047**	**2 013 453**	**1 881 930**	**1 665 482**
Reserves	296 907	(5 576)	(7 965)	(9 720)
Contributed equity	271 100	271 100	271 100	270 000
Retained profits	1 564 040	1 747 929	1 618 795	1 405 202
Total Equity	**2 132 047**	**2 013 453**	**1 881 930**	**1 665 482**

Comment

Commentary below deals with movements in the Statement of Financial Position between the 2011-12 and 2010-11 financial years.

Total Equity

Hydro's total equity increased in line with its total comprehensive profit of $161.558m, less the payment of dividends of $49.008m to the State.

Property, plant and equipment valuation

As discussed earlier, the generation assets in the current year were re-valued upwards by $321.351m. The basis for this revaluation is explained in Other Comprehensive Income earlier.

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
- Borrowings.

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 18 to Hydro's financial statements details the impacts of movements in these balances between the last two financial years. Note 18 provides guidance in terms of Hydro's management of its financial instruments and sensitivity analysis.

Borrowings

Hydro's borrowings totalled $856.806m at 30 June 2012 compared to $983.366m in the previous year, an overall decrease of $126.560m. This decrease was largely driven by the divestment of the Woolnorth Wind Farms in February when borrowings of $163m were transferred.

Net working capital

Hydro's net working capital position at 30 June 2012 was negative $360.967m (2010-11, negative $235.567m) primarily due to short term borrowing obligations of $211.252m and an increase in other financial liabilities to $464.891m ($94.831m).

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 and debt repayment programs. Hydro's cash flow performance is discussed further in the next section of this Chapter.

Other financial liabilities (current/non-current)

The increase in other financial liabilities was due to the classification of the Basslink facility fee swap into current. The reclassification into current liabilities was the result of the counterparty indicating an intention to terminate the swap. At the time of signing the accounts Hydro was considering its options regarding this matter.

Superannuation

Hydro's provision for superannuation liability totalled \$408.149m (2010-11, \$319.719m). As mentioned earlier in the Chapter, the movement in this liability was primarily caused by changes in discount rates and the value of contributory scheme liabilities, as determined by the State Actuary.

HT Wind Operations Pty Ltd (formerly Roaring 40s Renewable Energy Pty Ltd)

HT Wind was formed out of the disaggregation of Roaring 40s Renewable Energy Pty Ltd joint venture on 30 June 2011. As a result Hydro acquired full ownership of the Musselroe, Sidonia Hills and Mt Fyans wind farm development sites, an additional 200MW of pre-feasibility stage wind development sites and the Tasmanian-based operational wind farms at Woolnorth. The impact of this was to increase, at 30 June 2011, Hydro's assets by \$265.326m, and liabilities, in particular borrowings, by \$174.268m.

As mentioned previously, in February 2012, a 75% interest in the Woolnorth Wind Farms was divested to Shenhua Clean Energy Pty Ltd. This resulted in Hydro consolidating the first eight months of income and expenditure into its 2012 results. The remaining four months have been equity accounted at Hydro's 25% investment holding. The remaining companies of the HT Wind Operations Group are holding companies for potential future developments. At 30 June 2012 the investment in the Mussleroe Wind Farm construction totalled \$116.731m. Refer further comment below.

Musselroe Wind Farm (Assets Available for Sale)

The Musselroe Wind Farm commenced construction in 2011-12 and was classified as available for sale at 30 June 2012.

Assets available for sale at 30 June 2012 are the costs capitalised to date for the Musselroe wind farm project. This is a 168MW wind farm and is expected to be completed and operational by 30 June 2013. At the time of writing, Hydro had recently negotiated a 75% divestment of its investment in this project.

Payables

The increase in payables from 2011 is largely driven by settlement of purchases through AEMO, and is reflective of Momentum Energy's continued growth.

Investments

Hydro's 25% investment in the Woolnorth Wind Farm joint venture is reflected in the balance sheet as an investment of \$34.549m as at 30 June 2012.

Provisions

The increase in provisions from 2011 is largely driven by the actuarial loss on the RBF provisions as mentioned previously.

STATEMENT OF CASH FLOWS

	2011-12	2010-11	2009-10	2008-09
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	1 007 227	781 480	788 458	491 430
Government grants	8 032	9 467	7 450	8 530
Payments to suppliers and employees	(784 011)	(552 170)	(555 461)	(394 779)
Interest received	873	214	652	4 252
Finance costs	(61 289)	(55 290)	(58 103)	(61 113)
Government guarantee fee	(8 697)	(6 646)	(4 954)	(4 477)
Income tax equivalent paid	(54 799)	(16 249)	0	0
Cash from (used in) operations	**107 336**	**160 806**	**178 042**	**43 843**
Proceeds from investments	88 082	0	0	0
Payments for investments	0	0	(4 200)	(8 974)
Payments for financial assets	(13 041)	(27 674)	476	10 838
Payments for property, plant and equipment	(167 379)	(64 618)	(94 748)	(78 032)
Business Acquisition	0	0	(34 500)	(17 763)
Proceeds from sale of property, plant and equipment	509	753	859	15 659
Cash from (used in) investing activities	**(91 829)**	**(91 539)**	**(132 113)**	**(78 272)**
Proceeds from borrowings	565 600	262 600	101 300	0
Repayment of borrowings	(537 601)	(306 300)	(170 000)	(30 000)
Equity Contribution	0	0	1 100	0
Cash balances acquired in business acquisition	0	10 639	0	7 037
Repayment of shareholder loans of acquired business	0	0	0	(5 165)
Repayment of finance lease	(636)	(535)	(521)	(183)
Dividend paid	(49 008)	(25 510)	(5 332)	0
Cash from (used in) financing activities	**(21 645)**	**(59 106)**	**(73 453)**	**(28 311)**
Net increase (decrease) in Cash	**(6 138)**	**10 161**	**(27 524)**	**(62 740)**
Cash at the beginning of the year	13 199	3 038	30 562	93 302
Cash at end of the year	**7 061**	**13 199**	**3 038**	**30 562**

Comment

While proceeds from borrowings and repayment of borrowings have remained consistent, overall borrowings have decreased due to the Woolnorth Wind Farm divestment, as mentioned previously under borrowings.

Payments for property, plant and equipment has increased largely due to the Musselroe Wind Farm construction.

Cash from operations in 2011-12, $107.336m, decreased by $53.470m from 2010-11. This is largely reflected by the income tax equivalent paid of $54.766m, higher finance costs and guarantee fees paid.

In the context of this I reiterate and add to my comments of previous years that the balance which Hydro has to strike is one of:

- Adopt prudent risk management practices which are reflective of the environment within which it operates.
- 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 working capital commitments to its trading subsidiaries and joint ventures without compromising the needs of its core business.

FINANCIAL ANALYSIS

	Bench Mark	2011-12	2010-11	2009-10	2008-09
Financial Performance					
Net profit after tax ($'000)		13 872	151 092	236 434	291 206
EBIT ($'000s)		190 127	180 497	153 223	125 297
EBITDA ($'000s)		272 400	260 370	230 904	199 063
Operating margin	>1.0	1.35	1.47	1.47	1.47
Return on assets	5.21	3.4%	3.4%	3.0%	2.5%
Return on equity		0.7%	7.8%	13.3%	19.0%
Financial Management					
Debt to equity		40.2%	48.8%	46.4%	56.5%
Debt to total assets		14.8%	17.9%	17.0%	18.1%
Interest cover - EBIT	>2	2.19	2.24	1.91	1.45
Interest cover - EBITDA	>2	3.14	3.24	2.87	2.30
Interest cover - operating cash flows		2.75	3.91	4.06	1.72
Current ratio	>1	0.59	0.63	0.55	0.78
Cost of debt	6.9%	7.2%	7.2%	7.0%	6.6%
Debt collection	30 days	50	52	42	85
Creditor turnover	30 days	20	24	18	36
Asset Management					
Investment gap %	100%	203.4%	80.9%	122.0%	105.8%
Returns to and from Government					
Dividends paid ($'000s)		49 008	25 510	5 332	0
Income tax paid ($'000s)		54 799	16 249	0	0
Government guarantee fees ('$000s)		8 697	6 646	4 954	4 477
Total return to the State ($'000s)		112 504	48 405	10 286	4 477
Dividends payable ($'000s)		50 685	49 008	25 510	5 332
Dividend payout ratio	50%	365.4%	32.4%	10.8%	1.8%
Dividend to equity ratio		2.5%	2.5%	1.4%	0.3%
CSO funding ($'000s)		8 000	7 500	6 900	7 900
Other Information					
Average staff numbers (FTEs)		916	899	894	832
Average staff costs ($'000s)		114	116	113	107
Average leave balance per FTE ($'000s)		24	23	23	25

Comment

Hydro's debt to equity ratio improved by 8.6% during the year due to the revaluation of its generation assets and divestment of the Woolnorth wind farms and associated debt. Overall, Hydro improved its trading performance through 2011-12 generating a profit before tax and fair value movements of over $100m for the second consecutive year.

Total return to the State was $112.504m (2011, $48.405m). This consisted of:

- Dividends of $49.008m
- Income tax equivalent of $54.799m
- Government guarantee fee of $8.697m

Dividends declared and payable to the State was $50.685m. This has skewed the Dividend payout ratio with a dividend payable greater than Net profit after tax as dividend payments are a fixed 70% of operating profit before fair value movements.

Return on assets of 3.4% is consistent with last year with this ratio showing improvement throughout the period, which is also an outcome of the higher generation resulting from improved inflows and the BBB strategy.

Debt collection and the creditor turnover days were both significantly impacted by the size of the debtors and creditors balances with the Australian Energy Market Operator and also the collection of retail debtors of Momentum.

MOTOR ACCIDENTS INSURANCE BOARD

INTRODUCTION

The Motor Accidents Insurance Board (MAIB) 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 the Act.

At 30 June 2012, the MAIB's Board of Directors comprised seven members, including the Chief Executive Officer, who are all appointed by the Governor on the joint recommendation of the Treasurer and Portfolio Minister, the Minister for Infrastructure.

AUDIT OF THE 2011-12 FINANCIAL STATEMENTS

Signed financial statements were received on 14 August 2012 and an unqualified audit report was issued on 15 August 2012.

As part of conducting our audit this year, we engaged our own independent actuary to assess various aspects relating to expenses and balances arising from the Outstanding claims liability. These items represent significant transactions at MAIB. This work resulted in our conclusion that the estimates and judgements made by the MAIB actuary were appropriate. Recommendations for consideration were made with management agreeing to address these in 2012-13.

KEY FINDINGS AND DEVELOPMENTS

There were no significant findings during the year. The audit was completed satisfactorily with no issues outstanding.

OVERVIEW

Net profit before taxation

In 2011-12 the MAIB recorded an operating loss before taxation of $43.560m (2011, profit $69.495m). The MAIB's operating result from year to year is subject to significant volatility due to the long term nature of its claims liabilities and corresponding investment in growth assets and it is therefore more appropriate to assess the MAIB's performance over longer periods. The average annual result over the four year period of this report is a net profit before tax of $25.532m.

Focussing on the 2011-12 year, the main components of the MAIB's operating result are:

- premium revenue
- claims expense
- investment revenue

Premium Revenue

Premium revenue increased during the year by 2% to $139.167m primarily from higher vehicle numbers. Premium rates were not increased during the year, with the most recent increase to rates having been effective on 1 December 2009.

Claims Expense

The Claims Expense increased from $133.978m in 2010-11 to $201.094m in 2011-12 and was the reason for the reported underwriting loss in the year.

The increase was primarily due to the requirement for the MAIB to discount its claims liabilities using risk-free rates. The significant reduction in the yields on Commonwealth Government securities during the year has resulted in a $95.000m increase in claims liabilities which constitutes the main component of the 2011-12 claims expense.

Claims accident experience remains favourable with accident rates over the last four years continuing to decline and payments over that period remaining steady at an average of $72.335m. In addition, the actuarial review of long term future care claims identified further improvement in the claims experience.

Investments

The MAIB reported investment revenue for 2011-12 of $23.292m net of fees (2010-11: $77.148m), representing a return of 2.2% (2010-11: 8.0%). The reduction in investment revenue reflects the impact of the downturn in Australian and international investment markets during the year. The MAIB manages the duration of its investments in line with its liability profile and as a result has a significant allocation to growth assets. This investment strategy is designed to maximise long-term returns within acceptable bounds of risk, but this strategy will also result in significant volatility in reported annual results.

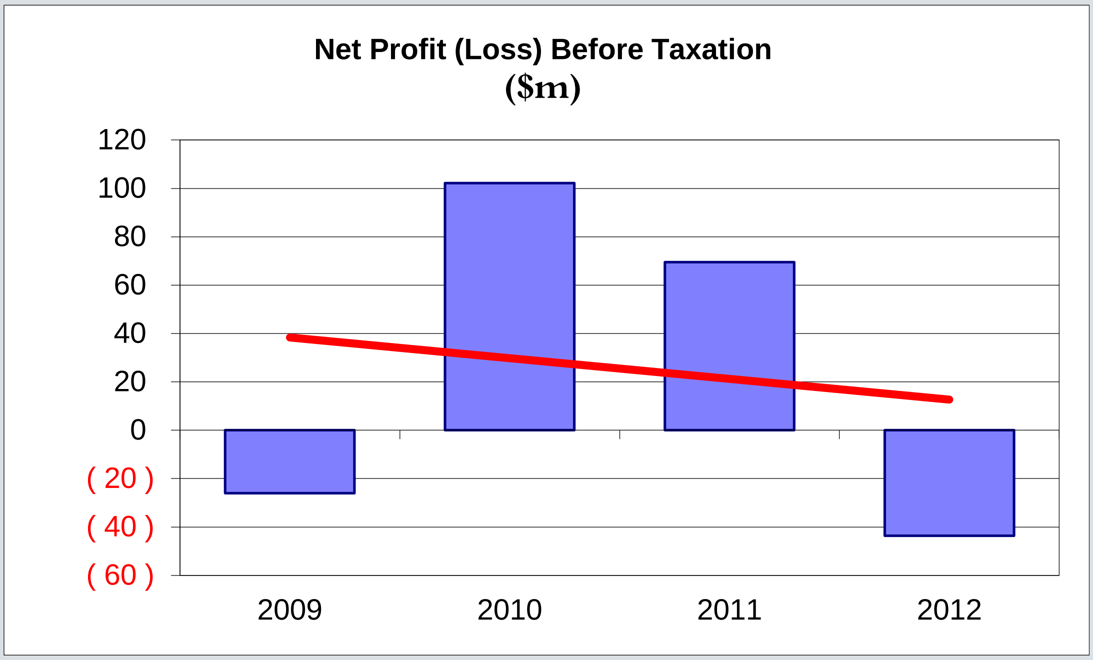
Solvency

The solvency ratio decreased to 18.6% at 30 June 2012, (2011, 25.7%) which is marginally below the Board's target range of 20% to 25%. MAIB's Corporate Plan indicates that the solvency position is expected to return to within the target range by June 2013 and to remain within that range for the subsequent three years covered by the plan. Management also advises 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.

FINANCIAL RESULTS

The following graphs summarise key ratios highlighting important aspects of MAIB's financial performance over the past four years. Being a long-tail insurer with a significant allocation of investments to growth assets, MAIB targets long-term investment growth but, in doing so is subject to short-term volatility which is evident in the financial ratios. MAIB forecasts for the next three years show the KPI's returning to levels more representative of longer term trends.

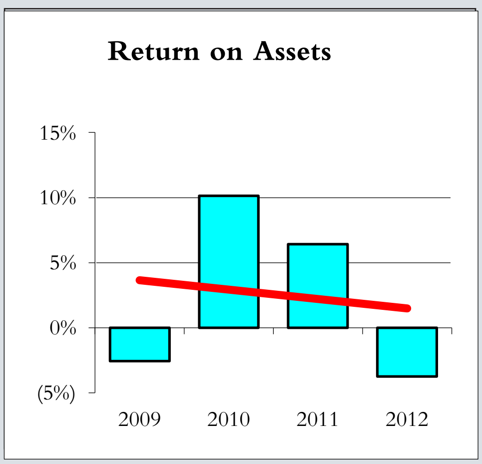
Net profit (loss) before taxation

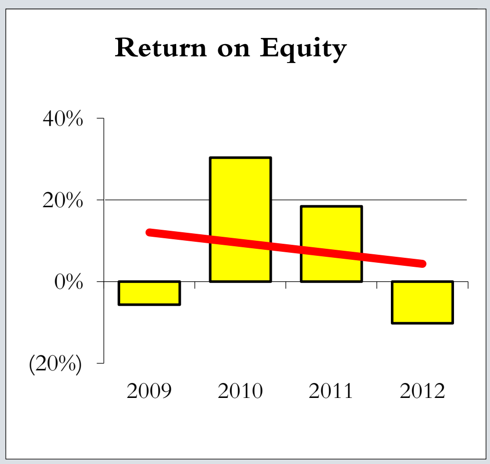


The above graph highlights the year on year volatility experienced by the MAIB resulting from its mix of long-tail liabilities matched by an appropriate long term investment strategy. The focus on the longer term introduces short term (annual) volatility in operating results resulting primarily from movements in world financial markets and the impact of movements in the inflation and discount rate assumptions underlying the valuation of the outstanding claims liability.

The negative result in 2008-09 was primarily due to the global financial crisis followed by stronger investment returns in 2009-10 and 2010-11. In 2011-12 investment markets weakened and decreasing bond yields resulted in a significant increase in the Outstanding claims liability.

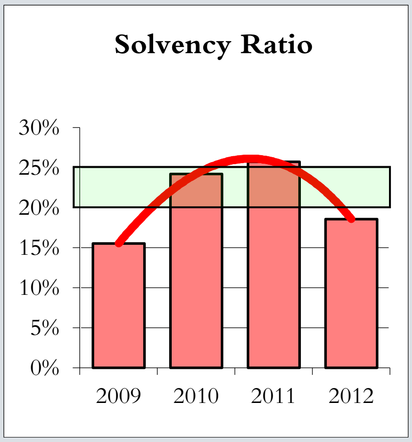
This volatility is further illustrated in the return on assets and return on equity ratios which follow.





Solvency

The following ratio and graph illustrate the strength of the MAIB's net asset position.

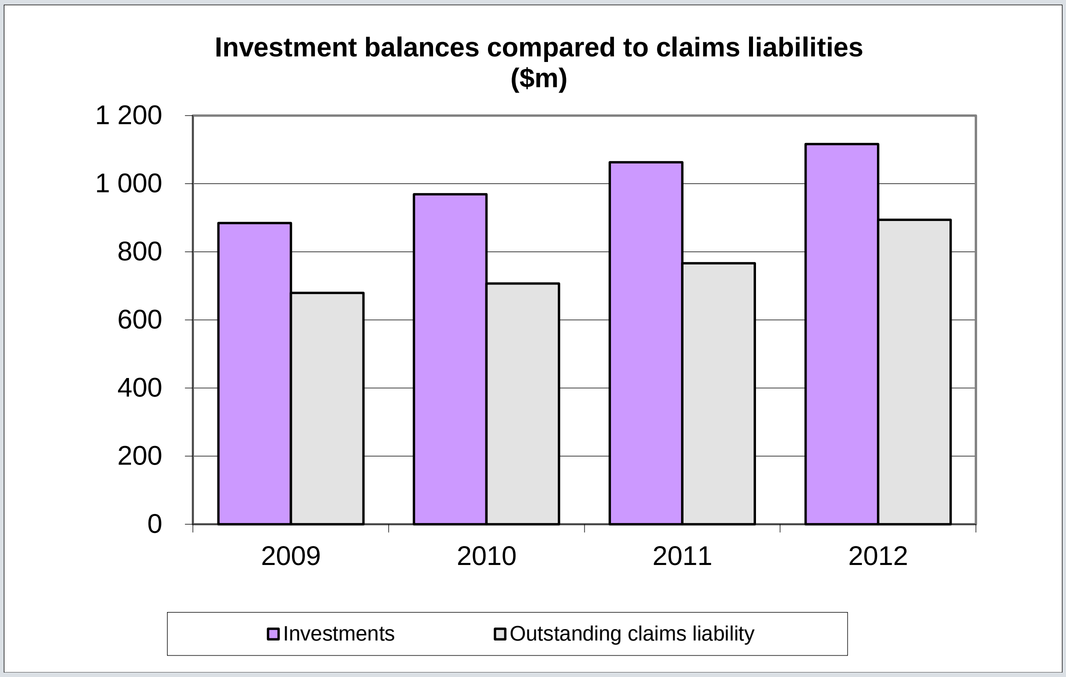


While MAIB is not a regulated insurer, its Board references the relevant APRA guidelines in developing an appropriate capital adequacy policy that takes account of the capital requirements of the MAIB's claims liability profile and investment strategy and balances those with being a monopoly provider and government business enterprise.

The Solvency ratio is MAIB's primary indicator of balance sheet strength (capital adequacy). The Solvency ratio represents additional assets held over and above 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, MAIB has set a target solvency range of 20% to 25%. 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. We consider this range to be an appropriate target and our discussions with MAIB's actuary indicate the view, with which we concur, that MAIB was well placed going into the global financial crisis. Its premiums were at adequate levels and its claims experience was generally in the right direction (down). However, offsetting this to an extent is a steady build-up of future care clients which is expected to increase.

Investment balances compared to claims liabilities



This graph shows that, despite the unfavourable 2008-09 and 2011-12 results, total investments remained well above the Outstanding claims liability.

STATEMENT OF COMPREHENSIVE INCOME

	2011-12	2010-11	2009-10	2008-09
	$'000s	$'000s	$'000s	$'000s
Premium revenue	139 167	136 475	130 247	126 079
Outwards reinsurance expense	(5 448)	(5 344)	(5 272)	(5 139)
Claims expense	(201 094)	(133 978)	(100 587)	(74 698)
Recovery revenue	13 490	7 340	(781)	10 786
Unexpired risk benefit (expense)	(428)	0	4 527	(1 710)
Other underwriting expenses	(2 665)	(2 680)	(2 493)	(2 427)
Underwriting result	**(56 978)**	**1 813**	**25 641**	**52 891**
Investment income	23 292	77 148	86 448	(68 519)
General and administration expenses	(5 693)	(5 371)	(4 996)	(4 862)
Road safety strategy funding	(3 483)	(3 408)	(3 952)	(4 606)
Injury Prevention and Management Foundation	(698)	(687)	(947)	(906)
Net Profit (Loss) before taxation	**(43 560)**	**69 495**	**102 194**	**(26 002)**
Income tax benefit (expense)	16 506	(17 829)	(27 616)	12 052
Net Profit (Loss)	**(27 054)**	**51 666**	**74 578**	**(13 950)**
Other Comprehensive Income - net of taxation				
Defined benefits plan actuarial gains / (losses)	(947)	103	(279)	(91)
Total Comprehensive Profit (Loss)	**(28 001)**	**51 769**	**74 299**	**(14 041)**

Comment

MAIB produced an underwriting loss in 2011-12 of $56.978m (2011, profit $1.813m), which comprised two significant components, Premium revenue and Claims expense. Premium revenue increased by $2.692m, 1.97%, primarily due to an increase in the number of registered vehicles. The last increase in premium rates occurred in December 2009. The following table demonstrates the relationship between premium revenue and registered vehicle numbers.

	2011-12	2010-11	2009-10	2008-09
	$'000s	$'000s	$'000s	$'000s
Premium revenue ($'000s)	139 167	136 475	130 247	126 079
Total registered vehicles	469 132	463 567	452 893	441 476
Average premium ($)	297	294	288	286

Claims expense represented the combined impacts of actual and estimated future costs of claims incurred in the year and revisions to economic and actuarial assumptions on prior years' claims. An independent Actuary was engaged by the Board to undertake the valuation of the year end claims liability. The movement in the Outstanding claims liability of $127.682m is based on the Actuary's assessment of the liability at 30 June 2012. The process is discussed further in the Statement of Financial Position section below. The following table details claim expense totals for the past four years.

	2011-12	2010-11	2009-10	2008-09
	$'000s	$'000s	$'000s	$'000s
Claims paid	72 984	74 146	72 657	69 551
Movement in the outstanding claims liability	127 682	59 414	27 436	4 684
Other claims expenses	428	418	494	463
Total claims expenses	**201 094**	**133 978**	**100 587**	**74 698**

Other movements in the Underwriting result included:

- Recovery revenue increased by $6.150m in 2011-12. The 2011-12 revenue of $13.490m comprised receipts from third parties of $3.453m combined with an increase of $10.037m in reinsurance recoveries receivable. The upwards reassessment, made by the Board's reinsurance broker, is due primarily to the outcome of a Fair Work Australia wage case decision and the subsequent reassessment of individual future care claims. Settlement of claims with reinsurers occurs at irregular intervals resulting in substantial variances from year to year.
- Following the Actuary's review at 30 June 2012 it was determined that a $0.428m deficiency existed between the unearned premium liability and the present value of the expected cost arising from the remainder of the periods of vehicle registration. An unexpired risk expense for this amount was recognised.

For the year ended 30 June 2012, MAIB generated a Net loss before taxation of $43.560m, a $113.055m turnaround compared to the 2010-11 profit and was principally attributable to the higher Claims expense (as noted above) and lower Investment revenue. Investment revenue in 2011-12 of $23.292m, decreased by $53.856m compared to the 2010-11 result and represented a 2.2% (2010-11, 8.0%) return on the investment portfolio for the year.

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

	2011-12	2010-11	2009-10	2008-09
	$'000s	$'000s	$'000s	$'000s
Investment income	47 799	74 307	39 973	85 674
Changes in net market values				
Investments held at end of reporting period	(32 811)	2 730	38 345	(133 789)
Investments realised during the reporting period	9 637	1 808	10 042	(18 591)
Less investment related expenses	(1 333)	(1 697)	(1 912)	(1 813)
Total investment revenue	23 292	77 148	86 448	(68 519)
Return on investments	**2.2%**	**8.0%**	**10.0%**	**(6.4%)**

As illustrated in the table, MAIB's investment strategy of seeking to maximise long-term growth results in inherent volatility that causes returns from year to year to fluctuate significantly.

STATEMENT OF FINANCIAL POSITION

	2012	2011	2010	2009
	$'000s	$'000s	$'000s	$'000s
Cash and cash equivalents	150 689	165 334	125 192	182 084
Trade and other receivables	2 144	1 306	1 349	1 358
Deferred acquisition costs	668	1 119	1 162	0
Reinsurance recoveries receivable	23 469	13 432	11 681	13 842
Debt securities and other investments	185	2 156	15 383	3 577
Listed instruments	78 636	114 369	102 116	112 396
Unlisted instruments	671 816	765 374	710 483	570 875
Bonds	200 015	0	0	0
Investment properties	15 040	15 300	15 730	15 345
Plant and equipment and intangibles	1 080	1 143	987	449
Deferred tax asset	51 541	34 835	44 957	73 244
Other assets	7 410	7 195	15 052	27
Total Assets	**1 202 693**	**1 121 563**	**1 044 092**	**973 197**
Trade and other payables	1 984	2 001	2 529	2 651
Provision for tax	0	0	0	7 897
Unearned premium liability	58 661	58 557	56 722	53 817
Injury Prevention and Management Foundation liability	815	889	1 164	1 104
Unexpired risk liability	0	0	0	3 493
Outstanding claims liability	893 751	766 069	706 655	679 220
Provision for employee benefits - leave	653	574	497	456
Provision for employee benefits - superannuation	4 924	3 305	3 471	2 877
Deferred tax liability	1 517	1 530	1 618	1 442
Total Liabilities	**962 305**	**832 925**	**772 656**	**752 957**
Net Assets	**240 388**	**288 638**	**271 436**	**220 240**
Retained Earnings	240 388	288 638	271 436	220 240
Total Equity	**240 388**	**288 638**	**271 436**	**220 240**

Comment

MAIB's Equity decreased by $48.250m, being the Comprehensive loss of $28.001m and dividends paid of $20.249m.

The major component of MAIB's Total Assets is its investment portfolio (including cash), which at 30 June 2012 totalled $1.116bn (2011, $1.063bn) and represented 92.82% of Total Assets (94.74%). Total investments increased by $0.054bn, 5.07%, from 30 June 2011.

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 2012 the Board's actual investment holdings were 63% in the growth category (including Australian and international equities, property and infrastructure) and 37% defensive (including cash and fixed interest). The Board has adopted benchmark allocations for each asset class within the investment portfolio which 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 strategic decisions to deviate from benchmark allocations where opportunities or material risks have been identified.

The major component of the MAIB's Total Liabilities is its Outstanding claims liability, which at 30 June 2012 represented 92.88% of total liabilities (2011, 91.97%). An independent actuary is engaged by the Board to undertake the valuation of the year end claims liability. Determination of the claims liability was 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
- movement in economic factors such as inflation and discount rates.

The increase of $127.682m at 30 June 2012, 16.67%, was attributable to a rise in all categories of claims, primarily resulting from the decrease in discount rates. The composition of the claims liability is provided in the following table.

	2012	**2011**	**2010**	**2009**
	$'000s	$'000s	$'000s	$'000s
Future care	628 166	529 059	503 740	460 172
Common law	210 292	190 847	167 079	180 248
Scheduled benefits	55 293	46 163	35 836	38 800
Outstanding claims liability	**893 751**	**766 069**	**706 655**	**679 220**
New claims received (#)	**2 707**	**2 977**	**3 053**	**3 367**
Total open claims at 30 June (#)	**2 676**	**2 800**	**2 634**	**3 105**

Future care – claimants requiring 'daily care' as defined by S27A of the Act. Usually severely injured people who are expected to require ongoing long term care.
Common law – claims where damages may be payable for personal injury caused by the negligence of a motorist.
Scheduled benefits – claims accepted on a no-fault basis for payments including medical and rehabilitation costs and disability allowance irrespective of who caused the accident.

New claims received during 2011-12 totalled 2 707, a decrease of 9% from the prior year, 2 977. MAIB attributes this reduction in claims to factors such as improved roads, public education which results in more positive attitudes from road users and technology which produces safer motor vehicles.

MAIB had 2 676 open claims at 30 June 2012. Future care claims are a significant and increasing component of the MAIB's Outstanding claims liability. At 30 June 2012 there were 92 (3.4%) open future care claims which represent 70.3% (2011, 69.1%) of the Outstanding claims liability.

STATEMENT OF CASH FLOWS

	2011-12	2010-11	2009-10	2008-09
	$'000s	$'000s	$'000s	$'000s
Receipts from premiums	152 463	152 004	146 330	139 353
Payments for claims	(78 228)	(79 252)	(77 910)	(74 406)
Other payments	(28 110)	(28 874)	(27 922)	(27 062)
Other receipts	15 978	8 130	3 175	16 098
Tax paid	0	0	(21 941)	(44 096)
Dividends received	34 277	64 065	31 218	61 997
Interest received	10 713	7 927	7 060	22 857
Cash from (used in) operations	**107 093**	**124 000**	**60 010**	**94 741**
Net payments for investments	(101 305)	(48 947)	(93 133)	(30 591)
Payments for property, plant and equipment	(189)	(412)	(688)	(511)
Proceeds from sale of property, plant and equipment	5	68	22	147
Cash from (used in) investing activities	**(101 489)**	**(49 291)**	**(93 799)**	**(30 955)**
Dividends paid	(20 249)	(34 567)	(23 103)	(39 618)
Net increase (decrease) in cash	**(14 645)**	**40 142**	**(56 892)**	**24 168**
Cash at the beginning of the year	165 334	125 192	182 084	157 916
Cash at end of the year	**150 689**	**165 334**	**125 192**	**182 084**

Comment

As at 30 June 2012, MAIB held $150.689m in short term cash, primarily comprising direct cash investments.

Cash from operations totalled $107.093m (2010-11, $124.000m) being the excess of premium and investments receipts over claims and other payments. Cash from operations and a reduction in the cash balance of $14.645m were used to increase managed fund investments by $101.305m and pay Dividends of $20.249m.

FINANCIAL ANALYSIS

	Bench Mark	2011-12	2010-11	2009-10	2008-09
Financial Performance					
EBIT ($'000s) *		(43 560)	69 495	102 194	(26 002)
Net profit (loss) ($'000s)		(27 054)	51 666	74 578	(13 950)
Operating margin	>1.0	0.80	1.46	1.86	0.72
Return on assets *		(3.7%)	6.4%	10.1%	(2.6%)
Return on equity *		(10.2%)	18.4%	30.3%	(5.6%)
Financial Management					
Solvency ratio *	20-25%	18.6%	25.7%	24.2%	15.5%
Returns to Government					
Dividends paid ($'000s)		20 249	34,567	23,103	39,619
Income tax paid ($'000s)		0	0	21 941	44 096
Total return to the State ($'000s)		20 249	34 567	45 044	83 715
Dividends paid or payable ($'000s)		6 140	20 249	34 567	33 103
Dividend payout ratio	50%	(22.7%)	39.2%	46.4%	(237.3%)
Dividend to equity ratio	6%	2.3%	7.2%	14.1%	13.4%
Other Information					
Average Staff numbers (FTEs)		36	36	35	35
Average staff costs ($'000s)		80	78	75	71
Average leave balance per FTE ($'000s)		18	16	14	13

* *For commentary on these indicators refer to the Financial Results section of this chapter.*

Comment

The Board is required under the *Government Business Enterprise Act 1995* to make tax equivalent payments to the State Government. No Tax equivalent was payable in respect of 2011-12. In 2010-11, tax payable of $7.838m was offset against tax paid in 2009-10.

Dividends 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. Over the four year period, MAIB paid $117.538m in dividends. The payments included:

- a special dividend of $10.000m in 2008-09
- an additional amount of $9.877m in 2010-11 following a direction from the stakeholder Ministers, which increase the percentage payable under the dividend policy.

Including tax equivalent payments, MAIB returned total cash payments to the State of $183.575m over the four year period under review.

Average staff costs and Average leave balances steadily increased over the review period, mainly due to pay rises under the Board's Enterprise Agreement.

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 Act). The Authority is managed by a Board consisting of seven members, eight in 2010-11. Its main activities are the conservation, maintenance, visitor management and promotion of the Port Arthur Historic Site, Coal Mines Historic Site and the Cascade Female Factory Historic Site.

The Authority operates two distinct activities, firstly to conserve the fabric of the historic sites under its control for posterity and secondly, to operate the sites as tourist destinations. In recent years, both 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.

AUDIT OF THE 2011-12 FINANCIAL STATEMENTS

Signed financial statements were received on 13 August 2012 and an unqualified audit report was issued on 28 September 2012.

KEY FINDINGS AND DEVELOPMENTS

Valuations of historical assets

As previously reported, the Authority has under its control several historic collections and archives, parts of which are 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 results in an understatement of the value of Property, plant and equipment. Heritage buildings and ruins are also not recognised due to difficulty in determining appropriate values. The Authority is now actively pursuing avenues to facilitate valuations of these historic collections and archives in forthcoming years.

Cascades Female Factory

At the request of Government, the Authority assumed responsibility for the Cascades Female Factory Historic Site in December 2010. During 2011-12 the Authority took full control of operations and received $0.517m to cover conservation costs. Government has committed to future funding of: 2012-13, $0.440m and 2013-14, $0.402m to support in the conservation, maintenance and management of the site.

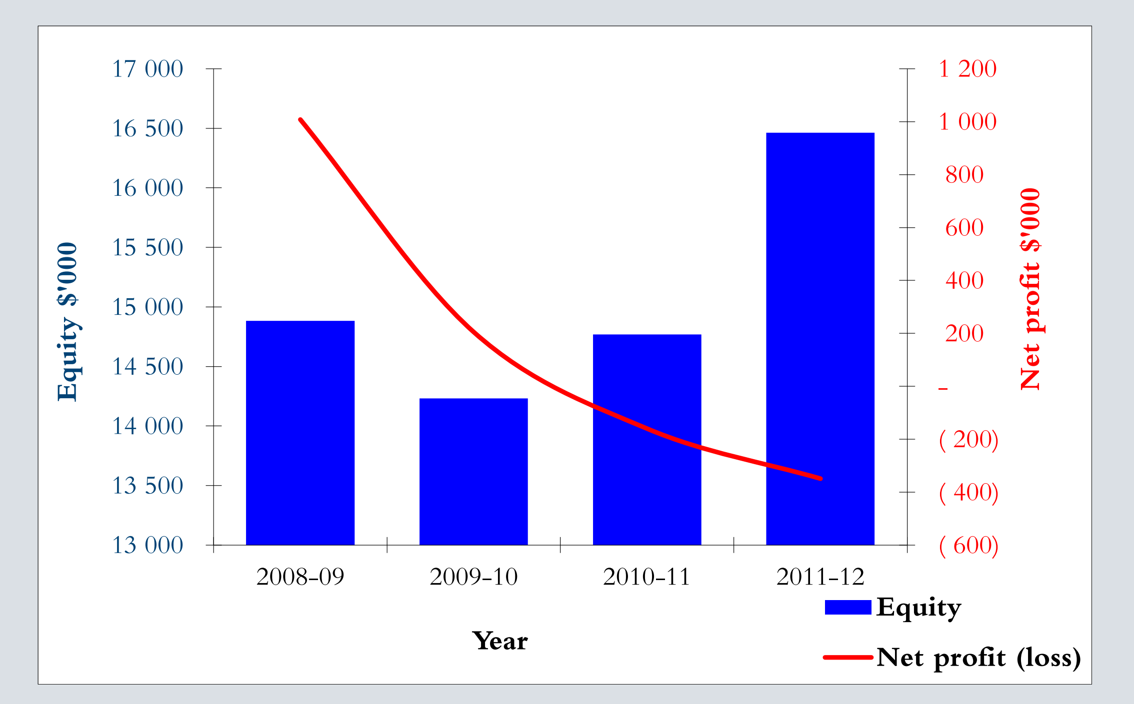
In conjunction with the final transfer of operations of the Cascades Female Factory Historic Site to the Authority, the Department of Primary Industries, Parks, Water and Environment (DPIPWE) also transferred ownership of:

- the associated land and buildings recorded at $0.829m and
- other crown land at Port Arthur recorded at $3.100m.

The audit was completed satisfactorily with no major matters outstanding.

FINANCIAL RESULTS

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



The graph shows that there was a significant increase in Equity during 2011-12. The increase was a direct result of the land and buildings transfers from DPIPWE already referred to. Net profit has continued to decline and the Authority incurred small losses in each of the last two financial years. The decline in 2011-12 was associated with the continued drop in visitor numbers which for this year was 11% (2010-11, negative 3%).

The Authority does not have any borrowings.

COMPREHENSIVE INCOME STATEMENT

	2011-12	2010-11	2009-10	2008-09
	$'000	$'000	$'000	$'000
Site revenue	8 839	9 647	9 506	10 031
Interest and other income	579	539	462	611
Conservation funding	3 610	3 213	2 808	2 000
Total Revenue	**13 028**	**13 399**	**12 776**	**12 642**
Site operation expenses	7 802	8 136	6 623	6 389
Conservation expenses	3 804	3 701	3 055	2 422
Other operating expenses	1 771	1 722	2 893	2 823
Total Expenses	**13 377**	**13 559**	**12 571**	**11 634**
Net Profit (Loss)	**(349)**	**(160)**	**205**	**1 008**
Other Comprehensive Income				
Contributed Assets	3 929	0	0	0
(Decrease)/Increase in revaluations of non-current assets	(71)	795	125	457
Impairment of non-current assets	(23)	(349)	0	0
Defined benefit plan actuarial gain (loss)	(1 791)	250	(981)	114
Total Comprehensive Profit (Loss)	**1 695**	**536**	**(651)**	**1 579**

Comment

During 2011-12, Total Revenue decreased by $0.371m whilst expenditure only decreased by $0.182m, resulting in a higher Net Loss of $0.349m. Total revenue decreased as a result of a significant decline in visitor numbers resulting in a drop in visitor income of $0.808m whilst associated operating expenses only dropped by $0.334m.

The Authority is heavily reliant on Government support to fund its conservation efforts. Since 2000-01, the Authority has received at least $2.000m annually from the State Government for conservation works. In 2011-12 funds received were $3.610m represented by $3.088m for Port Arthur and $0.517m for Cascades Female Factory; both of which are indexed to 2014-15; and a minor miscellaneous one off grant of $0.005m. Without this funding the Authority would have had to curtail conservation work, as tourism activities do not generate sufficient income to cover the costs of maintaining the sites. Conservation grants are expended 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 with all expenditure on conservation works expensed rather than capitalised.

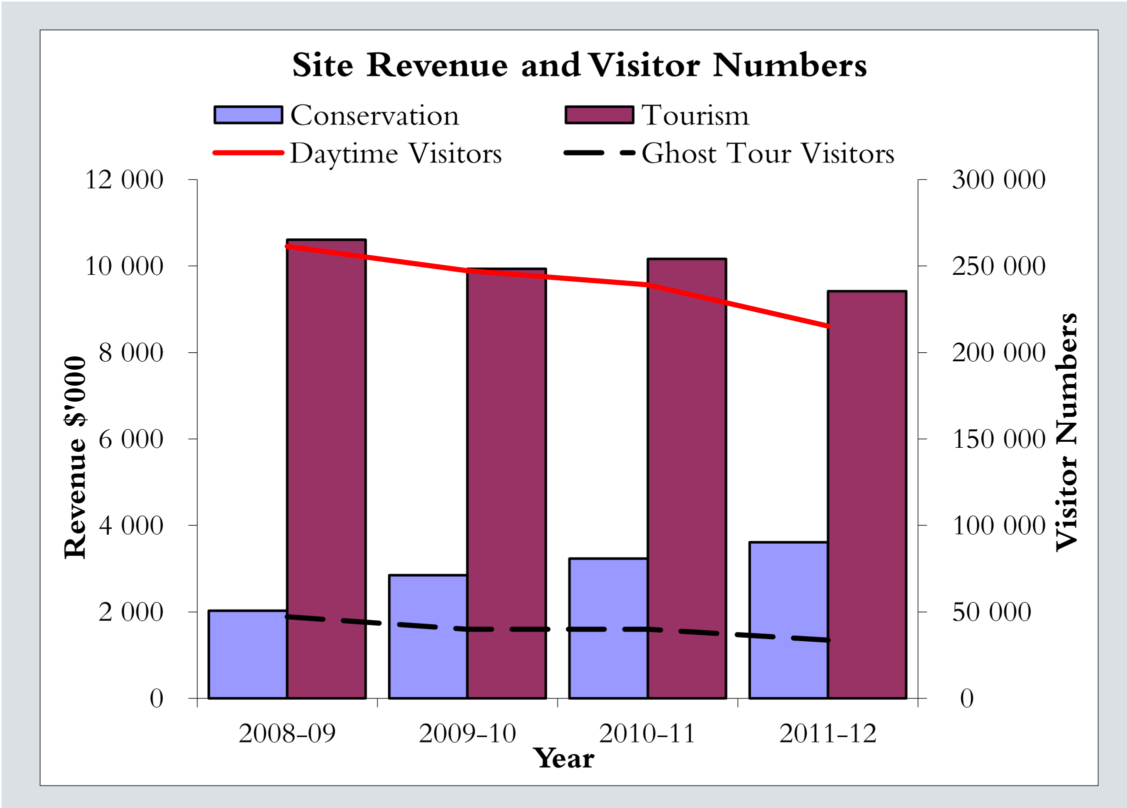
Contributed assets, $3.929m, were discussed in the Key findings and developments section of this Chapter.

During 2011-12 the Authority revalued its infrastructure which resulted in a decline in the asset revaluation reserve of $0.071m. The decline in value and impairment expense were both associated with the write-off of the Isle of the dead jetty which has now been replaced.

The Defined benefit plan actuarial loss of $1.791m related to changes in discount 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 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.

The table below summarises segment revenue for the past four years.



The graphs confirm declining visitor numbers but growing responsibility for managing historical sites.

STATEMENT OF FINANCIAL POSITION

	2012	2011	2010	2009
	$'000	$'000	$'000	$'000
Cash assets	3 790	4 047	5 317	5 488
Receivables	161	156	124	105
Inventories	431	429	444	425
Other	59	64	54	23
Total Current Assets	**4 441**	**4 696**	**5 939**	**6 041**
Payables	823	1 250	824	1 025
Provisions	1 291	1 134	1 122	1 143
Unearned revenue	264	0	0	0
Total Current Liabilities	**2 378**	**2 384**	**1 946**	**2 168**
Working Capital	**2 063**	**2 312**	**3 993**	**3 873**
Property, plant and equipment	22 108	18 324	16 257	15 788
Total Non-Current Assets	**22 108**	**18 324**	**16 257**	**15 788**
Provisions	7 708	5 868	6 018	4 778
Total Non-Current Liabilities	**7 708**	**5 868**	**6 018**	**4 778**
Net Assets	**16 463**	**14 768**	**14 232**	**14 883**
Retained earnings	10 322	8 556	8 815	9 591
Reserves	6 141	6 212	5 417	5 292
Total Equity	**16 463**	**14 768**	**14 232**	**14 883**

Comment

Total Equity increased by $1.695m, being the Comprehensive result for the year. Corresponding to the increase in Total Equity, Net Assets increased by the same amount with main movements being:

- higher property, plant and equipment of $3.784m due mainly to the transfer from DPIPWE, $3.929m, additions, $0.486m offset by Depreciation expenses, $0.725m
- decrease in payables, $0.427m, primarily relating to the timing of capital projects with one invoice for $0.248m outstanding at 30 June 2011 relating to capital expenditure on the Isle of the dead jetty
- increase in Provisions, $1.997m, primarily due to the higher provision for superannuation benefits
- unearned revenue was grant funds received in June for the Cascades Female Factory relating to 2012-13.

STATEMENT OF CASH FLOWS

	2011-12	2010-11	2009-10	2008-09
	$'000	$'000	$'000	$'000
Receipts from customers	9 419	10 711	10 459	11 408
Tasmanian Government	3 874	3 115	2 000	2 000
Australian Government	0	98	448	359
Payments to suppliers and employees	(13 091)	(13 159)	(12 353)	(11 857)
Interest received	199	237	226	265
Cash from (used in) operations	**401**	**1 002**	**780**	**2 175**
Payments for property, plant and equipment	(676)	(2 328)	(1 038)	(585)
Proceeds from sale of property, plant and equipment	18	56	87	58
Cash from (used in) investing activities	**(658)**	**(2 272)**	**(951)**	**(527)**
Net increase (decrease) in cash	**(257)**	**(1 270)**	**(171)**	**1 648**
Cash at the beginning of the year	4 047	5 317	5 488	3 840
Cash at end of the year	**3 790**	**4 047**	**5 317**	**5 488**

Comment

The Authority's cash balance decreased by $0.257m at 30 June 2012, however the closing cash balance includes the $0.264m grant received in advance which, if excluded, results in a real decline of $0.521m. The Statement of Cash Flow highlights cash generated from operating activities was insufficient to fund the Authority's expenditure on the purchase of property, plant and equipment.

The Authority's cash balance of $3.790m includes deposits with financial institutions of $3.389m (2010-11, 3.620m) to cover, in part, its superannuation liability, $5.864m.

FINANCIAL ANALYSIS

	Bench Mark	2011-12	2010-11	2009-10	2008-09
Financial Performance					
Result from operations ($'000s)		(349)	(160)	205	1 008
Operating margin	>1.0	0.97	0.99	1.02	1.09
Financial Management					
Current ratio	>1	1.87	1.97	3.05	2.79
Debt collection	30 days	10	9	7	6
Creditor turnover	30 days	22	34	24	32
Other Information					
Average staff numbers (FTEs)		87	88	89	87
Average staff costs ($'000s)		69	67	63	58
Average leave balance ($'000)		11	12	12	12

Comment

Result from operations for 2011-12 was a Net Loss of $0.349m, compared to a Net Loss of $0.160m in 2010-11. This result was discussed under the Comprehensive Income Statement section of this Chapter.

Current ratio was high in each of the four years indicating that the Authority is able to meet its short term commitments. Creditor turnover has returned to below 30 days indicating credit terms are being adhered to.

Average staff costs rose in the last three years, primarily because of general wage increases. Average employee leave balances remained constant over the period as did staff numbers.

PUBLIC TRUSTEE

INTRODUCTION

Public Trustee is a Government Business Enterprise (GBE) established by the *Public Trustee Act 1930.* 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
- protection of the financial interests of individuals under a legal, physical or intellectual disability where Public Trustee is appointed to act on their behalf.

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

AUDIT OF THE 2011-12 FINANCIAL STATEMENTS

Signed financial statements were received on 9 August 2012 with an unqualified audit report issued on the same day. The audit was completed with satisfactory results and there were no major issues outstanding.

Funds Held in Trust on Behalf of Clients

Public Trustee's financial statements only recognise funds controlled by it as a body corporate in accordance with Australian Accounting Standards. As part of its executor and trustee role, Public Trustee also holds funds in trust on behalf of clients during the course of estate and trust administrations. Note 24 to the financial statements disclosed that at 30 June 2012 the Common Fund, and two investment funds, held a total of $133.886m (2011, $130.710m) of client funds. Interest earned on these funds is not treated as income of Public Trustee.

FINANCIAL RESULTS

Public Trustee's Net profit was $0.126m, a decrease of $0.407m on the prior year profit, $0.533m, predominantly the result of lower investment income of $0.435m.

Equity decreased by $2.952m due to the lower Net profit as noted, and recognition of the large actuarial loss of $4.077m arising from the actuarial re-assessment of Public Trustee's defined benefit superannuation obligations, offset to an extent by an increase in Income tax equivalent benefits on the acturial loss of $1.223m.

STATEMENT OF COMPREHENSIVE INCOME

	2011-12	2010-11	2009-10	2008-09
	$'000s	$'000s	$'000s	$'000s
Commission and fees	5 591	5 170	5 032	5 447
Funding of community service obligations	1 311	1 260	1 215	1 127
Income from investments	608	1 043	465	517
Profit (Loss) on Sale of Assets	0	0	(3)	0
Total Revenue	**7 510**	**7 473**	**6 709**	**7 091**
Employee costs	4 081	3 989	3 667	3 458
Accommodation expenses	422	435	372	253
Administration expenses	1 754	1 558	1 542	1 583
Depreciation	98	79	77	77
Total Expenses	**6 355**	**6 061**	**5 658**	**5 371**
Net operating profit before finance costs and tax	**1 155**	**1 412**	**1 051**	**1 720**
Interest costs defined benefit superannuation plan	679	672	624	638
Net operating profit before tax	**476**	**740**	**427**	**1 082**
Change in value of investments	(252)	120	(575)	0
(Loss)Gain from asset revaluations	0	0	0	(132)
Net profit (loss) before tax	**224**	**860**	**(148)**	**950**
Income tax expense (benefit)	98	327	(49)	260
Net profit (loss)	**126**	**533**	**(99)**	**690**
Other Comprehesive Income				
Revaluation of land and buildings	0	0	0	(67)
Defined benefit plan actuarial gains (losses)	(4 077)	262	(1 078)	50
Transfer from RBF provision to subsequent employer	0	0	0	(134)
Income tax on other comprehensive income	1 223	(79)	323	45
Other Comprehesive Income	**(2 854)**	**183**	**(755)**	**(106)**
Total Comprehesive Profit (Loss)	**(2 728)**	**716**	**(854)**	**584**

Comment

In 2011-12, Public Trustee reported a Net operating profit before tax of $0.476m, a decrease of $0.264m or 36% on the previous year's result. While Commission and fees rose by $0.421m (2010-11, $0.138m), due partly to increased billings, this was more than offset by the decline in Income from investments which decreased by $0.435m, due to lower dividends received of $0.467m from Corporate managed investment funds.

Overall, Public Trustee reported a Net Profit of $0.126m. A significant non-operating item impacting on this result was unrealised losses on managed investments of $0.252m.

STATEMENT OF FINANCIAL POSITION

	2012	2011	2010	2009
	$'000s	$'000s	$'000s	$'000s
Cash	2 297	1 234	1 113	7 648
Receivables	196	934	568	545
Financial Assets	10 044	10 296	10 175	0
Assets held for sale	0	0	0	4 235
Other	37	23	0	1
Total Current Assets	**12 574**	**12 487**	**11 856**	**12 429**
Payables	629	491	547	816
Provisions	1 008	923	1 075	754
Income tax liability	(19)	(30)	2	265
Total Current Liabilities	**1 618**	**1 384**	**1 624**	**1 835**
Working Capital	**10 956**	**11 103**	**10 232**	**10 594**
Property, plant and equipment	444	436	364	571
Deferred tax asset	4 548	3 291	3 503	2 932
Total Non-Current Assets	**4 992**	**3 727**	**3 867**	**3 503**
Provisions	14 101	10 031	10 016	8 816
Deferred tax liability and tax payable	0	0	0	67
Total Non-Current Liabilities	**14 101**	**10 031**	**10 016**	**8 883**
Net Assets	**1 847**	**4 799**	**4 083**	**5 214**
Retained profits	**1 847**	**4 799**	**4 083**	**5 214**

Comment

Total Equity decreased by $2.952m, being the Comprehensive Loss reported in the Statement of Comprehensive Income plus dividends paid, $0.225m.

Corresponding to the decrease in Total Equity, Net Assets also decreased by $2.952m with major line item movements including:

- higher Cash, up $1.063m, which is discussed further in the Statement of Cash Flows section of this Chapter
- Receivables, $0.196m, decreased by $0.738m mainly related to an accrual for dividend revenue, $0.508m, from Blackrock Investments accrued in 2010-11 not applicable this year
- increase in Deferred tax asset, $1.257m, reflecting timing differences between the calculation of tax and accounting profits. In the main this related to losses in Public Trustee's defined benifit obligation
- increased Provisions, $4.155m, mainly due to the upward revision of the defined benefits scheme liability by $4.166m. The significant Defined benefit plan actuarial loss in this period was primarily due to the decline in the discount rate from 5.50% to 3.45% as a result of the reduction in yields on Government bonds compared to prior year
- an increase in accounts payable, $0.138m, due mainly to an increase in GST payable, $0.135m.

STATEMENT OF CASH FLOWS

	2011-12	2010-11	2009-10	2008-09
	$'000s	$'000s	$'000s	$'000s
Receipts from clients, Government and Common Fund	7 731	7 076	6 365	6 989
Payments to suppliers and employees	(7 259)	(7 113)	(5 334)	(5 571)
Interest Received	65	34	321	0
Taxation paid	(121)	(226)	(460)	(189)
Cash from (used in) operations	**416**	**(229)**	**892**	**1 229**
Proceeds from Financial Assets	978	502	0	0
Redemption of Financial Assets	0	0	6 535	(1 200)
Purchase of Financial Assets	0	0	(10 750)	0
Payments for property, plant and equipment	(106)	(152)	(68)	(429)
Proceeds from sale of property, plant and equipment	0	0	4 500	859
Cash from (used in) investing activities	**872**	**350**	**217**	**(770)**
Dividends paid	(225)	0	(345)	(455)
Cash (used in) financing activities	**(225)**	**0**	**(345)**	**(455)**
Net increase in cash	**1 063**	**121**	**764**	**4**
Cash at the beginning of the year	1 234	1 113	349	345
Cash at end of the year	**2 297**	**1 234**	**1 113**	**349**

Comment

During 2012 Cash increased by $1.063m to $2.297m. This was predominantly due to Cash used in operations increasing by $0.645m, in particular:

- income commissions (due in part to the one-off Blackrock distributions to client group investment funds received in July 2011)
- additional billings $0.100m (due to one-off projects)
- other fees $0.075m less
- income tax equivalent payments decreasing by $0.105m due to the lower profit realised.

Other reasons for the movements in cash include:

- the increase in Proceeds from financial assets, $0.476m. This represents increased Blackrock distributions to corporate investment funds received in July 2011
- Dividend paid, $0.225m. This was paid in 2011-12, based on the result in 2010-11.

FINANCIAL ANALYSIS

	Bench Mark	2011-12	2010-11	2009-10	2008-09
Financial Performance					
Net Profit (Loss) ($'000s)		126	533	(99)	690
EBIT ($'000s)		1 155	1 412	1 051	1 720
EBITDA ($'000s)		1 253	1 491	1 128	1 797
Operating margin	>1.0	1.18	1.23	1.19	1.32
Return on assets	2%	6.8%	8.8%	6.6%	12.3%
Return on equity		3.8%	12.0%	(2.1%)	13.4%
Financial Management					
Current ratio	>1	7.77	9.02	7.30	6.77
Creditor turnover	30 days	28	47	45	88
Returns to Government					
Dividends paid ($'000s)		225	0	345	455
Income tax paid ($'000s)		121	226	460	189
Total return to the State ($'000s)		346	226	805	644
Dividends payable ($'000s)		151	225	0	345
Dividend payout ratio	50%	31.7%	50.0%	0.0%	58%
Dividend to equity ratio	6%	4.5%	5.1%	0.0%	6.7%
Other Information					
Average Staff numbers (FTEs)		52	51	51	49
Average staff costs ($'000s)		78	78	72	71
Average leave balance per FTE ($'000s)		11	12	12	12

Comment

Net profits were generated in three out of the four years under review. The loss in 2009-10 mainly resulted from $0.575m in unrealised losses on investments incurred that year.

Creditor turnover was better than benchmark this year. It was high in 2008-09 due to a number of software upgrade projects being undertaken, increased media advertising and larger than average purchases of fixed assets.

Total returns to the State, on a cash basis, comprise Dividends paid and the Income tax (equivalent) payments. Over the four year review period Public Trustee returned $2.021m to the State or an average of $0.505m per annum.

In 2010-11 the Dividend policy changed. Dividends paid are now calculated based on 50% of the Net Operating profit after tax rather than Net profit after tax, which excludes the gain on financial assets and applicable income tax. On this basis the Board recommended a dividend of $0.151m for 2011-12.

TASMANIAN PUBLIC FINANCE CORPORATION

INTRODUCTION

The Tasmanian Public Finance Corporation (TASCORP or the Corporation) was established by the *Tasmanian Public Finance Corporation Act 1985*. The TASCORP Board comprises six members appointed by the Governor. Its 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 2011-12 FINANCIAL STATEMENTS

Signed financial statements were received on 10 August 2012 and an unqualified audit report was issued the same day. The audit was completed satisfactorily with no major items outstanding.

To enhance understanding in this report we note that:

- 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 prior to May 2009 and the semi government curve for loans post May 2009.

FINANCIAL RESULTS

Overview

TASCORP achieved a Net Profit before tax for the year of \$11.237m (2010-11, \$9.604m) and at 30 June 2012 it had Net Assets of \$42.896m (\$41.475m) comprising:

	June 2012	**June 2011**
	$'000	$'000
Investments	3 081 251	4 126 711
Advances to State entities	3 141 851	2 970 648
Deposits received from State entities	(1 177 998)	(1 195 980)
Borrowings	(5 040 617)	(5 790 389)
Net derivatives	9 444	(78 791)
Other assets	28 965	9 276
Total	**42 896**	**41 475**

The fall in individual items on TASCORP's Statement of Financial Position was indicative of a return to more normal conditions in 2011-12, compared to 2010-11, resulting from a fall in short term investments and borrowings. The proceeds from the total issuance of \$1.400bn of long-term debt in 2011-12, compared to \$750m in 2010-11, were used to retire short term borrowings. This was part of a strategy to fund all client loans, excluding working capital advances, with long term borrowings.

The increase in Net profit before Tax for the year was driven by better returns on investments as well as improved lending margins.

Temporary overnight borrowings

An audit requested adjustment was made to the financial statements resulting in a $650m reduction in Advances to State entities and Deposits from State entities. This adjustment was necessary as a result of a transaction effected on 29 June 2012 whereby the Department of Treasury and Finance took a client advance from TASCORP and simultaneously entered into an equal and offsetting transaction for a client deposit of the same amount also with TASCORP. The nature of this transaction met the definition of a derivative transaction as outlined in AASB 139 Financial Instruments: Recognition and Measurement, and as such the two transactions were recognised on a net basis with only the resulting derivative, interest receivable, $0.781m, being recognised on the Statement of Financial Position and the Statement of Comprehensive Income.

Had this adjustment not been made, Advances to State entities and Deposits from State entities would have each been $650m higher with the same net outcome. However, recognition of Advances and Deposits on this basis would have been inconsistent with the nature of the transaction and thus not in compliance with AASB 139.

Returns to government

Dividends paid for the year were $6.445m and tax paid was $2.881m which was a total return to government of $9.326m. The tax expense incurred in 2011-12 was $3.371m.

Managing risk

The strength of the risk management systems in place at TASCORP provides comfort that there are no undisclosed exposures in the Statement of Financial Position and that the financial statements are fairly stated.

Note 19(g) in TASCORP's financial statements shows its Value at Risk (VaR) analysis. The one day VaR number reflects the profit or loss that will not be exceeded 99% of the time for daily interest rate and liability margin risk. Note 19(g) discloses TASCORP's average, minimum and maximum VaR exposures during the year and its exposure at 30 June:

	Average		**Minimum**		**Maximum**		**Year end**	
Historical VaR	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11
(99% one-day)	A$'000	A$'000	A$'000	A$'000	A$'000	A$'000	A$'000	A$'000
Total VaR exposure	471	633	343	387	617	770	521	528

These VaR numbers reflect that TASCORP's risk profile is comparable to the position at 30 June 2011 and that over the relevant years the VaR numbers decreased slightly. 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 its Statement of Financial Position which is recorded at fair value.

STATEMENT OF COMPREHENSIVE INCOME

	2011-12	2010-11	2009-10	2008-09
	$'000s	$'000s	$'000s	$'000s
Interest revenue	365 831	348 184	290 819	362 739
Other operating revenue	535	673	759	260
Net gains/ losses from financial instruments	(11 668)	(6 434)	(5 753)	16 507
Total Revenue	**354 698**	**342 423**	**285 825**	**379 506**
Interest expense	337 474	327 000	264 802	354 434
Other operating expenses	5 987	5 819	4 804	4 413
Total Expenses	**343 461**	**332 819**	**269 606**	**358 847**
Profit (Loss) before:	**11 237**	**9 604**	**16 219**	**20 659**
Income tax expense (benefit)	3 371	2 881	4 866	6 198
Net Profit (Loss) from continuing operations	**7 866**	**6 723**	**11 353**	**14 461**
Other comprehensive income	0	0	0	0
Total Comprehensive Income	**7 866**	**6 723**	**11 353**	**14 461**

Comment

TASCORP's Total Comprehensive Income for the year ended 30 June 2012 was $7.866m (2010-11, $6.723m). The increase was due to higher net interest revenue (being interest revenue less interest expense) of $7.173m, ($4.833m decrease) caused by a number of factors including:

- better returns on investments made in 2011-12 compared to 2010-11 as shown by the increase in net margin income as presented in the table below
- improved lending margins resulting from lower hedging costs and reduced issuance costs.

These factors were partly offset by higher income tax expense of $3.371m ($2.881m).

TASCORP also presents its financial information in an alternative form. This is done in Note 4 to its financial statements, which better reflects the profit drivers. Set out below is an extract from Note 4 which summarises TASCORP's net operating revenues as follows:

	2011-12	2010-11	2009-10	2008-09
	$'000s	**$'000s**	**$'000s**	**$'000s**
Net Margin Income	26 222	19 755	15 686	20 430
Credit Margin Gains (Losses)	(2 287)	1 345	5 467	(11 867)
Liability Margin Gains (Losses)	(7 246)	(6 350)	(854)	16 332
Fee Income	535	673	724	177
Revenue from Operations*	**17 224**	**15 423**	**21 023**	**25 072**

**Net revenue from operations is before accounting for other operational expenses of $5.987m (2010-11, $5.819m, 2009-10, $4.804m and 2008-09 $4.413m).*

Revenue from operations increased $1.801m (2010-11, $5.600m decrease) after returning to more normal levels although 2011-12 was still less than 2009-10 by $3.799m primarily due to the stronger credit margin gains that year. Net margin income increased $6.467m ($4.069m increase) which largely reflected better investment returns and improved lending margins resulting from reduced hedging costs.

The 2010-11 financial year was affected by increased costs associated with the issuance of the 2014 preferred stock. The increase in net margin income in that financial year was offset by fair value losses due to credit margin movements on financial assets and financial liabilities as reflected in the credit market losses and liability margin losses.

STATEMENT OF FINANCIAL POSITION

	2012	2011	2010	2009
	$'000s	$'000s	$'000s	$'000s
Cash	1 121	974	866	681
Investments *	3 081 251	4 126 711	2 421 327	3 708 683
Advances *	3 141 851	2 970 648	2 930 616	3 084 483
Derivative instruments receivable	153 517	44 956	110 676	130 171
Property, plant and equipment	147	204	212	155
Intangibles and other	119 078	12 068	203	187
Total Assets	**6 496 965**	**7 155 561**	**5 463 900**	**6 924 360**
Payables	87 501	647	7 931	267 049
Deposits *	1 177 998	1 195 980	1 660 065	2 054 688
Borrowings *	5 040 617	5 790 389	3 681 903	4 439 802
Derivative instruments payable	144 073	123 747	70 219	125 951
Current tax liabilities	3 371	2 881	4 866	5 386
Provisions	509	442	450	371
Total Liabilities	**6 454 069**	**7 114 086**	**5 425 434**	**6 893 247**
Net Assets	**42 896**	**41 475**	**38 466**	**31 113**
Reserves	10 000	10 000	10 000	10 000
Retained earnings	32 896	31 475	28 466	21 113
Total Equity	**42 896**	**41 475**	**38 466**	**31 113**

**Consistent with the accounting standards, TASCORP's Statement of Financial Position refers to these balances as financial assets at fair value through profit and loss and interest bearing liabilities at fair value through profit and loss.*

Comment

During 2011-12 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
- opportunities available in the market to issue new paper.

TASCORP's Total Equity increased by $1.421m in 2011-12, being its net profit after tax for the financial year less dividends paid.

Investments decreased by 25%, or $1 045.460m (2010-11, $1 705.374m increase), which was primarily due to maturity of discount securities that were redeemed following the replacement of short term borrowings with longer term borrowings.

TASCORP's borrowings decreased by 13%, or $749.772m (2010-11, $2 108.486m increase) primarily due a decrease in both domestic and overseas commercial paper of $2 300.496m partially offset by an increase in preferred stock of $1 559.382m. The decrease in borrowings accounts for the decrease in investments which facilitated lower borrowings during the year.

Advances to State owned entities increased by 6%, or $171.203m in 2011-12 (2010-11, $40.032m increase). This increase was largely due to falling interest rates causing an increase in the market value of client advances rather than an increase in lending. The increases were attributable to Transend's advances increasing $82.213m, Tasmanian Water and Sewerage Corporations advances increasing $67.378m, Hydro Tasmania advances increasing $36.462m and Aurora Energy advances increasing $17.230m. These increases were offset by a decrease in advances to other Participating Authorities of $42.748m.

Deposits decreased by 2%, or $17.982m (2010-11, $464.085m decrease) primarily due to lower levels of funds deposited with TASCORP by the State Government of $19.070m and Local Government of $5.347m. These were offset by the increase in deposits by Government Business Enterprises and State-owned companies of $6.435m.

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 relevant contracts at year end.

STATEMENT OF CASH FLOWS

	2011-12	2010-11	2009-10	2008-09
	$'000s	$'000s	$'000s	$'000s
Interest and other receipts	373 928	407 721	284 366	354 884
Interest payments	(456 815)	(310 390)	(340 723)	(406 506)
Payments to suppliers and employees	(5 852)	(5 749)	(4 707)	(4 113)
Tax paid	(2 881)	(4 866)	(5 386)	0
Net increase (decrease) in deposits	0	(3 609)	(65)	(23 791)
Net increase (decrease) in short term borrowings	(2 221 690)	2 747 944	(820 509)	(392 479)
Net (increase) decrease in advances	126 902	(39 199)	(71 596)	(427 849)
Net (increase) decrease in investments	316 166	(1 192 994)	203 374	203 068
Cash from (used in) operations	**(1 870 242)**	**1 598 858**	**(755 246)**	**(696 786)**
Payments for property, plant and equip.	0	(51)	(182)	(138)
Proceeds from sale of property, plant and equip.	0	3	50	25
Cash from (used in) investing activities	**0**	**(48)**	**(132)**	**(113)**
Receipts from new issues of preferred stock	1 375 354	752 202	53 429	575 972
Repayment of preferred stock	0	(1 367 043)	0	0
Dividends paid	(6 445)	(3 714)	(4 000)	(3 500)
Cash from (used in) financing activities	**1 368 909**	**(618 555)**	**49 429**	**572 472**
Net increase (decrease) in cash	**(501 333)**	**980 255**	**(705 949)**	**(124 427)**
Cash at the beginning of the year	1 228 425	248 170	954 119	1 078 546
Cash at end of the year	**727 092**	**1 228 425**	**248 170**	**954 119**

Comment

TASCORP includes cash balances and the net balance of investments and borrowings at call as its 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 (opportunities in the market place) strategies. The figures noted represent net movements in types of investments (investments and advances), term deposits and short term borrowings.

The increase in cash from financing activities of $1 987.464m (2010-11, $667.984m decrease) is reflective of the increased issuance of long term debt in 2011-12. The decrease in cash from operating activities of $3 469.100m for 2011-12 ($2 354.104m increase) is reflective of the move to long term debt and lower short term investments and borrowings.

The reader's attention is drawn to Note 19 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	2011-12	2010-11	2009-10	2008-09
Financial Performance					
Profit (Loss) ($'000s)		11 237	9 604	16 219	20 659
Return on equity		26.2%	23.2%	42.2%	66.4%
Returns to Government					
Dividends paid ($'000s)		6 445	3 714	4 000	3 500
Dividend payout ratio		81.9%	55.2%	35.2%	24.2%
Dividend to equity ratio		15.0%	9.0%	10.4%	11.2%
Income tax expense ($'000s)		3 371	2 881	4 866	6 198
Effective tax rate	30%	30.0%	30.0%	30.0%	30.0%
Total return to the State ($'000s)		9 816	6 595	8 866	9 698
Total return to equity ratio		22.9%	15.9%	23.0%	31.2%
Other Information					
Staff numbers (FTEs)		16	16	16	15
Average staff costs ($'000s)		156	149	133	130
Average leave balance per FTE ($'000s)		21	21	18	18

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 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 correspondingly 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 our 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.

Return on equity increased from 23.2% in 2010-11 to 26.2% in 2011-12 which was due to the higher profit for the year.

The total return to the State increased $3.221m for 2011-12 (2010-11: $2.271m decrease) which was due primarily to an increase in the dividends paid to the State in 2011-12. This resulted in an increase in the dividend payout ratio to 81.9% for 2011-12 (55.2%) and the dividend to equity ratio to 15.0% for 2011-12 (9.0%). The dividend payout ratio shown in the table is dividends paid for the year divided by net profit after tax. The required return to Government is 50% of the general reserve which is $5.000m ($5.000m) which includes amounts paid as taxation and dividends.

The increase in average staff costs, which is above the expected CPI wage increase, was due to the cost of contractors employed directly for special projects.

STATE OWNED CORPORATIONS

AT A GLANCE

BACKGROUND

Government Businesses 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 Treasurer and Portfolio Ministers are the shareholders in each SOC holding these 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*, Constitution of each SOC and in Corporate Governance Guidelines developed by the Department of Treasury and Finance.

The corporatisation of Government Businesses 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 SOCs, being:

- Aurora Energy Pty Ltd (Aurora)
- Metro Tasmania Pty Ltd (Metro)
- Tasmanian Irrigation Pty Ltd (Tas Irrigation)
- Tasmanian Ports Corporation Pty Ltd (Tasports)
- TasRacing Pty Ltd (Tasracing)
- Tasmanian Railway Pty Ltd (TasRail)
- Transend Networks Pty Ltd (Transend)
- TT-Line Company Pty Ltd (TT-Line).

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. Summaries of the financial performance of these entities are presented separately in the Chapter headed Tasmanian Water and Sewerage Corporations, followed by their individual chapters. As a result, no further reference to them is made in this 'At a glance'.

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

- Audit of the 2011-12 Financial Statements
- Key Findings and Developments
- Financial Results:
    - Statement of Comprehensive Income
    - Statement of Financial Position
    - Statement of Cash Flows
    - Financial Analysis.

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 OUTCOMES, DEVELOPMENTS AND FINDINGS FROM AUDITS

Key outcomes from audits included:

- Audits of the financial statements of the eight SOCs, and where relevant their subsidiary companies, were completed with unqualified audit opinions issued in each case.
- All audits were completed satisfactorily with no major items outstanding.
- All SOCs, submitted financial statements within the statutory deadline being 45 days following the end of the financial year.

Key developments and findings included:

AURORA ENERGY PTY LTD

Energy reforms

The energy reforms referred to here, impact Aurora, Hydro and Transend although not necessarily in the same way. To an extent this information is repeated in the Chapter comparing the financial performance of the three energy utilities.

On 15 May 2012, the Minister for Energy announced a comprehensive and integrated energy reform package entitled "Energy for the Future". A key factor driving this reform is the significant increase in customer prices over the past five years. Whilst the increase in electricity prices is a national issue, exacerbating factors for Tasmanian customers include lower than average incomes, higher electricity consumption due to the local climate and the inability of all customers to access alternative fuels such as natural gas.

The reform package included a number of potential initiatives that will impact Aurora: the potential disposal of AETV or its transfer to Hydro Tasmania; complete disposal of Aurora's retail customer book; commencement of full retail competition by 1 January 2014; the merging of Aurora's distribution network with Transend's transmission network; and the merging Aurora's retail service functions with Momentum Energy's mainland retail business.

The announcement had no direct impact on Aurora's 30 June 2012 financial statements in view of the high degree of uncertainty and the various underlying transactions that have yet to be formalised. However, the industry reform announcement, together with the introduction of a price on carbon was viewed by Aurora as being triggers for assessing impairment at 30 June 2012. The resulting impairment testing did not identify any need for impairment of its assets.

Regulator's report re: non-contestable tariffs

On 20 June 2012, the Office of the Tasmanian Economic Regulator (the Regulator) approved Aurora Energy's retail tariffs for the period 1 July 2012 to 30 June 2013 (the Regulator also released its Statement of Reasons "Approval of: Retail tariffs for non-contestable tariff customers from 1 July 2012 in accordance with the 2010 Price Determination"). The Regulator approved average increases of 10.56 percent from the previous year's tariffs. These increases together with more favourable hedging arrangements entered into on 1 July 2010 allow Aurora to achieve a positive margin on its sale of electricity to non-contestable customers.

METRO TASMANIA PTY LTD

Capital funding

Metro continued to receive additional funding of $3.250m (2010-11, $3.250m) from the State to improve its bus fleet, assist with its long-term capital replacement program and fund other passenger growth initiatives. This funding has been included in the forward estimates of the Department of Infrastructure, Energy and Resources (DIER) for the next four years. During 2011-12, Metro spent $4.465m on new capital equipment, primarily on new buses. The buses were funded by the capital component of the additional funding provided and cash generated from operations.

Financially dependent on the State government

The Company remains financially dependent on State government support which is provided through additional funding.

TASMANIAN IRRIGATION PTY LTD

Tas Irrigation's role

Tas Irrigation operates under the new *Irrigation Company Act 2011*. It is responsible for the management of various irrigation schemes and progress of new water and irrigation developments.

The Company is instrumental in delivering the Government's vision for the future of agriculture in the State, outlined in the Tasmanian Infrastructure Strategy. It is currently pursing projects to deliver irrigated water to areas in Northern, Eastern and Central Tasmania.

Transfer of net asset to the Company and further equity contributions during 2011-12

From 1 July 2011, all assets, rights, liabilities and staff of RWSC and Tasmanian Irrigation Schemes (TIS) Pty Ltd were transferred to the Company. This was transacted as a contribution of equity and resulted in the Company's equity increasing by $50.579m on 1 July 2011 at which time its net assets totalled only $0.074m of which its contributed equity was $2.

In addition, in 2011-12 the Company received $35.939m in State Government funding towards capital projects.

These transfers and Government funding resulted in the Company having contributed equity of $86.517m at 30 June 2012.

Financially dependent on government

The Company remains financially dependent on State government support which is provided as grants, equity contributions or loans.

TASMANIAN PORTS CORPORATION PTY LTD

Tasports financial performance continued to be negatively impacted by structural changes to Tasmanian markets. These changes included a significant decline in woodchip tonnages, the cessation of the AAA Consortium and Patrick Stevedoring operations from Bell Bay, Agility Shipping's withdrawal from its Bass Strait service and the temporary closure of Temco. As a result of these changes freight volumes declined from 13.5 million tonnes in 2010-11 to 11.2 million tonnes in 2011-12, with Trade Revenue reducing by $3.694m, 6%, on the previous year's result.

As a result of these changes and other factors, Tasports continued to reduce its staff numbers and overhead costs through the implementation of an Operational Efficiency Program. With further reductions in staffing expected Tasports recognised a provision for restructure, in accordance with accounting standards, of $1.008m (2011, $1.330m)

TASRACING PTY LTD

Impairment

Tasracing has experienced indicators, including continued losses and negative operating cash flows, suggesting the need to impair its non-current assets.

An impairment calculation was performed to determine whether the value in use of its non-current assets was less than their carrying amounts. The value in use calculation seeks to determine future net cash flows from those assets. These have been based on the Company's Corporate Plan for 2013-17.

After taking these factors into account, the Board impaired the carrying amount of its investments in infrastructure assets by $5.706m.

Funding arrangements

A funding deed with the State government was signed in 2010-2011. It provides base funding of $27.000m per annum plus CPI less 1% over 20 years commencing from 1 July 2009. This deed also allows for a $40m debt facility with the Tasmanian Public Finance Corporation for which the Department of Treasury and Finance will provide servicing in the form of principle and interest payments, subject to certain conditions. This support from Treasury is essential without which Tasracing is unlikely to be able to service any borrowings drawn down from this facility.

Tasracing's borrowings increased over the period from $4.864m at 30 June 2011 to $12.247m at 30 June 2012. These borrowings were needed to assist installation of the synthetic track of Spreyton Park.

TASMANIAN RAILWAY PTY LTD

Rail corridor lease

TasRail and DIER signed the lease agreement to finalise the rail corridor lease on 2 December 2010. Under the terms of the lease, TasRail is responsible for remediation of any environmental obligations that may become apparent as a result of its operations, or past operations, of the network. While no environmental liabilities were identified at balance date, if significant environmental liabilities relating to past operations are identified in the future, TasRail will require financial support from the Tasmanian Government to fund remediation.

The Company is also required under the lease to maintain non-operational lines acquired under the terms of the lease in the same condition as existed at the lease commencement date. As at 30 June 2012, the Company had put forward a proposal removing this requirement along with removal of the requirement for it to insure improvements to non-operational lines. The proposal is still under consideration by DIER.

Capital Purchase Contracts

During 2011-12, the Company entered into forward foreign exchange purchase contracts for the acquisition of locomotives and concrete sleepers in order to reduce foreign exchange risk over the

Company's largest cash flow capital commitment. The aim is to manage risk and limit the volatility on financial results. As a result, the Company recorded a hedge asset at 30 June 2012 of $0.137m for the purchase of concrete sleepers in New Zealand dollars and a hedge liability at 30 June 2012 of $0.902m for the purchase of Locomotives in US Dollars. The Company has committed to hedge contracts totalling $59.188m (AUS dollar).

Financially dependent on government

Tasrail generated operating losses before tax totalling $8.947m in the past two years of its activities. Operating grants of $33.365m were received over the same period. On-going operating losses are not sustainable. In recognition of this, the State Government has budgeted to spend $65.200m over the next four years to assist the Company to meet rail maintenance and administrative costs. The Company is heavily reliant on this support. The Company's financial position beyond this date is less clear but, based on current levels of profitability, it is unlikely to be able to operate beyond the forward estimates period without on-going financial support.

TRANSEND NETWORKS PTY LTD

Energy reform

Transend's future operations will be affected by the major reform of the electricity supply industry in Tasmania which was announced by the State Government in May 2012 and is discussed in the Energy Businesses 2011-12 Chapter in this Report.

Revenue determination

Over 90% of Transend's revenue is from prescribed transmission services. Under the Australian Energy Regulator's (AER) Transmission Determination for 2009-10 to 2013-14 (the determination), the annual maximum allowed revenue was set to increase by 7.8% each year from $164.700m in 2009-10 to $246.300m in 2013-14, totalling $1.583bn over the five-year regulatory period. In response to Tasmania's current economic conditions, Transend decided during 2011-12 to limit future increases in prescribed transmission revenue to less than the increase in the consumer price index. This decision means that for the remaining two years of the current regulatory period, Transend will not recover the maximum revenue allowed under the existing determination. The estimated impact of this policy will be an under recovery of Transend's allocated revenue by approximately $38.000m. This estimate is based on an annual increase in the maximum allowed revenue of 2.25% in 2012-13 and 2.25% in 2013-14 as per Transend's Corporate Plan.

Asset revaluations

In 2011-12, Transend undertook a full revaluation of substations and transmission lines, which resulted in a net revaluation increment of $125.262m. Substation and transmission line assets are valued using the optimised depreciated replacement cost (ODRC) asset valuation methodology. ODRC represents the lowest alternative, efficient cost to replicate these assets as required for their current and intended use compared with a modern equivalent asset with the same required service delivery capability.

Payment of dividends, returns of equity and borrowings

In June 2011, the shareholders issued a direction requiring additional dividends and returns of equity from Transend. The policy is now to pay an annual dividend of 60% (previously 50%) of net profit and a $20.000m annual return of equity, subject to operational requirements and borrowing capacity, for 2011-12 and the next two years.

Transend increased its borrowings by $61.707m to $609.707m in 2011-12 and plans to increase its debt to $708.000m by 2013-14. These increases are necessary to meet its operating demands, deliver its capital program while meeting the requirements of the new dividend policy and decision to return equity.

TT LINE COMPANY PTY LTD

Ship valuations

TT-Line's two vessels, Spirit of Tasmania I and Spirit of Tasmania II, are valued annually on the basis of market values. As the prevailing market for these types of vessels is predominantly in Europe, the valuation is provided in Euros. The value of each vessel reduced from $103.909m (€78.000m) to $90.121m million (€74.000m) between 2011 and 2012. The reduction in the value of the vessels was due to adverse economic and market conditions in Europe and the movement in the Australian dollar and Euro exchange rates.

Port licencing fees

During 2011-12, the Victorian Government passed legislation requiring the Port of Melbourne Corporation (PoMC) to pay a port licence fee each financial year, starting 1 July 2012. PoMC decided to pass on the fee to users of its port facilities, including TT-Line, through an increase in wharfage and channel fees.

Dry dock

Each vessel goes into dry dock on a two year rotational basis. The only suitable local dry-dock facility is on Garden Island in Sydney, which is owned by the Federal Government and used by the Australian Navy. The Federal Government is yet to decide whether to continue the current arrangement of leasing parts of the facilities to civil operators. Discussions with the Federal Government are on-going. If access to the dry-dock in Sydney is no longer available, the Company will be forced to send its vessels to dry-docks further afield, potentially increasing maintenance costs and prolonging the time vessels will be out of service.

SUMMARY FINANCIAL PERFORMANCE

Tasmania's SOCs collectively had net assets of $1.955bn (2011, $1.795bn), employed 2 810 (2 946) people, and recorded losses of $12.815m (2010-11, profit $27.136m) after taxation in 2011-12.

Set out below are summaries of financial results. Further detail is provided in individual chapters.

AURORA ENERGY PTY LTD

Aurora generated earnings before interest and tax (EBIT) of $114.086m, an improvement of $13.454m compared to 2010-11. The profit included EBIT in AETV of $24.403m. The increase in Aurora's profitability was primarily caused by the renegotiation of electricity hedge purchase contracts with Hydro Tasmania and a higher non-contestable tariff rate.

Aurora's final Net Profit of $13.800m followed 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 except in relation to the movements in actuarial losses of $17.377m.

At 30 June 2012, Aurora's Equity totalled $601.076m, an increase of $40.013m, or 7.1%, from 2010-11. The net increase includes the following major movements:

- Aurora's consolidated Net Profit after tax of $13.800m
- asset revaluation increases on distribution grid assets of $28.993m
- cash flow hedge reserve increases of $9.099m
- Dividends paid in 2011-12 of $11.879m (relating to the 2011 financial year).

METRO TASMANIA PTY LTD

Metro recorded a Net operating loss before tax of $3.671m, which is consistent with the prior year deficit of $3.323m. This highlights the importance of the $3.250m additional bus funding currently received.

Metro's current ratio at 30 June 2012 was 0.68, below the benchmark of not less than 1 for most industries. With a short-term Payables balance of $4.279m and a Cash position of $3.808m Metro will need to generate additional cash to meet its short-term obligations.

TASMANIAN IRRIGATION PTY LTD

Tas Irrigation's Profit before other items, increased from a loss of $0.147m in 2010-11 to a profit of $17.075m in 2011-12. This improvement of $17.222m was a direct result of the amalgamation with the Rivers and Water Supply Commission (RWSC) and Tasmanian Irrigation Schemes Pty Ltd (TIS). 2011-12 was effectively the first full year of trading for the Company, with revenues derived from water entitlements, $15.361m, water rates and charges, $2.111m, interest revenue, $0.892m and electricity generation, $0.848m.

However, Tas Irrigation reported a Net Loss after tax of $23.326m after accounting for non-operating items, mainly Impairment losses, $40.124m.

Despite the Comprehensive loss of $23.326m, Total Equity increased by $63.191 to $63.265m at 30 June 2012. This was because:

- Government provided further equity of $35.939m, in cash, primarily to assist the Company with its capital expenditure and feasibility programs. This funding was provided out of the Water Infrastructure Fund
- Net borrowings declining $14.029m with the 2011 borrowing obligations from the former RWSC eliminating on amalgamation and the 2012 balance representing borrowings taken over from TIS
- the addition of Fixed repayment plan assets for the Meander Valley Irrigation Scheme, $8.143m, also arising from the take up of TIS assets
- higher receivables, $4.019m, predominately the effect of increased operating activity after the acquisition of RWSC and TIS.

TASMANIAN PORTS CORPORATION PTY LTD

Tasports reported a Net operating loss before finance costs and tax of $6.217m in 2011-12, compared to a profit of $0.567m last year. The lower result of $6.784m was primarily due to:

- decreased Net revenue, $3.353m, predominantly due to continued decline in freight volumes passing through Tasports' facilities as a result of market structural changes in Tasmania discussed in the Key findings and developments section
- higher Total expenditure which increased by $3.353m mainly as a result of the higher Depreciation, $4.169m, caused by the upward revaluation of Infrastructure assets at 30 June 2011.

Total Equity decreased from $180.768m to $176.096m during 2011-12. The decrease of $4.672m comprised the Comprehensive loss of $5.672m less an equity contribution received, $1.000m. The equity contribution related to the second instalment of a two year funding commitment by the State Government to upgrade port infrastructure at Lady Barren Port on Flinders Island.

TASRACING PTY LTD

In 2011-12, Tasracing reported a Net operating loss before finance costs and tax of $10.028m, a higher loss by $6.487m on the previous year's result. The higher loss was primarily due to a $5.705m impairment of non-current assets.

For continuing operations, at present, and as previously noted, Tasracing is dependent upon a funding deed with the State government providing base funding of $27.000m per annum plus CPI less 1% over 20 years and a $40m debt facility to be serviced by Treasury. However, even with this financial support, and before the impairment of $5.705m, Tasracing operated at a loss of $4.674m this year.

Tasracing's borrowings increased over the period from $4.864m at 30 June 2011 to $12.247m at 30 June 2012. These borrowings were needed to assist with the installation of the synthetic track of Spreyton Park.

TASMANIAN RAILWAY PTY LTD

TasRail reported an Operating loss before tax of $4.315m, an improvement on the loss of $4.632m in 2010-11. Operating costs represented 152% (2010-11, 154%) of operating revenues with the lower loss in 2011-12 assisted by an operating grant of $18.775m ($14.590m) from the State Government. A Comprehensive loss of $36.830m was recorded in 2011-12, ($27.869m) primarily due to the impairment of capital works on below rail assets of $31.750m ($30.391m).

TasRail is of the view that below rail assets will generate insignificant cash flows and consequently capital works were impaired to nil.

On a segmented basis, TasRail's operating performance before tax was as follows:

	Above Rail $'000s	Below Rail $'000s	Total $'000s
Operating result before tax and management fee	1 306	(5 621)	(4 315)
Management free	(2 439)	2 439	0
	(1 133)	(3 182)	(4 315)

Funding for capital works, $54.745m ($38.064m), was provided by the Federal and State Governments. This funding was received as an equity contribution from the State Government rather than as a grant. This equity funding led to a small improvement in TasRail's equity position despite the 2011-12 Comprehensive loss.

At 30 June 2012, TasRail held $22.785m in cash in the main being unexpended equity contributions the majority of which was committed to on-going below rail capital projects.

TRANSEND NETWORKS PTY LTD

In 2011-12, Transend recorded a Net profit before tax of $61.690m, compared to $67.470m in 2010-11. The decrease of $5.780m was primarily caused by:

- higher Depreciation and amortisation expense, $3.705m, due largely to the upward revaluation of network assets
- increased Finance costs, up $7.617m, due to higher debt
- a downward revaluation of Land and buildings, $4.215m.

The increase in expenses was partly offset by higher transmission use of system (TUOS) revenue, up $10.164m in line with the AER's determination.

Total Equity increased from $623.238m to $692.644m during 2011-12. The increase of $69.406m comprised the Comprehensive Profit of $118.005m, less dividends paid during the year, $28.599m and Return of capital, $20.000m.

TT LINE COMPANY PTY LTD

In 2011-12, TT-Line generated a Net operating profit before taxation and other accounting adjustments of $25.051m. This represented an increase of $12.338m or 97.1% compared to the previous year. The Company's Gross Profit was $11.265m higher than last year and its Gross Profit margin rose to 43.7% in spite of challenging economic conditions.

Total Sales Revenue increased by $4.159m due to higher freight revenue following increased volume of units of freight carried during the year as well as an increase in fuel surcharge.

The Net Loss before taxation of $0.631m (2010-11, profit $0.653m) reflected this year's decline in the value of the vessels, $23.484m, and an actuarial reassessment of the defined benefit superannuation liability, $2.198m. TT-Line reported a Net loss after tax of $0.426m in 2011-12, compared to a Net profit after tax of $0.506m reported last year.

The Company remained debt-free and as a result saved $1.743m in interest on loans compared to last year.

TT-Line's Equity decreased by $2.779m during the year to $253.095m as at 30 June 2012 due to:

- the Net Loss of $0.426m
- a decrease in its Hedging reserve, $2.353m, representing the movement in fair value of hedging instruments after tax. The Company began hedging its fuel costs in 2008-09 in order to gain long term certainty over one of its largest expenditure items and to limit the volatility on its financial results.

RESPONSIBLE MINISTER

The Ministers responsible for the various SOCs at 30 June 2012 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 Irrigation Pty Ltd	Minister for Primary Industries and Water
Tasmanian Ports Corporation Pty Ltd	Minister for Infrastructure
TasRacing Pty Ltd	Minister for Racing
Tasmanian Railway Pty Ltd	Minister for Infrastructure
Transend Networks Pty Ltd	Minister for Energy and Resources
TT-Line Company Pty Ltd	Minister for Infrastructure

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 regulates the revenue that Aurora receives for distribution services and also sets the maximum revenues that Aurora could receive from residential and non-contestable business customers which currently represents approximately 22% (FY2011: 23% based on consumption) of Aurora's retail business. As of 1 July 2012, the Australian Energy Regulator took over responsibility for electricity market regulation.

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 also included 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.

  A separate division, the Telecommunications Division, was brought into the Distribution Business in 2011-12. Previously, it provided assistance on a range of important projects, including the smart network roll-out and National Broadband Network (NBN) roll-out in an agent capacity (until March 2012), after which it provided electrical make-ready design and construction work for the roll-out to the Stage Two localities.
- **Energy Business:** Responsible for the ongoing activities in retail customer service, including electricity sales to business and residential customers as well as generation of electricity through the Aurora Energy Tamar Valley power station, and wholesale energy activities, including contracting and risk management of electricity and gas.

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

- As part of the Distribution Business, **Ezikey Group Pty Ltd (Ezikey)** is now responsible for the commercialisation of broken neutral detection technology owned by Aurora. For the year ended 30 June 2012, the company made a loss of $0.292m (2010-11, loss of $0.542m), and had net assets of $0.602m (2010-11, $0.894m).
- As part of the Distribution Business, **Auroracom Pty Ltd** holds Aurora's Telecommunications Carrier Licence. To date, this subsidiary has not traded.
- As part of the Energy Business, **Aurora Energy (Tamar Valley) Pty Ltd (AETV)** owns gas turbines that generate power which is sold into the National Energy Market (NEM), although contracts with Aurora effectively results 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.

On 31 May 2011, Aurora submitted its distribution business Pricing Determination for the period 2012 to 2017 to the Australian Energy Regulator (AER). In its decision, handed down on 30 April 2012, the AER provided a revenue allowance of approximately $1.4 billion over the five year period. This is further discussed later in this Chapter. Currently, the board comprises seven directors, including the Chief Executive Officer.

AUDIT OF THE 2011-12 FINANCIAL STATEMENTS

Signed financial statements were received on 13 August 2012 and an unqualified audit report was issued on the same day.

The audit was completed satisfactorily with no major issues outstanding.

KEY FINDINGS AND DEVELOPMENTS

Profitability

	2011-12 $'000s	2010-11 $'000s	Movement $'000s
Statutory net profit per audited financial statements	13 800	31 135	(17 335)
Actuarial superannuation losses/gains	(17 377)	4 660	(22 037)
Customer contributions	6 174	9 084	(2 910)
Financial instrument fair value movements	331	5 473	(5 142)
Tax effects at 30%	3 262	(5 765)	9 027
Underlying earnings after tax	21 410	17 683	3 727

In 2011-12, Aurora's statutory net profit for the year was $13.800m, representing a decrease of $17.335m when compared to the prior year. This was primarily due to actuarial losses of $17.377m on Aurora's defined benefit superannuation obligations (as opposed to a $4.660m gain in 2010-11). The actuarial loss was mainly due to the decline in the discount rate used to calculate the liability from 5.50% to 3.45%, principally caused by the reduction in yields on long-dated government bonds during the year.

On an underlying earnings after tax basis, Aurora recorded an increase to its net profit of $3.727m in 2011-12. This increase was attributable to:

- increased revenue as a result of growth in national electricity sales, additional revenue from the sale of wholesale gas, higher tariffs and a 379 million KWh increase in overall consumption
- completion of the roll out of the customer care and billing system in the prior year (no significant expenses incurred in 2011-12 (2010-11, $11.654m)).

Offset partially by:

- higher labour costs (increase of $10.801m) primarily due to the impacts of the new Enterprise Bargaining Agreement and redundancy costs of $24.723m (2010-11, $12.267m). This is further discussed in the Financial Analysis section of this Chapter
- write-off of PAYG meters (Tasmania and South Australia) of approximately $7.800m.

These major gains and losses were offset by a tax expense for 2012 of $6.919m (lower than the 2011 tax expense of $8.393m).

Total returns to government were $20.398m, comprised of dividends, income tax and guarantee fees. This is further discussed later in this Chapter.

Cash flows

The business continued to focus on productivity and cost reductions in 2012, following an increase in the scale and complexity of the business in previous years. This led to an increase in cash generated from operating activities as compared to the prior year (this is further discussed below under the Statement of Cash Flows section of this Chapter).

Capital expenditure

Capital expenditure in 2011-12 amounted to $118.766m. This was predominantly spent on maintaining the high standards of safety and reliability of Aurora's distribution system. Nonetheless, 2011-12 capital expenditure decreased by $52.465m when compared to prior year (2010-11, $171.231m), mainly as a result of timing of implementation and deferrals of certain projects and completion of Aurora's customer care and billing system project. Lower capital expenditure also resulted in a lower Debt to equity ratio of 178.8% (2010-11, 193.4%). Although Aurora has access to available funding to continue with its capital expenditure programs, it will need to continue to closely monitor the impact of additional debt on target debt and debt serviceability ratios (Refer to the Financial Results section of this Chapter for further details).

Major developments

This section summarises some major developments during 2011-12 and since year end.

1. Energy Transformation Package

On 15 May 2012, the Minister for Energy announced a comprehensive and integrated energy reform package entitled "Energy for the Future". A key factor driving this reform is the significant increase in customer prices over the past five years. Whilst the increase in electricity prices is a national issue, exacerbating factors for Tasmanian customers include lower than average incomes, higher electricity consumption due to the local climate and the inability of all customers to access alternative fuels such as natural gas.

The reform package included a number of potential initiatives that will impact Aurora: the potential disposal of AETV or its transfer to Hydro Tasmania; complete disposal of Aurora's retail customer book; commencement of full retail competition by 1 January 2014; the merging of Aurora's distribution network with Transend's transmission network; and the merging Aurora's retail service functions with Momentum Energy's mainland retail business.

The announcement had no direct impact to Aurora's 30 June 2012 financial statements in view of the high degree of uncertainty and the various underlying transactions that have yet to be formalised. However, the industry reform announcement, together with the introduction of a price on carbon, were viewed by Aurora as being triggers for assessing impairment at 30 June 2012. The resulting impairment testing did not identify any need for impairment of its assets.

2. Regulator's report re: non-contestable tariffs

On 20 June 2012, the Office of the Tasmanian Economic Regulator (the Regulator) approved Aurora Energy's retail tariffs for the period 1 July 2012 to 30 June 2013 (the Regulator also released its Statement of Reasons "Approval of: Retail tariffs for non-contestable tariff customers from 1 July 2012 in accordance with the 2010 Price Determination"). The Regulator approved average increases of 10.56 percent from the previous year's tariffs. These increases together with more favourable hedging arrangements entered into on 1 July 2010 allow Aurora to achieve a positive margin on its sale of electricity to non-contestable customers.

3. Performance of Aurora Energy (Tamar Valley) Pty Ltd

The AETV financial statements were signed by the Directors on 5 October 2012. A separate audit opinion is not issued in relation to AETV, but material AETV results were effectively audited as part of the Aurora Group audit (to Aurora Group materiality).

Relevant details of AETV's stand-alone financial position at 30 June 2012 were:

- The Tamar Valley power station (TVPS) was fully operational for the entire year.
- AETV generated an after tax profit of $5.105m.
- At 30 June 2012 its net assets totalled $95.368m comprising assets of $386.991m less liabilities of $291.623m.

The following table summarises the financial transactions for AETV's operations for the year ended 30 June 2012:

Income Statement	**2011-12 $'000s**	**2010-11 $'000s**
Total revenue	124 799	119 354
Energy purchases and operating costs	(86 289)	(84 796)
Depreciation and amortisation	(12 848)	(12 636)
Other expenses	(1 247)	(1 311)
Earnings Before Interest and Tax (EBIT)	**24 415**	**20 611**
Interest expense	(17 121)	(18 359)
Profit before tax	**7 294**	**2 252**
Income tax expense	(2 189)	(676)
Net profit for the year	**5 105**	**1 576**
Balance Sheet		
Current assets	37 332	25 608
Non-current assets	349 659	361 477
Current liabilities	(11 136)	(11 044)
Non-current liabilities	(280 487)	(285 778)
Equity	**95 368**	**90 263**

AETV's earnings before interest and tax were $24.415m. As described earlier, its operations are governed by a formal tolling agreement between Aurora and AETV, the effects of which are eliminated in Aurora's consolidated financial statements. 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 reflected the sale of electricity from the power station under tolling fee arrangements to Aurora and the increase in revenue was mainly attributable to higher volume generated in 2011-12. These higher volumes were a reflection of balancing demand against wholesale market conditions and utilisation of gas acquired under existing take or pay contracts.

The non-current assets of $349.659m were mainly represented by the net carrying amount of the power station, which at 30 June 2012 was $328.368m.

As previously reported, the construction of AETV was funded by borrowings. Non-current liabilities included $227.100m in debt owing to Aurora who borrowed these funds from TASCORP before on-lending them to AETV. The interest expense was slightly lower in the current year mainly due to decreasing debt levels.

4. National Broadband Network (NBN)

As previously reported, Aurora supported the NBN roll-out in Tasmania by running a project management office on behalf of NBNCo. This arrangement ceased in March 2012 when the agency agreement expired. However, Aurora continue to provide electrical make-ready design and construction work for the roll-out to the Stage Two localities of Sorell, Triabunna, St Helens, George Town, Deloraine and Kingston Beach.

Aurora and NBNCo have executed a facility access agreement that provides NBNCo with access to Aurora's poles to roll out the NBN fibre. The facility access agreement is considered a significant milestone as it ensures Aurora maintains operational control over its assets at all times while still supporting NBNCo's objectives in serving the Tasmanian community.

In addition, Aurora also managed network operations and maintenance for the three Stage One towns that are already in service, and provides telecommunications capacity to support the NBN services.

5. Declaration of dividends for 2011-12

As previously reported, the dividend calculation method was revised in 2010-11, whereby Aurora was requested to pay an annual dividend of 60% of underlying net profit after tax (adjusted for customer contributions, financial instrument fair value movements, actuarial superannuation gains/losses including the tax effects for each item). Based on this dividend calculation method, Aurora has declared $16.000m of dividends for 2011-12 (to be paid in 2012-13). The payment of these dividends should not impact Aurora's solvency.

6. Lower employment levels

At 30 June 2012, Aurora's total headcount was 1018, represented by 991 full-time equivalent employees and other apprentices and trainees as well as employees in Aurora's subsidiary companies. It shows a fall of 259, or 20.3 per cent, from the prior year. These departures were mainly voluntary redundancies.

The reduction in staff levels was mainly attributable to the fact that the Energy Business (as reported last year) moved to an 'Energy Expert' model which is intended to enable Aurora to remain committed to providing its customers with the benefits of efficiencies that arise from developing a business model built around acting as an effective competitive operator. The model incorporated a new organisational structure based on functional rather than divisional lines. These functional areas were categorised as Business Development & Strategy, Sales & Marketing (which includes the Customer Service Centre), Wholesale Energy (which includes the power station), and Finance, Regulatory & Operations. The execution of the Energy Expert model was completed in the current financial year.

In addition, certain positions were also made redundant in the Distribution Business as a result of the continued focus on improving customer outcomes, enhancing the productivity and efficiency of its workforce and changing its approach to network capital expenditure and asset management. Aurora is implementing revised efficient business support arrangements under the Corporate and Shared Services Transformation Project. This forms part of a broader project aimed at reducing operating costs.

7. Significant contracts entered into during the year

During the year, Aurora entered into new electricity supply arrangements with two major industrial customers (until 2014 and 2017) with an effective date of 1 July 2012.

8. Final Distribution Determination

On 30th April 2012, the Australian Energy Regulator (AER) handed down its Final Distribution Determination on Aurora's Regulatory Proposal covering the regulatory control period 2012-13 to 2016-17. This was the culmination of an eighteen month regulatory process between Aurora and the AER which commenced with the AER's Framework and Approach in November 2010.

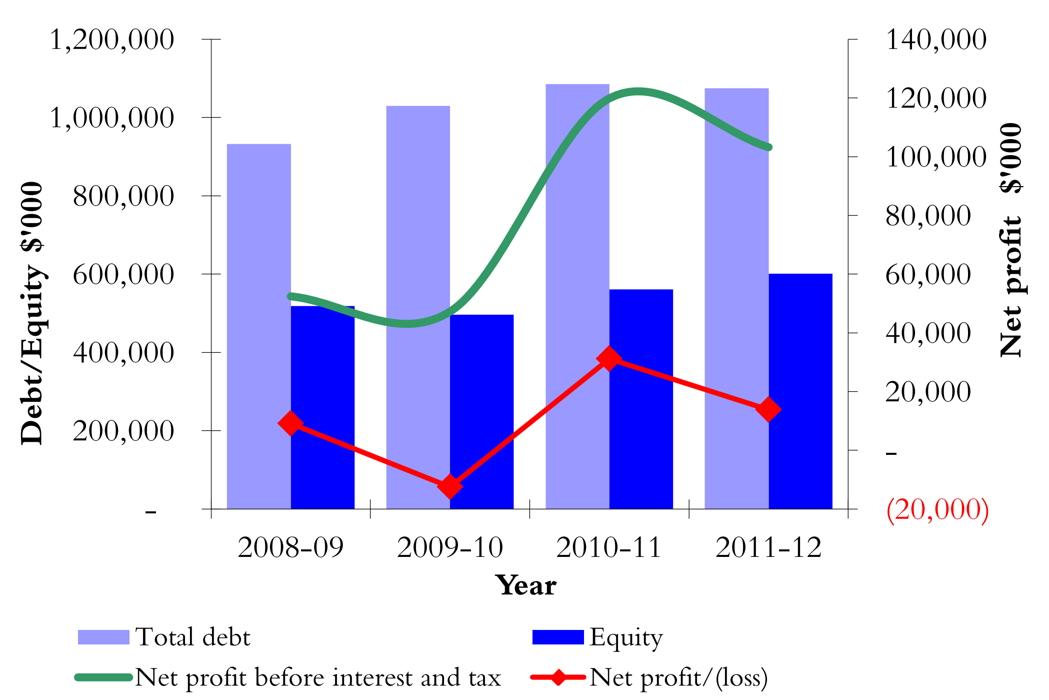
The AER determined a total smoothed revenue allowance of $1.417bn over the regulatory control period. This increase includes an allowance for the under recovery of an estimated $52.5m arising from the completion of the 2007-12 Regulatory Period (which was primarily due to lower than forecast consumption). The incorporation of this under-recovery has allowed a smoothing of the $52.5m over the period 2012-13 to 2016-17 and prevented a large bill shock for customers in the 2012-13 regulatory year.

FINANCIAL RESULTS

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

- All figures in the following tables and analysis are based upon the consolidated entity.
- Our analysis concentrates on the 2011-12 balances and movements compared to the 2010-11 figures. Balances for 2009-2010 and 2008-09 are provided for information only (NB: AETV was acquired during 2008-09 and the power station was operational from 2009-10).

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



The impact of increased borrowings and fluctuating net profits is summarised in this graph. The purchase of AETV had a significant effect on Aurora's consolidated result in 2009-10, with increased borrowing costs on additional debt.

However, improved hedging arrangements with Hydro Tasmania since 1 July 2010, more streamlined operations and higher regulated prices, have assisted in generating sufficient revenue to adequately service the associated debt in 2010-11 and 2011-12.

At 30 June 2012, Aurora's total debt balance was $1.075bn representing a decrease of $10.664m from 30 June 2011. Subsequent to 30 June 2012, the debt balance decreased further due to the repayment of $25.000m of maturing funding and a lower level of utilised on-demand funding (11AM account). This resulted in a further reduction in the gearing ratio.

STATEMENT OF COMPREHENSIVE INCOME

	2011-12	2010-11	2009-10	2008-09
	$'000s	$'000s	$'000s	$'000s
Sales revenue	1 427 235	1 322 689	1 149 050	970 664
Other revenue	59 470	60 352	47 964	47 529
Total Revenue	**1 486 705**	**1 383 041**	**1 197 014**	**1 018 193**
Energy and transmission purchases	935 741	895 557	817 092	698 487
Renewable energy credit purchases	72 935	47 657	27 898	17 036
Employee expenses	119 294	108 493	94 665	79 695
Depreciation	109 103	101 204	90 418	78 427
Other expenses	135 546	117 844	109 789	74 408
Billing system direct expensing	0	11 654	20 643	0
Total Expenses	**1 372 619**	**1 282 409**	**1 160 505**	**948 053**
Earnings before interest and tax	**114 086**	**100 632**	**36 509**	**70 140**
Borrowing costs	66 814	67 118	54 150	37 843
Guarantee fee	8 519	6 315	6 756	2 214
Nominal interest on superannuation liability	5 848	5 644	5 013	4 626
Unwinding discount on decommissioning	1 314	1 244	950	57
Profit/(Loss) before tax	**31 591**	**20 311**	**(30 360)**	**25 400**
Income tax (expense)/benefit	(10 181)	(2 628)	10 381	(3 897)
Net Profit/(Loss) after tax before customer contributions, financial instrument fair value movements and superannuation	**21 410**	**17 683**	**(19 979)**	**21 503**
Customer contributions	6 174	9 084	8 923	10 002
Superannuation liability movement	(17 377)	4 660	(11 505)	(5 996)
Financial Instrument fair value movements	331	5 473	13 321	(21 724)
Income tax benefit/(expense)	**3 262**	**5 765)**	**(3 222)**	**5 315**
Net Profit/(Loss) for the year	**13 800**	**31 135**	**(12 462)**	**9 100**

Comment

Overall

Aurora generated earnings before interest and tax (EBIT) of $114.086m, an improvement of $13.454m compared to 2010-11 (AETV's earnings were included in both financial years). Reasons for individual line item movements in the Statement of Comprehensive Income included the following:

- relatively flat sales margin (ratio of energy and transmission purchases and renewable energy credit purchases / sales revenue) in both years (2011-12, 29.3%; 2010-11, 28.7%). The increase in sales revenue was offset by the increase in costs of energy purchases, in particular costs of renewable energy certificates
- additional employee benefits, $10.801m, or 9.9%, (commented upon previously in this Chapter)

- increased depreciation charges, $7.899m or 7.8%, as a result of a full year amortisation of the Energy Business' customer and care billing system (as opposed to four months in 2010-11) and various capitalised projects during the year
- costs incurred from the write off of PAYG meters (Tasmania and South Australia), $8.555m, (as highlighted earlier in this Chapter) and certain leasehold fit outs as a result of Aurora vacating the ground floor of its current head office
- improvement in results of $11.654m from direct expense associated with Aurora's customer care and billing system project recorded in 2010-11 (no such expense in 2011-12 as the system was fully operational from February 2011).

On a Profit before tax basis (i.e. after interest expense), Aurora generated a profit of $31.591m. The interest expense increased by $2.174m mainly due to higher guarantee fees.

Aurora's profitability after tax remained steady between the years under review except for the decline in the 2010 year. Action was taken by management to reverse the 2010 loss, which included the re-negotiated agreements with Hydro Tasmania relating to its non-contestable electrical load within Tasmania. This agreement is for three years (expiring at the end of 2012-13) and is aimed at enabling Aurora's energy business to operate on a more sustainable basis. This together with productivity and efficiency initiatives had a positive impact on profitability in 2011 and 2012.

Aurora's final Net Profit of $13.800m followed 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.

Revenue

Aurora's revenue in 2011-12 increased by $104.546m, or 7.9%, mainly due to the increase in the regulated tariff for 2011-12 and growth in national electricity sales and Tasmanian Major Industrials (MI).

Expenditure

Aurora's major operating expense, Energy and transmission purchases, increased by $40.184m, or 4.5% in 2011-12. As discussed previously, Aurora settles the majority of its electricity with AEMO, with electricity derivatives in place to manage the spot price volatility. The higher costs reflect increased load purchased during the year to service customers and additional transmission costs associated with delivering this load.

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 were phased in from 2001 to 2011. From 1 January 2011, the Renewable Energy Target was split into the Large-scale Renewable Energy Target (LRET) and Small-scale Renewable Energy Scheme (SRES).

The value of renewable energy certificates required to match the electricity load purchased totalled $72.935m in 2011-12 (2010-11, $47.657m), the increase being driven by the increase in the costs of the certificates and higher load supplied to Aurora's customers. In the main, the renewable energy certificate costs are passed on to consumers and therefore included in energy purchases.

STATEMENT OF FINANCIAL POSITION

	2012	2011	2010	2009
	$'000s	$'000s	$'000s	$'000s
Cash	89 928	53 662	37 584	128 790
Receivables	204 774	203 745	175 781	184 635
Inventories	29 853	28 639	27 204	21 526
Financial assets	9 938	40 935	48 598	169 252
Current tax asset	0	7 610	9 895	2 162
Other (including held for sale)	14 808	20 560	26 618	17 235
Total Current Assets	**349 301**	**355 151**	**325 680**	**523 600**
Payables	155 742	159 075	143 954	244 726
Borrowings	118 325	25 000	39 682	252 482
Provisions	20 137	30 718	28 315	24 808
Current tax payable	1 752	0	0	0
Financial liabilities	9 622	70 657	75 548	111 396
Other	40 679	19 908	18 321	20 826
Total Current Liabilities	**346 257**	**305 358**	**305 820**	**654 238**
Working Capital	**3 044**	**49 793**	**19 860**	**(130 638)**
Property, plant and equipment	1 747 139	1 697 295	1 609 393	1 450 046
Deferred tax asset	54 537	115 374	128 779	176 407
Intangible assets	59 331	68 810	54 372	47 421
Financial assets	448	170 678	192 650	371 732
Other	10 404	19 802	21 882	17 044
Total Non-Current Assets	**1 871 859**	**2 071 959**	**2 007 076**	**2 062 650**
Borrowings	956 257	1 060 246	990 235	680 223
Provisions	104 533	87 967	87 534	69 300
Provisions - decommissioning costs	24 565	23 251	22 007	1 057
Deferred tax liability	175 915	222 869	220 750	278 548
Financial liabilities	9 778	163 021	206 104	380 210
Other	2 779	3 335	3 890	4 446
Total Non-Current Liabilities	**1 273 827**	**1 560 689**	**1 530 520**	**1 413 784**
Net Assets	**601 076**	**561 063**	**496 416**	**518 228**
Capital	314 255	314 255	309 355	301 555
Reserves	177 603	141 095	112 483	119 509
Retained earnings	109 218	105 713	74 578	97 164
Total Equity	**601 076**	**561 063**	**496 416**	**518 228**

Comment

At 30 June 2012, Aurora's Equity totalled $601.076m, an increase of $40.013m, or 7.1%, from 2010-11. The net increase includes the following major movements:

- Aurora's consolidated Net Profit after tax of $13.800m
- asset revaluation increases on distribution grid assets of $28.993m
- cash flow hedge reserve movement increases of $9.099m and
- Dividends paid in 2011-12 of $11.879m (relating to the 2011 financial year).

Cash balances increased by $36.266m in 2011-12. This increase is analysed under the Statement of Cash Flows commentary later in this Chapter.

Whilst total receivables remained consistent year-on-year, the notable movements were:

- increase in unbilled energy of $3.710m, which is consistent with higher electricity sales from tariff customers in Tasmania (as noted earlier in this Chapter). Unbilled energy at 30 June 2012 of $75.637m, is an estimate of unbilled power sales to 30 June 2012 relating to unread meters at that date (where meters are generally read quarterly)
- increase in provision for impairment of receivables of $2.667m due to the aging profile of Aurora's debtors' balances at 30 June 2012.

As noted previously, Aurora is required to annually purchase and surrender renewable energy certificates (RECs) under the *Commonwealth Government's Renewable Energy (Electricity) Act 2000.* Renewable energy certificates were purchased and held as inventory until they are surrendered as follows:

- Small-scale Technology Certificates (STCs) on a quarterly basis (April, July, October and February)
- Large-scale Generation Certificates (LGCs) on an annual basis in February.

Year-on-year movements on RECs inventory remained constant.

Aurora entered into derivative contracts with various counterparties to hedge its exposures to energy price risk, interest rate risk and foreign exchange risk.

Derivative contracts at balance date (net basis)	**30 June 2012 $'000s**	**30 June 2011 $'000s**
Energy contracts (including electricity swaps and major industrial contracts)	3 699	(21 477)
Interest rate swaps	(12 825)	(541)
Forward exchange contracts	100	(240)
	(9 026)	**(22 258)**

The carrying amounts of the derivative contracts are included within the respective classification on the Statement of Financial Position:

	30 June 2012 $'000s	**30 June 2011 $'000s**
Current financial assets	9 938	40 935
Non-current financial assets	448	170 678
Current financial liabilities	(9 622)	(70 657)
Non-current financial liabilities	(9 778)	(163 021)
	(9 026)	**(22 258)**

The energy derivative contracts effectively allowed Aurora to better manage its exposure to commodity price risk from electricity associated with the purchase and/or sale of electricity and includes caps, swaps and options agreements. Aurora's net position on its energy related derivative contracts at 30 June 2012 was a $3.699m asset. This favourable movement of $25.176m when compared to prior year was primarily due to:

- slight increase to electricity prices in 2011-12, which also contributed to higher prices in the forward curve used to value these contracts (30 June 2012 average of $32.60 /MWh; 30 June 2011 average of $29.45/MWh; 30 June 2010 average of $29.37/MWh; and 30 June 2009 average of $58.48/MWh)

- passage of time (i.e. relatively closer to maturity date of long dated contracts) of the back-to-back contracts with Hydro Tasmania lowered the net liability at 30 June 2012.

The interest rate swaps (IRSs) effectively allowed Aurora to better manage its interest rate risk from its debt portfolio, by swapping floating rate exposure to fixed rate exposure (or vice versa). Aurora's net position on its IRSs portfolio is $12.825m (liability), which constitutes an unfavourable movement of $12.284m when compared to prior year.

This movement was primarily due to the movement in the interest rate environment:

- BBSW-3M: at 30 June 2012 of 3.49% against 30 June 2011 of 5.03% and
- BBSW-6M: at 30 June 2012 of 3.44% against 30 June 2011 of 5.07%.

[NB: BBSW is a traded market rate that serves as a benchmark rate in the Australian financial system with standard maturities of 1 to 6 months]

Property, plant and equipment increased by $49.844m, 2.9%, from 2010-11. Major movements in the balance included:

- capital works and additions completed by Aurora of $112.150m, mostly in relation to feeders on the distribution network, but also including vehicle purchases, IT expenditure and property projects
- revaluation of Aurora's grid assets of $41.418m.

Offset partially by:

- depreciation expense of $92.972m
- assets written off as discussed earlier in this Chapter.

Payables, which included general creditors, accruals and the REC liability, remained fairly consistent year on year.

Total Borrowings (current and non-current) decreased by $10.664m to $1.075bn at 30 June 2012. The decrease in debt was attributable to Aurora funding its capital expenditure program (as discussed earlier) partly through cash flows generated from operations.

Total provisions (current and non-current) increased by $7.299m (net) due to the following:

- higher RBF provision, $16.255m, due to discount rate reductions (as discussed earlier in this Chapter)
- increased TVPS decommissioning provision, $1.314m.

Offset partially by:

- decrease in various employee benefits related provisions, $6.012m, in view of lower headcount at 30 June 2012
- decrease in restructuring provision, $4.223m, in view of the completion of the program during the year.

STATEMENT OF CASH FLOWS

	2011-12	2010-11	2009-10	2008-09
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	1 605 813	1 450 717	1 314 916	1 061 292
Payments to suppliers and employees	(1 361 709)	(1 250 713)	(1 204 132)	(882 699)
Interest received	3 784	2 250	1 450	1 514
Borrowing costs and guarantee fee paid	(72 201)	(72 980)	(55 162)	(39 508)
Taxation paid	0	(2 846)	(7 733)	(14 119)
Cash from operations	**175 687**	**126 428**	**49 339**	**126 480**
Payments for intangible assets	(5 510)	(24 001)	(15 420)	(24 284)
Payments for property, plant and equipment	(113 257)	(147 230)	(218 388)	(432 380)
Payment for purchase of gas contracts and generation dispatch rights	0	0	0	(15 000)
Proceeds from sale of property, plant and equipment	1 889	652	1 276	939
Cash (used in) investing activities	**(116 878)**	**(170 579)**	**(232 532)**	**(470 725)**
Proceeds from borrowings	756 486	55 329	464 693	452 993
Repayment of borrowings	(767 150)	0	(367 482)	(75 500)
Dividends paid	(11 879)	0	(10 124)	(9 930)
Funds received pending issue of equity	0	0	0	2 900
Proceeds from issue of equity	0	4 900	4 900	100 000
Cash (used in) / from financing activities	**(22 543)**	**60 229**	**91 987**	**470 463**
Net increase/(decrease) in cash	**36 266**	**16 078**	**(91 206)**	**126 218**
Cash at the beginning of the year	53 662	37 584	128 790	2 572
Cash at end of the year	**89 928**	**53 662**	**37 584**	**128 790**

Comment

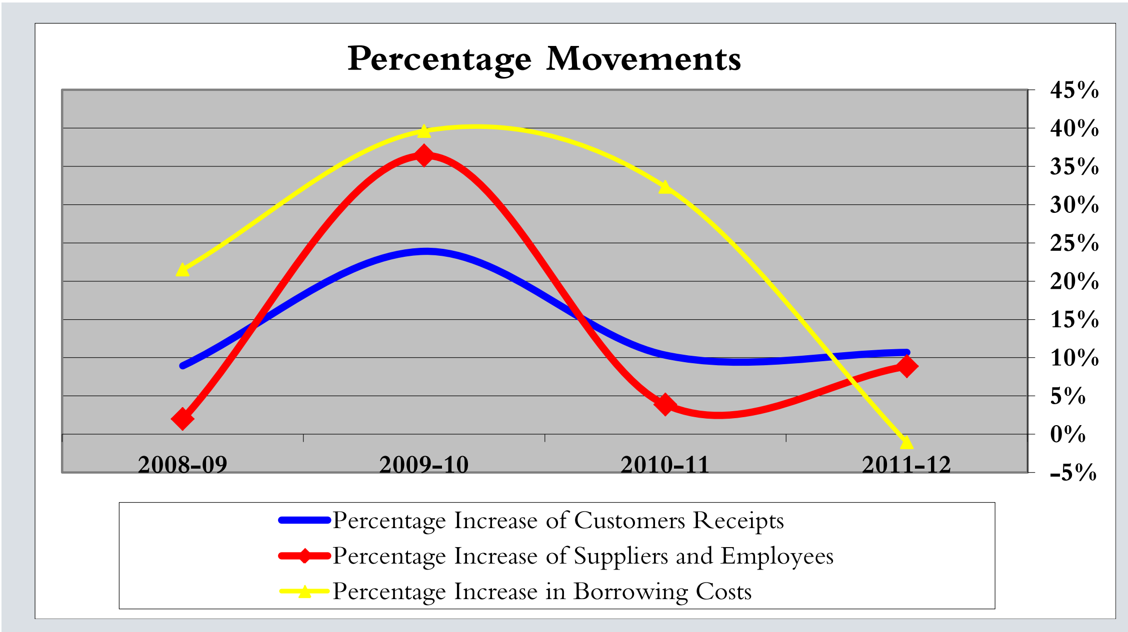
Aurora's Cash from operations improved from the prior year, increasing by $49.259m or 38.9%. The increase in Cash from operations was mainly driven by:

- Increased receipts from customers of $155.096m or 10.7%, reflecting increased tariffs, higher consumption and growth in mainland customers' consumption (as discussed earlier in this Chapter).

Offset partially by:

- increased payments to suppliers and employees, $110.996m or 8.9%, reflecting additional operational costs as previously noted under the Statement of Comprehensive Income section of this Chapter.

The graph below summarises movements in receipts, payments to suppliers and employees, and borrowing costs, expressed as percentage movements, across four years from 2008-09 to the current year.



This graph shows that payments to suppliers (including energy sourcing costs), employees and borrowing costs increased at a greater rate than receipts from customers in 2011-12 (from an overall basis). This reflects the higher costs in 2011-12 when compared to 2010-11 in absolute terms. The higher costs were attributable to labour costs (including redundancy and termination payments) and higher energy purchases costs (including RECs).

Nonetheless, Aurora generated higher net cash inflows compared to the prior year.

Before 2011-12, Aurora did not generate sufficient cash from operations to support its investing activities; instead having to partly rely on new borrowings. The additional borrowings between 2008-09 and 2010-11 included the funding of capital works programs in distribution assets and also completion costs associated with the construction of AETV's power station. In 2011-12, Aurora funded its capital expenditure programs primarily through cash generated from operations.

Aurora had a key strategic focus of meeting customer needs at the lowest sustainable cost and had undertaken significant operating and capital cost reductions (the impacts of these initiatives will fully flow through in subsequent periods). This is expected to continue and assist in managing debt levels in the long run.

Aurora management have stated that their latest forecasts show sufficient Cash from operations to fund investing activities with Aurora having a clear focus to stabilise debt levels and then manage the business to fund settlements of maturing debt through Cash from operations where appropriate.

As at 30 June 2012, Aurora had significant unused borrowing facilities available totalling $314.718m (2010-11, $174.474m). 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 ANALYSIS

	Bench Mark	2011-12	2010-11	2009-10	2008-09
Financial Performance					
Net profit /(loss) after tax ($'000s)		13 800	31 135	(12 462)	9 100
EBIT ($'000s)		103 214	119 849	47 248	52 422
EBITDA ($'000s)		212 317	221 053	137 666	130 849
Operating margin	>1.0	1.01	1.03	0.98	1.01
Return on assets	5.6%*	4.4%	5.0%	1.9%	2.7%
Return on equity	3.7%*	2.4%	5.9%	(2.5%)	2.0%
Financial Management					
Debt to equity	<203%	178.8%	193.4%	207.5%	180.0%
Debt to total assets		48.4%	44.7%	44.2%	36.1%
Interest cover - EBIT	>1.4 *	1.3	1.5	0.7	1.2
Interest cover - cash from operations	>2	3.1	2.5	1.6	3.7
Current ratio	>1	1.01	1.16	1.06	0.80
Cost of debt	6.9%	7.5%	7.5%	6.7%	6.0%
Debt collection	30 days	48	51	51	63
Creditor turnover	30 days	20	20	73	89
Asset Management					
Investment gap %		109%	169%	259%	582%
Returns to Government					
Dividends paid ($'000s)		11 879	0	10 124	9 930
Income tax paid ($’000s)		0	2 846	7 733	14 119
Government guarantee fees ($’000s)		8 519	6 315	6 756	2 214
Total return to the State ($’000s)		20 398	9 161	24 613	26 263
Dividend payable ($’000s)		16 000	11 879	0	10 124
Dividend payout ratio	50%	115.9%	38.2%	0	111.3%
Dividend to equity ratio	6%	2.8%	2.2%	0	2.2%
Other Information					
Average staff numbers (FTEs)		1 113	1 294	1 292	1 144
Average staff costs ($'000s)		107	84	73	70
Average leave balance per FTE ($'000s)		21	26	25	23

* *Internal benchmarks come from Aurora’s corporate plan and are not subject to audit*

Comment

As discussed earlier in this Chapter, Aurora’s Net Profit after tax of $13.800m in 2011-12 was considerably lower due to the actuarial losses of $17.377m related to the defined benefit superannuation plan recognised in the Statement of Comprehensive Income. This resulted in the lower ratio across financial performance indicators when compared to the prior year.

The sensitivity analysis of the impact of the actuarial losses on the financial performance of Aurora is described in the table below:

	2011-12 Statutory	2011-12 Adjusted*	2010-11 Adjusted*
Operating margin	1.01	1.03	1.03
Return on equity	2.4%	5.4%	5.0%
Return on assets	4.4%	5.2%	4.8%

* *The effects of actuarial gains and losses are removed from statement of comprehensive income*

If the effect of the actuarial losses is removed from the financial performance analysis, Aurora maintained its operating margin; improved its return on equity and recorded a slight decrease in its return on assets when compared to the prior year.

Whilst Aurora has no direct control over the variables which impact the fair value calculation of the RBF liability at each reporting date, it will need to continue to closely monitor the impact that any additional liability may have on its operations including cash flows.

Similar to last year, Aurora's Debt to equity ratio further improved to 178.8% (2010-11, 193.4%) following the cost containment work and reduced capital expenditure during 2011-12. The ratio was highest in 2009-10 due to increased debt associated with the construction of the Tamar Valley power station and reduced equity. In 2011-12 Aurora kept the level of debt relatively constant in relation to an increasing equity balance through more streamlined operations; higher regulated prices; reducing and/or deferring capital expenditure (where possible) and containing other operating costs (as noted earlier in this Chapter).

However, Debt to total assets increased by 3.7% due to lower assets base in respect of deferred tax assets and certain financial instruments.

Aurora recorded Interest cover ratios better than the benchmark in each of the four years under review including 2011-12, except for 2009-10 when it was 1.6.

Although current ratio of 1.01 is slightly above the benchmark, it was significantly lower than last year. This was attributable to $118.325m of borrowings classified as current. This amount included maturing debt in the next 12 months and the on-demand debt facility (11AM account). As discussed earlier in this Chapter, $25.000m of maturing debt has been settled and the outstanding balance of the 11AM account has decreased subsequent to 30 June 2012.

Debtor turnover days continued to improve in 2011-12, which is a positive trend across all four years under review. In addition and consistent with last year, Creditor turnover days remained below the benchmark in the current year.

Aurora's total capital expenditure/depreciation ratio (Investment gap) was well above 100% in each of the years under review reflecting its significant investment in property, plant and equipment. The reduction in the ratio in 2011-12 from 169% to 109% reflected the reduced expenditure on capital works for distribution assets and the fact that the construction of the Tamar Valley power station was completed in 2009-10.

Over the four year period, Aurora returned $80.435m to the State or an average of $20.109m per year, comprising dividends of $31.933m, income taxation paid of $24.698m and guarantee fees of $23.804m. As previously reported (as of 30 June 2011) Aurora was requested to recalculate its annual dividend to 60% of underlying net profit after tax. Consequently, the Board recommended a dividend of $16.000m, an increase of $4.121m or 34.7% from prior year (2010-11, $11.879m).

Prior to 2010-11, Aurora's Average staff costs had remained reasonably constant since 30 June 2008. In 2010-11 and 2011-12, Average staff costs increased as a result of redundancy payments included in employee expenses (as discussed earlier in this Chapter). If the redundancy expenses are isolated, the average staff costs remained relatively flat from 2008-09 and increased in current year (mainly driven by the new collective EBA as discussed earlier in this Chapter) as shown in the table below.

	2011-12	**2010-11**	**2009-10**	**2008-09**
Employee expenses per Statement of comprehensive income ($'000)	119 294	108 493	94 665	79 695
Less: Redundancy costs ($'000)	24 723	12 267	0	0
Adjusted employee expenses ($'000)	94 571	96 226	94 665	79 695
Average FTEs	1 113	1 294	1 292	1 144
Averaged staff costs	107	84	73	70
Average staff costs (adjusted) ($'000)	85	74	73	70

On the contrary, Average leave balance decreased in 2011-12 as a result of lower headcount.

METRO TASMANIA PTY LTD

INTRODUCTION

Metro Tasmania Pty Ltd (Metro) 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 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*. It 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.

Metro receives approximately 74% of its revenue from DIER. As a result of this level of Government contribution, Metro remains economically dependent on the State for its continued operations. In 2011-12 the contribution was $35.593m (2010-11, $33.909m), an increase of 5.0% over the period.

The Metro Board comprises six board members appointed by the Shareholding Ministers. The CEO, who is appointed by the Board, is not a Board member.

AUDIT OF THE 2011-12 FINANCIAL STATEMENTS

Signed financial statements were received on 9 August 2012 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

Non-contract funding

Metro continued to receive additional funding of $3.250m (2010-11, $3.250m) from the State to improve its bus fleet, assist with its long-term capital replacement program and fund other passenger growth initiatives. This funding has been included in the forward estimates for DIER for the next four years. During 2011-12, Metro spent $4.465m on new capital equipment, primarily on new buses. The buses were funded by the capital component of the additional funding provided and cash generated from operations.

Metro's cash position

In summary, over the four years to 30 June 2012, Metro:

- generated $10.045m in cash from operations and $0.704m from asset sales
- received $8.311m in capital funding from the State
- applied these funds, along with the $9.000m in cash holdings at 1 July 2008, to acquire new buses and other assets, $24.252m
- overall, Metro's cash position declined by $5.192m over the four years under review.

This indicates that, in the short to medium term, Metro may have to curtail its bus replacement program, generate additional cash from operations, borrow or seek additional support from Government.

Profitability

Regarding Metro's profitability, Net losses occurred in three out of the four years, and a loss in Earnings before interest and income tax was made in each period. This resulted in a negative return on assets, which is not sustainable. However despite this, Earnings before interest, income tax and depreciation were positive, highlighting the impact of the annual depreciation charges on profitability.

Metro's low profitability raises concerns regarding its ability to internally generate sufficient cash to enable it to maintain and replace its buses. On the basis of capital expenditure invested in buses over the past four years, even with the additional funding of $3.250m per annum, Metro had to curtail its bus replacement program in 2011-12. In making this observation, we have not assessed Metro's efficiency and therefore whether or not there is capacity for it to reduce its operating costs or service debt.

FINANCIAL RESULTS

Metro recorded a Net operating loss before tax of $3.671m, which is consistent with the prior year deficit of $3.323m. This highlights the importance of the $3.250m additional funding currently received.

Metro's current ratio at 30 June 2012 was 0.68, below the benchmark of not less than 1 for most industries. With a short-term Payables balance of $4.279m and a Cash position of $3.808m Metro will need to generate additional cash to meet its short-term obligations.

STATEMENT OF COMPREHENSIVE INCOME

	2011-12	2010-11	2009-10	2008-09
	$'000s	$'000s	$'000s	$'000s
Government contribution	32 343	30 659	29 719	29 148
Fare revenue	11 125	10 886	10 289	10 647
Other revenue	1 337	1 595	1 232	1 791
Gain on sale of non-financial assets	16	64	42	28
Total Revenue	**44 821**	**43 204**	**41 282**	**41 614**
Depreciation	4 734	4 260	3 964	3 565
Administration	3 810	3 699	2 997	2 102
Employee expenses	27 905	27 122	27 474	26 371
Other expenses	10 714	10 085	8 695	10 087
Total Expenses	**47 163**	**45 166**	**43 130**	**42 125**
Net operating profit (loss) before finance costs and tax	**(2 342)**	**(1 962)**	**(1 848)**	**(511)**
Finance costs*	1 329	1 361	1 346	0
Net operating profit (loss) before tax	**(3 671)**	**(3 323)**	**(3 194)**	**(511)**
Non-operating items				
Additional government funding	3 250	3 250	3 250	0
Net profit (loss) before tax	**(421)**	**(73)**	**56**	**(511)**
Income tax expense	125	22	133	365
Net profit (loss)	**(296)**	**(51)**	**189**	**(146)**
Revaluation of property, plant and equipment	(954)	0	1 503	2 593
Net change in fair value of available-for-sale financial assets	(137)	(18)	(9)	(78)
Defined benefit plan actuarial gains (losses)	(6 113)	1 115	(1 036)	83
Income tax on other comprehensive income	1 875	(327)	(140)	41
Other comprehensive income	**(5 329)**	**770**	**318**	**2 639**
Total comprehensive profit (loss)	**(5 625)**	**719**	**507**	**2 493**

**Information not available for 2008-09*

Comment

In 2011-12, Metro reported a Net operating loss before tax of $3.671m, an increase of $0.348m, 10.5%, on the previous year's result. This was caused by higher operating expenditure of $1.997m, partly offset by higher operating revenue of $1.617m.

Overall Metro made a Net loss for the period of $0.296m. This improved result, compared to the operating loss of $3.671m, was due to additional funding of $3.250m received from DIER in 2011-12. This funding was used for bus replacement and other passenger growth initiatives.

Finance costs represents notional interest in Metro superannuation liability.

STATEMENT OF FINANCIAL POSITION

	2012	2011	2010	2009
	$'000s	$'000s	$'000s	$'000s
Cash	3 808	2 866	5 435	4 327
Receivables	572	504	341	809
Inventories	1 385	1 237	1 046	917
Assets classified as held for sale	99	204	261	511
Other	882	901	854	1 017
Total Current Assets	**6 746**	**5 712**	**7 937**	**7 581**
Payables	4 279	4 092	4 836	2 575
Provisions - leave and other	4 416	4 390	4 201	4 209
Provisions - superannuation	1 254	793	890	1 097
Total Current Liabilities	**9 949**	**9 275**	**9 927**	**7 881**
Working Capital	**(3 203)**	**(3 563)**	**(1 990)**	**(300)**
Property, plant and equipment	49 245	51 147	49 469	45 604
Intangible assets	151	124	143	254
Deferred tax assets	10 950	10 227	10 467	10 201
Total Non-Current Assets	**60 346**	**61 498**	**60 079**	**56 059**
Provisions - leave and other	735	629	582	601
Provisions - superannuation	24 605	18 601	19 586	18 017
Deferred tax liabilities	4 170	5 447	5 382	5 109
Total Non-Current Liabilities	**29 510**	**24 677**	**25 550**	**23 727**
Net Assets	**27 633**	**33 258**	**32 539**	**32 032**
Capital	15 503	15 503	15 503	15 503
Retained earnings/(Accumulated surpluses)	(668)	4 178	3 442	3 942
Reserves	12 798	13 577	13 594	12 587
Total Equity	**27 633**	**33 258**	**32 539**	**32 032**

Comment

Total Equity decreased by $5.625m, being the Comprehensive result for the year. Corresponding to the decrease in Total Equity, Net Assets also decreased $5.625m with main movements being:

- higher Cash and cash equivalents, up $0.942m, which is discussed further in the Statement of Cash Flows section of this Chapter
- decreased Property, plant and equipment, $1.902m, due to disposals of $0.659m, a revaluation decrement to Land and Buildings of $0.954m and Depreciation of $4.667m offset by additions for the period, $4.378m, (predominately made up of buses purchased, $3.107m)
- higher Provisions - superannuation of $6.465m due to the Defined benefit plan actuarial loss of $6.113m, The significant Defined benefit plan actuarial loss in this period was primarily due to the decline in the discount rate from 5.50% to 3.45% as a result of the reduction in yields on Government bonds compared to prior year.

Metro recognises 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

	2011-12	2010-11	2009-10	2008-09
	$'000s	$'000s	$'000s	$'000s
Receipts from Government	32 758	30 659	29 719	29 148
Receipts from other customers	13 812	14 501	14 212	14 448
Payments to suppliers and employees	(44 519)	(44 803)	(39 780)	(41 118)
Interest received	155	386	207	315
Interest paid	(26)	(23)	(6)	0
Cash from (used in) operations	**2 180**	**720**	**4 352**	**2 793**
Bus replacement funding*	3 107	2 527	2 677	0
Payments for property, plant and equipment	(4 465)	(5 969)	(6 252)	(7 566)
Proceeds from sale of property, plant and equipment	120	153	331	100
Cash from (used in) investing activities	**(1 238)**	**(3 289)**	**(3 244)**	**(7 466)**
Net increase (decrease) in cash	**942**	**(2 569)**	**1 108**	**(4 673)**
Cash at the beginning of the year	2 866	5 435	4 327	9 000
Cash at end of the year	**3 808**	**2 866**	**5 435**	**4 327**

* *Capital component of the additional funding, $3.250m.*

Comment

As at 30 June 2012, Metro held Cash and cash equivalents of $3.808m, an increase of $0.942m. Cash from operations, $2.180m, Bus replacement funding, $3.107m, and Proceeds from sale of property, plant and equipment, $0.120m, were used to fund Payments for property, plant and equipment, $4.465m.

Movements in Metro's operating cash flow reflect comments made in previous sections of this Chapter. Cash from operations improved by $1.460m this year which roughly comprised Net operating loss before tax of $3.671m adjusted for non-cash items that included Depreciation, $4.734m, Write off of non-current assets, $0.555m and an increase in Provisions, $0.445m.

Metro invested $4.465m in assets, primarily additional buses as discussed previously in the Key Findings and Developments section.

FINANCIAL ANALYSIS

	Bench Mark	2011-12	2010-11	2009-10	2008-09
Financial Performance					
Net Profit (Loss) ($'000s)		(296)	(51)	189	(146)
EBIT ($'000s)		(2 342)	(1 962)	(1 848)	(511)
EBITDA ($'000s)		2 392	2 298	2 116	3 054
Operating margin	>1.0	0.95	0.96	0.96	0.99
Return on assets	5.21	(3.5%)	(2.9%)	(2.8%)	(0.8%)
Return on equity		(1.4%)	(0.2%)	0.2%	(1.7%)
Financial Management					
Current ratio	>1	0.68	0.62	0.80	0.96
Debt collection	30 days	6	6	4	7
Creditor turnover	30 days	32	38	68	22
Other Information					
Average staff numbers (FTEs)		386	390	388	377
Average staff costs ($'000s)		72	70	71	70
Average leave balance per FTE ($'000s)		13	13	12	13

Comment

The Financial Performance indicators were consistent over the four year period, reflecting results below a break even target.

Net losses occurred in three of the four years, and a loss in Earnings before interest and income tax was made in each period. This caused the negative return on assets ratios, which is not sustainable in the medium to long term. Despite this however, Earnings before interest, income tax and depreciation results were positive highlighting the impact of the annual depreciation charges on buses and the importance of additional funding received from the State.

Current ratio, a measure of net working capital, was below benchmark of one for the entire four year period. This result indicates that Metro may not hold enough liquid assets to meet its short-term commitments. This is somewhat offset, however, by the fact that Metro does not have any long-term debt.

Average staff costs and employee leave balances were relatively consistent during the four years.

No dividends or guarantee fees were paid throughout the period.

TASMANIAN IRRIGATION PTY LTD

INTRODUCTION

Tasmanian Irrigation Pty Ltd (the Company or TI) operates under the *Irrigation Company Act 2011* (the Act). The Company was previously the Tasmanian Irrigation Development Board Pty Ltd which, prior to the Act commencing and its name change, had been one of two subsidiaries of Rivers and Water Supply Commission (RWSC). It is a State Owned Company responsible for the management of State Government owned irrigation schemes and progress of new irrigation developments.

The analysis in this Chapter is based on the Company for 2011-12, with prior years being RWSC, the former consolidated water infrastructure entity. Comparison with RWSC is relevant but limited, in particular when comparing movements in accumulated losses and contributed equity in the Statement of Financial Position.

The Company remains instrumental in delivering Government's vision for the future of agriculture in the State, outlined in the Tasmanian Infrastructure Strategy. It is currently pursuing projects to deliver irrigated water to areas in Northern, Eastern, South Eastern and Central Tasmania.

The Company's shares are owned by the Treasurer and Minister for Primary Industries and Water who hold these shares on behalf of the State of Tasmania.

The Board comprises five members.

AUDIT OF THE 2011-12 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2012 and re-signed on 17 September 2012. An unqualified audit report was issued on 28 September 2012.

KEY FINDINGS AND DEVELOPMENTS

The audit was completed satisfactorily with no major items outstanding.

Transfer of net asset to the Company and further equity contributions during 2011-12

From 1 July 2011, all assets, rights, liabilities and staff of RWSC and Tasmanian Irrigation Schemes (TIS) Pty Ltd were transferred to the Company. This was transacted as a contribution of equity and resulted in the Company's equity increasing by $50.579m on 1 July 2011 at which time its net assets totalled only $0.074m of which its contributed equity was $2.

In addition, in 2011-12 the Company received $35.939m in State Government funding towards capital projects.

These transfers and Government funding resulted in the Company having contributed equity of $86.517m at 30 June 2012.

Asset impairments in 2011-12

Despite the contributed equity of $86.517m, at 30 June 2012, the Company's net assets had decreased by $23.252m to $63.265m, due to the Company:

- achieving a net profit after tax but before asset impairments of $16.798m
- impairing its assets by $40.124m. Impairments were mainly due to the Company recognising assets transferred from RWSC and and the former Tasmanian Irrigation Schemes Pty Ltd (TIS) at their previous book value, rather than at fair values on the date of transfer. This was because:
  - un-commissioned irrigation schemes at 30 June 2011 in the former RWSC were not impaired, (Refer to Statement of Comprehensive Income) and
  - the decision of the Company's directors to impair these schemes after transfer.

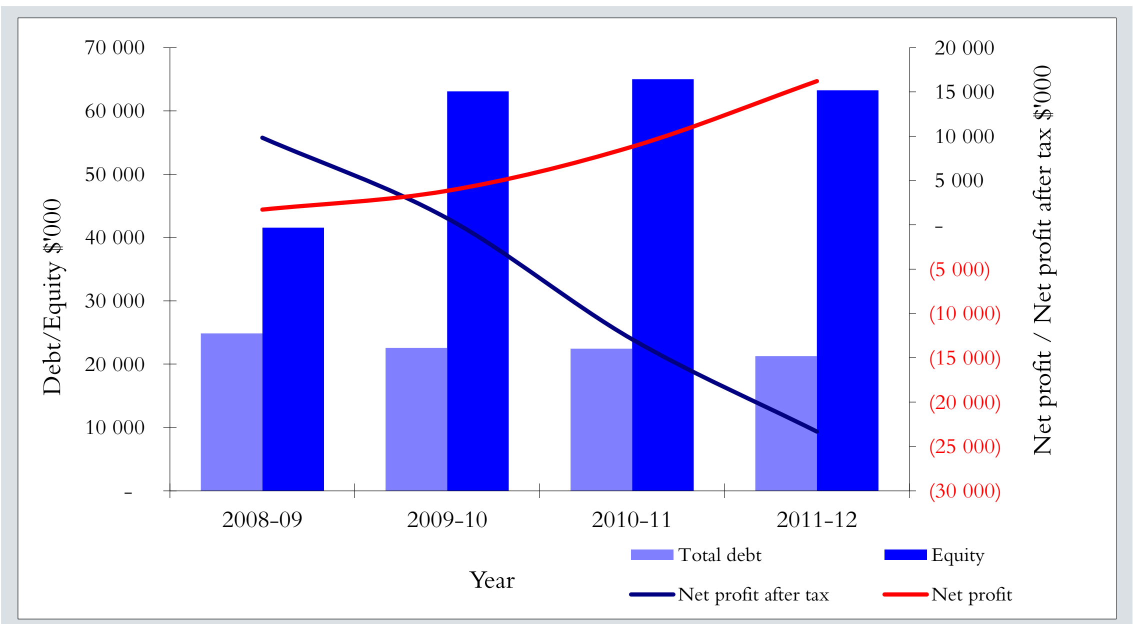
  This is discussed further under the Statement of Comprehensive Income section later in this Chapter.
- establishing an asset renewal reserve with a balance on this account of $0.746m at 30 June 2012. Establishment of this reserve had the effect of increasing accumulated losses by this amount.

Financially dependent

The Company remains financially dependent on State Government support which is currently provided as grants and equity contributions.

FINANCIAL RESULTS

The graph below details movements in debt, equity, net profit before impairments and tax and net profit after impairments and after tax (referred to in the graph as Net profit and Net profit after tax respectively).



Over the last three years Equity remained reasonably consistent averaging $63.779m. While Net Profit steadily increased, this was off-set by increasing impairment losses resulting in the declining Net profit after tax. In 2011-12 the Company recorded a Net profit from operations before tax of $16.216m, while significant impairment losses of $40.124m resulted in a Total comprehensive loss of $23.326m. Total debt declined slightly, $3.581m, over the four years as borrowings were repaid.

Over recent years the State has made significant investment in water infrastructure. The following table summarises equity and grant contributions over the four years to the Company and former water infrastructure entities, (RWSC and its subsidiaries):

Funding and Asset movement	**2011-12**	**2010-11**	**2009-10**	**2008-09**	**Total**
	$'000s	$'000s	$'000s	$'000s	$'000s
State equity contribution	11 549	16 616	12 127	14 224	77 644
Commonwealth capital contribution	24 389	4 920	8 663	0	14 844
State and Commonwealth operating grants	6 219	7 023	6 993	3 116	23 959
State Government interest contribution	608	628	1 268	1 314	3 209
Total Government contributions	42 765	29 186	29 050	18 654	119 656
Equity Return (Meander Valley)		(6 710)			(6 710)
Net Government Contributions	**42 765**	**22 476**	**29 050**	**18 654**	**112 946**

STATEMENT OF COMPREHENSIVE INCOME

	2011-12	**2010-11**	**2009-10**	**2008-09**
	TI	**RWSC**	**RWSC**	**RWSC**
	$'000s	$'000s	$'000s	$'000s
Revenue	19 211	12 231	6 754	5 122
Government grants	6 219	7 023	6 993	3 700
State Government interest contributions	608	628	1 267	1 314
Finance income	802	856	689	370
Other revenue	845	363	226	101
Total Revenue	**27 685**	**21 101**	**15 929**	**10 607**
Employee benefits	4 121	4 316	3 305	1 979
Finance costs	1 661	1 703	1 770	1 783
Depreciation	593	905	789	626
Operational and other	5 094	5 360	6 221	4 498
Total Expenses	**11 469**	**12 284**	**12 085**	**8 886**
Profit before other items	**16 216**	**8 817**	**3 844**	**1 721**
Impairment losses	(40 124)	(27 252)	(3 256)	(421)
Assets received at no consideration	0	0	450	0
Net Profit (Loss) before tax	**(23 908)**	**(18 435)**	**1 038**	**1 300**
Income tax benefit (expense)	582	5 530	(301)	8 531
Net Profit (Loss)	**(23 326)**	**(12 905)**	**737**	**9 831**

Comment

Profit before other items improved from $8.817m in 2010-11 to $16.216m in 2011-12. This improvement of $7.399m was primarily caused by:

- increased Revenue, $6.980m, including:
  - ○ increased water entitlement revenues, $15.360m, following the commissioning of irrigation schemes such as Sassafras Wesley Vale, $6.124m, Whitemore, $4.350m, Winnaleah, $3.036m
  - ○ lower irrigation rights sales, $9.269m, relating mainly to the sale of Meander irrigation rights in the prior year and Great Forester (Headquarters Road Dam), $1.806m
  - ○ higher interest income earned from irrigation scheme plans sold, $0.544m
  - ○ increased water rates and charges, $0.459m, following higher water sales
- lower Depreciation, $0.312m, following impairment of assets.

Overall, the Company reported a Net Loss after tax of $23.326m after accounting for non-operating items, mainly Impairment losses of $40.124m. The impairments were made because the pricing of water charges was based on a cost recovery model and because, apart from the sale of any remaining water entitlements, these assets will not generate any further revenue for the Company.

The four schemes, and the amounts impaired in each case were Sassafras Wesely Vale Irrigation Scheme, $11.817m, Whitemore Irrigation Scheme, $9.736m, Winnaleah Irrigation Scheme Augmentation, $9.690m, and Great Forester Irrigation Scheme (Headquarters Road Dam), $5.513m. The other significant impairment was for the already commissioned Meander Valley Irrigation Scheme, $3.310m, which had already been heavily impaired in prior years.

STATEMENT OF FINANCIAL POSITION

	2012 TI $'000s	2011 RWSC $'000s	2010 RWSC $'000s	2009 RWSC $'000s
Cash and deposits	47 494	17 635	19 534	12 024
Receivables	4 710	912	1 475	1 358
Fixed repayment plans	1 341	1 278	725	670
Water stock	275	584	511	508
Other	107	0		0
Total Current Assets	**53 927**	**20 409**	**22 245**	**14 560**
Payables	4 573	3 712	3 066	3 536
Unearned revenue	4 654	6 569	5 929	1 803
Borrowings	3 970	1 196	1 112	1 814
Provisions	488	355	322	174
Total Current Liabilities	**13 685**	**11 832**	**10 429**	**7 327**
Working Capital	**40 242**	**8 577**	**11 816**	**7 233**
Property, plant and equipment	33 634	55 002	59 168	44 298
Deferred tax asset	0	13 760	8 231	8 531
Fixed repayment plans	6 802	8 454	4 895	4 478
Other	426	876	876	426
Total Non-Current Assets	**40 862**	**78 092**	**73 170**	**57 733**
Borrowings	17 290	21 260	21 457	23 027
Provisions	549	413	454	391
Total Non-Current Liabilities	**17 839**	**21 673**	**21 911**	**23 418**
Net Assets	**63 265**	**64 996**	**63 075**	**41 548**
Reserves	746	0	0	0
Accumulated losses	(23 998)	(24 560)	(11 654)	(12 391)
Capital	86 517	89 556	74 729	53 939
Total Equity	**63 265**	**64 996**	**63 075**	**41 548**

Comment

Despite the Comprehensive loss of $23.326m reported earlier in this Chapter, Total Equity only decreased by $1.731m. This was predominantly due to the net loss for the year being more than offset by further Government equity provided of $35.939m, in the form of cash, primarily to assist with capital expenditure. This funding was provided out of the Water Infrastructure Fund much of which was unspent at 30 June 2012 and is the main reason for the increase in Cash and deposits to $47.494m.

Net Assets increased by the same amount as Total Equity, $1.731m, with the main movements being:

- higher Cash and deposits, $29.859m, following the additional Government equity contribution, previously mentioned
- higher Receivables, $3.798m, predominantly relating to outstanding water entitlements for new schemes, $2.890m

- decreased Unearned revenue, $1.915m, following the recognition of revenues under purchase contracts for water entitlements of commissioned schemes
- decreased Property, plant and equipment, $21.368m, mainly as a result of impairments, $40.124m, offset by additions, $18.841m
- decreased Deferred tax assets, $13.76m. These were not transferred to TI as the company sought and received a tax ruling that deferred tax balances should not be recognised as they would never recover those assets
- decreased net Fixed repayment plans, $1.589m, with the progression of irrigation scheme deferred purchase and repayment plans
- lower net Borrowings, $1.196m, due to repayment of current borrowings during the year.

Working Capital increased by $31.665m compared to last year, predominantly due to the increase in Cash and deposits and Receivables and reduction in Unearned revenue.

STATEMENT OF CASH FLOWS

	2011-12	2010-11	2009-10	2008-09
	TI	RWSC	RWSC	RWSC
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	3 799	6 950	5 883	2 974
Government grants and contributions	6 126	6 925	11 436	4 431
Interest received	1 694	1 341	934	505
Payments to suppliers and employees	(7 798)	(8 794)	(9 629)	(2 565)
Finance costs	(1 661)	(1 655)	(1 761)	(1 859)
Cash from (used in) operations	**2 160**	**4 767**	**6 863**	**3 486**
Payments for property, plant and equipment	(18 841)	(23 782)	(19 471)	(8 575)
Proceeds from sale of property, plant and equipment	4	42	518	36
Loans	0	(261)	0	0
Proceeds from sale of water entitlements	11 794	2 621	1 394	0
Cash from (used in) investing activities	**(7 043)**	**(21 380)**	**(17 559)**	**(8 539)**
Capital contribution from Government	35 939	21 536	20 790	14 223
Cash from acquisition of RWSC & TIS	1 867	0	0	0
Return of equity to Government	0	(6 710)	0	0
Proceeds from borrowings	0	0	0	824
Repayment of borrowings	(1 196)	(112)	(2 584)	(1 065)
Cash from (used in) financing activities	**36 610**	**14 714**	**18 206**	**13 982**
Net increase (decrease) in cash	**31 727**	**(1 899)**	**7 510**	**8 929**
Cash at the beginning of the year	15 767	19 534	12 024	3 095
Cash at end of the year	**47 494**	**17 635**	**19 534**	**12 024**

Comment

Cash increased by $31.727m to $47.494m at 30 June 2012. The strong cash position was primarily due to the equity contributions received from the State Government, $35.939m much of which was unspent at 30 June 2012. The State Government contribution comprised $25.391m for the Midlands Water Scheme, $3.428m for the Winnaleah Irrigation Scheme and $7.120m for the Lower South Esk Irrigation Scheme.

The decrease in Cash from operations, $2.160m, was primarily due to the reduction in actual cash Receipts from customers, $3.151m. The main reason for the difference was that prior years, both 2010 11 and 2009-10, included the sale significant Meander irrigation rights.

Cash generated from operating activities plus proceeds from the sales of water rights totalled $13.954m, (2010-11, $7.388m). This increase aligns with our expectation that this should equate roughly with the Commission's operating profit before tax and before impairment losses plus depreciation which was $16.809m, ($9.722m), with the difference primarily relating to the decrease of $1.589m in fixed repayment plans and the decrease in unearned revenues of $1.915m. This indicates that the Company is able to generate sufficient revenue to fulfil its operating requirements, including depreciation.

The return to Government of $6.710m in 2010-11 was for the repayment of assistance provided in previous years for the Meander Valley Pipeline Extension project.

Payments for Property plant and equipment, $18.841m, included capital expenditure on:

- Completion of
  - Winnaleah Irrigation Scheme $9.439m
  - Whitemore Irrigation Scheme $0.361m
  - Great Forester Irrigation Scheme (Headquarters Road Dam), $0.272m
- Commencement of:
  - Lower South Esk Irrigation Scheme, $3.054m
  - Midlands Water Scheme, $5.652m.

FINANCIAL ANALYSIS

	Bench Mark	2011-12 TI	2010-11 RWSC	2009-10 RWSC	2008-09 RWSC
Financial Performance					
Result from operations ($'000s)		16 216	8 817	3 844	1 721
Operating margin	>1.0	2.4	1.7	1.3	1.2
Return on assets		15.1%	7.3%	2.5%	2.9%
Total return to equity ratio		(36.4%)	(20.2%)	1.4%	23.7%
Financial Management					
Debt to equity		33.6%	34.5%	35.8%	59.8%
Debt to total assets		22.4%	22.8%	23.7%	34.4%
Interest cover - EBIT	>2	10.8	6.2	3.2	2.0
Current ratio	>1	3.9	1.7	2.1	2.0
Returns to Government					
Dividends paid ($'000s)		0	0	0	0
Income tax paid ($'000s)		0	0	0	0
Other Information					
Average staff numbers (FTEs)		38	36	27	21
Average staff costs ($'000s)		107	111	110	86
Average leave balance per FTE ($'000s)		27	21	29	27

Comment

Financial Performance indicators generally improved throughout the period and were largely affected by the timing of income from the sale of irrigation rights. The improving Results from operations resulted in corresponding improvements in Operating margin and Return on assets. The significant impairment of irrigation schemes in 2011-12 and 2010-11 resulted in a Net Loss, giving rise to the negative Total return on equity ratio in those years.

The decline in Debt to equity ratio in 2009-10 reflected the capital injections from the State and Commonwealth Governments, $12.127m and $8.663m, respectively. There was little change in this ratio in 2011-12, for two largely offsetting reasons:

- the State and Commonwealth Governments both provided further equity contributions in 2011-12 of $11.549m and $24.389m respectively
- offset by the Comprehensive loss for the year of $23.326m.

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. The better ratio in 2011-12 was a reflection of the improved Result from operations.

Current ratio remained above benchmark and increased mainly due to higher Cash and deposits, as discussed under the Statement of Cash Flows section of this Chapter.

Average staff numbers and costs remained reasonably consistent between 2010 11 and 2011 12. Average leave balances per FTE increased slightly reflecting higher accumulated leave balances and an increased in the defined benefit superannuation obligation.

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 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 Tasports Board comprises seven board members appointed by the Shareholding Ministers. The Cheif Executive Officer, who is appointed by the Board, is not a Board member.

AUDIT OF THE 2011-12 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2012 and an unqualified audit report was issued on 16 August 2012.

KEY FINDINGS AND DEVELOPMENTS

The audit was completed with no major items outstanding.

Financial performance and FTE management

Tasports' financial performance continued to be negatively impacted by structural changes to Tasmanian markets. These changes included a significant decline in woodchip tonnages, the cessation of the AAA Consortium and Patrick Stevedoring operations from Bell Bay, Agility Shipping's withdrawal from its Bass Strait service and the temporary closure of Temco. As a result of these changes freight volumes declined from 13.5 million tonnes in 2010-11 to 11.2 million tonnes in 2011-12, with Trade Revenue reducing by $3.694m, 6%, on the previous year's result.

As a result of these changes and other factors, Tasports continued to reduce its staff numbers and overhead costs through the implementation of an Operational Efficiency Program. With further reductions expected Tasports recognised a provision for restructure, in accordance with accounting standards, of $1.008m (2011, $1.330m) (both amounts are included within Current Employee benefits in the Statement of Financial Position).

Ten year infrastructure plan

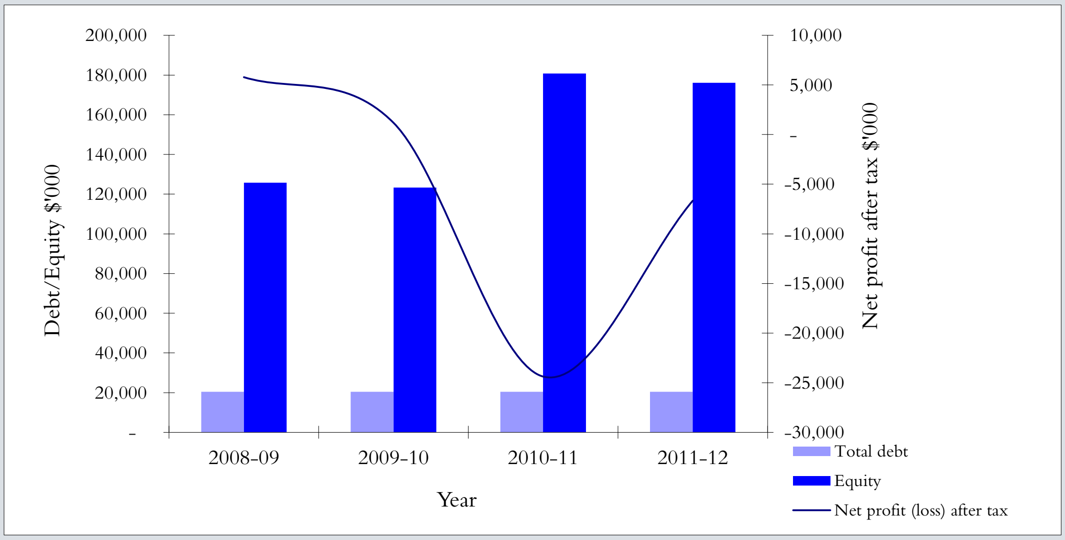
Tasports' 10 year infrastructure plan was developed and approved by the Board in 2011-12. The plan will guide the Company's infrastructure investment and maintenance programs with the goal of improving alignment in strategic development and management of Tasports' asset portfolio. As part of this plan, Tasports spent $15.396m on infrastructure maintenance and renewal in 2011-12, including development of the Devonport Airport. Going forward, Tasports' Board has also approved a business case for the redevelopment of Macquarie Wharf No 2 Shed.

Integration of King Island Port Corporation

King Island Port Corporation (KIPC), previously a Tasports subsidiary, was successfully integrated into the business this year. This provided greater access to capital and vital resources. As part of this process Tasports completed a fair value assessment of KIPC's infrastructure assets ensuring these assets were valued on the same basis as Tasports' assets. A King Island Advisory Board was set up following the integration to maintain a link to the King Island community.

FINANCIAL RESULTS

The graph below shows the trend in performance, debt levels and equity for the past four years, excluding the impact of the refund of stamp duty of $0.600m in 2010-11 on profit from the sale of Hobart International Airport Pty Ltd (HIAPL) in 2007-08.



In 2008-09 Tasports generated a net profit after tax of $5.782m. Since then, however, its results declined due to the downturn in shipping activity and, in 2011-12, TasPorts incurred a net loss after tax of $6.666m. A signficant contributor to this loss was a $4.169m increase in depreciation charges in the main resulting from the decision in 2010-11 to introduce fair value reporting for Tasports' infrastructure assets. The 2012 result was also negitively impacted by asset impairments and losses on asset sales totally $1.181m.

Since late 2008 there has also been a reduction in bulk exports, including woodchip shipments, and further reductions in revenue caused by lower activity from the Bell Bay Port as a result of a number of clients no longer utilising this port, specifically the withdrawal of AAA Consortium, Agility and subsequent transfer of container freight to Burnie and Devonport.

The significant deficit in 2010-11 of $23.784m was predominantly due to a downward revaluation of some infrastructure assets, $29.198m. Without this, net profit after tax would have been approximately $3.500m.

The level of Borrowings was relatively steady over the four year period. The increase in Equity in 2010-11, $57.431m, was mainly due to the adoption of fair value reporting of infrastructure assets.

STATEMENT OF COMPREHENSIVE INCOME

	2011-12 $'000s	2010-11 $'000s	2009-10 $'000s	2008-09 $'000s
Trade revenue	57 398	61 092	67 139	70 807
Airport revenue	1 696	1 715	1 514	1 540
Interest revenue	787	612	317	483
Other revenue	8	24	122	1 288
Total Revenue	**59 889**	**63 443**	**69 092**	**74 118**
Sale of goods	13 472	12 496	11 489	13 156
Cost of goods sold	(11 776)	(10 923)	(9 815)	(11 307)
Net Revenue	**61 585**	**65 016**	**70 766**	**75 967**
Employee expenses	29 507	29 549	33 498	32 397
Operating expenses	26 077	26 851	26 480	26 904
Depreciation	12 218	8 049	8 063	7 888
Total Expenditure	**67 802**	**64 449**	**68 041**	**67 189**
Net operating profit (loss) before finance costs and tax	(6 217)	567	2 725	8 778
Finance costs	1 497	1 423	1 241	1 174
Net operating profit (loss) before tax	**(7 714)**	**(856)**	**1 484**	**7 604**
Stamp duty recovered from sale of HIAPL	0	600	0	0
Gain on sale of shares in associate	0	290	0	0
Provision for restructure	(1 008)	(1 330)	0	0
Revaluation decrement of infrastructure assets	(630)	(29 198)	0	0
Net profit (loss) before tax	**(9 352)**	**(30 494)**	**1 484**	**7 604**
Income tax benefit (expense)	2 686	6 710	(298)	(1 822)
Net Profit (Loss)	**(6 666)**	**(23 784)**	**1 186**	**5 782**
Revaluation of infrastructure assets	3 137	102 309	0	0
Income tax expense on revaluation	(2 144)	(20 395)	0	0
Total Comprehensive Profit (Loss)	**(5 673)**	**58 130**	**1 186**	**5 782**

Comment

Tasports reported a Net operating loss before finance costs and tax of $6.217m in 2011-12, compared to a profit of $0.567m last year. The lower result of $6.784m was primarily due to:

- decreased Net Revenue, $3.431m, predominantly due to continued decline in freight volumes passing through Tasports' facilities as a result of market structural changes in Tasmania discussed in the Key findings and developments section.
- higher Total Expenditure which increased by $3.353m mainly as a result of the higher Depreciation, $4.169m, caused by the upward revaluation of Infrastructure assets at 30 June 2011.

Despite the downturn, Tasports continued to maintain its planned commitment to infrastructure maintenance as shown in the following table:

	2011-12	**2010-11**	**2009-10**	**2008-09**
	$'000s	$'000s	$'000s	$'000s
Maintenance	10 001	10 391	7 576	8 525

Overall, Tasports made a Net loss for the period of $6.665m. This worse result compared to the Net operating loss before tax of $6.217m was due to Finance costs, $1.497m, recognition of a Provision for restructure, $1.008m, Revaluation decrement of infrastructure assets, $0.630m, offset partly by an Income tax benefit, $2.686m, as a result of the losses.

STATEMENT OF FINANCIAL POSITION

	2012	2011	2010	2009
	$'000s	$'000s	$'000s	$'000s
Cash	23 548	16 488	11 674	10 161
Receivables	6 869	7 476	7 283	10 203
Inventories	1 332	1 596		
Assets classified as held for sale	290	205	3 046	0
Other	663	865	2 447	2 518
Total Current Assets	**32 702**	**26 630**	**24 450**	**22 882**
Payables	12 786	8 712	9 613	10 461
Borrowings	13 024	1 555	5 615	17 398
Tax payable	(289)	(227)	(163)	548
Employee benefits	5 491	5 945	4 567	5 004
Deferred revenue	213	83	83	1 283
Liabilities classified as held for sale	0	0	1 022	0
Total Current Liabilities	**31 225**	**16 068**	**20 737**	**34 694**
Working Capital	**1 477**	**10 562**	**3 713**	**(11 812)**
Property, plant and equipment	193 755	200 770	132 582	138 544
Goodwill	2 800	2 800	2 801	2 855
Deferred tax asset	5 230	4 117	0	296
Total Non-Current Assets	**201 785**	**207 687**	**135 383**	**141 695**
Borrowings	7 359	18 829	14 770	2 989
Deferred tax liabilities	18 281	17 743	117	0
Employee benefits	902	722	601	772
Deferred revenue	624	187	271	354
Total Non-Current Liabilities	**27 166**	**37 481**	**15 759**	**4 115**
Net Assets	**176 096**	**180 768**	**123 337**	**125 768**
Capital	115 297	114 297	113 712	113 712
Reserves	82 907	84 058	7 481	9 722
Retained earnings/(accumulated losses)	(22 108)	(17 587)	2 144	2 334
Total Equity	**176 096**	**180 768**	**123 337**	**125 768**

Comment

Total Equity decreased from $180.768m to $176.096m during 2011-12. The decrease of $4.672m comprised the Comprehensive loss of $5.673m less an equity contribution received, $1.000m. The equity contribution related to the second instalment of a two year funding commitment by the State Government to upgrade port infrastructure at Lady Barren Port on Flinders Island.

The corresponding decrease in Net Assets of $4.672m was reflected in line items movements such as:

- increased Cash, $7.060m, which is discussed further in the Statement of Cash Flows section of this Chapter
- lower Inventories, $0.264m, due to less fuel on hand at 30 June 2012

- higher Assets classified as held for sale, $0.085m, resulted from KIPC assets being classified as held for sale
- increased Payables, $4.074m, mainly due to the contract for work to be performed on the Macquarie Number 2 Shed, $2.500m, accrual for Lady Barren Wharf Upgrade project, $1.425m, and purchasing accruals of $1.047m for other major projects
- overall, Borrowings remained at $20.384m, but classification of Current Borrowings increased $11.469m, as loans were approaching their maturity date
- overall, Deferred revenue increased, $0.567m, caused by a one-off grant received for Airport Security
- higher Non-Current Employee benefits, specifically long-service leave, $0.179m, due primarily to a reduction in discount rates from 5.5% to 3.45% caused by the lower yields on Commonwealth bonds at 30 June 2012
- increased Deferred tax asset, $1.113m, predominantly due to temporary timing differences associated with tax losses.

STATEMENT OF CASH FLOWS

	2011-12	2010-11	2009-10	2008-09
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	81 438	83 088	90 559	91 747
Payments to suppliers and employees	(70 848)	(75 784)	(79 996)	(77 124)
Interest received	777	593	292	506
Finance costs	(1 503)	(1 363)	(1 249)	(1 286)
Income tax	(94)	(241)	(724)	(2 537)
Net cash from (used in) operating activities	**9 770**	**6 293**	**8 882**	**11 306**
Payments for assets	(5 395)	(3 436)	(3 972)	(14 464)
Proceeds from sale of assets	1 686	257	605	3 077
Recovery of investments	0	2 400	0	169
Net cash from (used in) investing activities	**(3 709)**	**(779)**	**(3 367)**	**(11 218)**
Net proceeds from (repayments of) borrowings	0	(1)	(3)	1 844
Dividends paid	0	(1 284)	(3 617)	(5 436)
Equity contribution received	1 000	585	0	0
Net cash from (used in) financing activities	**999**	**(700)**	**(3 620)**	**(3 592)**
Net increase (decrease) in cash	**7 060**	**4 814**	**1 895**	**(3 504)**
Cash at the beginning of the year	16 488	11 674	10 161	13 665
Effect of cash included in assets classified as held for sale	0	0	(382)	0
Cash at end of the year	**23 549**	**16 488**	**11 674**	**10 161**

Comment

As at 30 June 2012, Tasports held Cash and cash equivalents of $23.549m, an increase of $7.060m on the prior year balance. The increase in cash can be attributed to Cash from operations, $9.770m, Proceeds from sale of assets, $1.686m, and Equity contribution received, $1.000m, being partly used to fund Payments for assets, $5.395m. The Equity Contribution is solely being used to fund the Flinders Island port development.

Despite incurring a net operating loss before tax of $7.714m, Tasports generated higher cash from operations of $9.770m this year. This was because of a number of factors including:

- The Net operating loss before tax of $7.714m include a number of non-cash charges such as Depreciation, $12.218m, Loss on disposal of property, plant and equipment, $0.463m, and Impairment of property, plant and equipment, $0.718m.
- Higher Payables at 30 June 2012 of $4.074m and lower Receivables at this date of $0.608m. The combined effect of these items resulted in higher cash generated from operations of $4.681m. However, this has only a short term advantage.

FINANCIAL ANALYSIS

	Bench Mark	2011-12	2010-11	2009-10	2008-09
Financial Performance					
Net Profit (Loss) ($'000s)		(6 665)	(23 784)	1 186	5 782
EBIT ($'000s)		(6 217)	567	2 725	8 778
Operating margin	>1.0	0.92	1.01	1.04	1.11
Return on assets	5.21	(2.7%)	0.3%	1.7%	5.3%
Return on equity		(3.7%)	(15.6%)	1.0%	4.6%
Financial Management					
Debt to equity		11.6%	11.3%	16.5%	16.2%
Debt to total assets		8.7%	8.7%	12.5%	12.4%
Interest cover - EBIT	>2	(4.15)	0.40	2.20	7.48
Interest cover - operating cash flows		6.53	4.42	7.16	9.63
Current ratio	>1	1.05	1.66	1.18	0.66
Cost of debt	6.9%	7.3%	7.0%	6.1%	6.1%
Debt collection	30 days	44	45	40	53
Creditor turnover	30 days	21	28	50	41
Asset management					
Asset investment ratio	>100%	44.2%	42.7%	49.3%	183.4%
Asset renewal ratio	>100%	35.6%	30.7%	n/a	n/a
Consumption ratio (infrastructure assets)		51.2%	53.1%	50.6%	n/a
Returns to Government					
Dividends paid ($'000s)		0	684	3 617	5 436
Special dividends paid ($'000s)		0	600	0	0
Income tax paid ($'000s)		94	241	724	2 537
Total return to the State ($'000s)		94	1 525	4 341	7 973
Dividends paid or payable ($'000s)		0	0	684	3 617
Dividend payout ratio	50%	0.0%	0.0%	50.0%	70.0%
Dividend to equity ratio	6%	0.0%	0.0%	0.5%	2.9%
Other information					
Average staff numbers (FTEs)		244	258	257	249
Average staff costs ($'000s)		118	113	111	111
Average leave balance per FTE ($'000s)		21	21	20	23

Comment

The decline in Financial Performance ratios since 2008-09 reflected the downturn in revenue from shipping operations caused by the global economic slowdown and the restructure of container shipping services by major customers as discussed in the Statement of Comprehensive Income section of this Chapter.

Tasports' operating margin dipped below the benchmark of one this year and both the Return on assets and Return on equity ratios were below what would be regarded as commercial returns, with negative returns being made.

The decrease in the Debt to equity and Debt to total assets ratios in 2010-11 reflected the increase in Total assets and Total equity following the adoption of fair values, as the level of borrowings remained constant. The decline in the Interest cover ratios reflected the weakened financial performance of the Company in recent years.

In most industries a Current ratio of one or better is good practice. Tasports maintained a level above one in three out of the four years. The decrease in the ratio in 2011-12 was mainly due to non-current borrowings becoming current this period as they approach their maturity date. Tasports' obtained reasonable assurance from the Tascorp that they could refinance these borrowings, which occurred subsequent to 30 June 2012 .

Debt collection days was consistenly worse than benchmark. Tasports generally experiences difficulty with slow-paying customers but has the ability to recover all its debts which is reflected by minimal write-offs.

Asset investment and renewal ratios indicate steady investment in new, replacement or existing assets since 2008-09, when Tasports underwent a security upgrade and acquired land at Bell Bay. Both Asset investment and renewal ratios reflect Tasports' strategy to focus on maintaining essential infrastructure assets, rather than investing in new or upgrades to existing assets.

Consumption ratio showed that, on average, Tasports assets have reached the half way mark of their useful lives.

Total return to the State declined over the past four years in line with lower profits. There was no dividend payable for 2011-12.

Staff numbers declined in 2011-12 as the Company reduced its workforce in response to the market pressures it faced. Average staff costs increased due to an annual indexation of salaries and wages and other increments. Average staff costs include employee benefits, on-costs, directors' fees, travel and accommodation, training, salary continuance insurance and organisational health and safety expenditure, but exclude redundancies.

TASRACING PTY LTD

INTRODUCTION

Tasracing Pty Ltd (Tasracing) was incorporated on 1 July 2009. It became a state owned company after six months of trading as the Tasmanian Racing Board (TRB). The TRB was a statutory authority established on 1st 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 Tasracing Board comprises of one Chair and six Directors. The responsible minister is the Minister for Racing.

AUDIT OF THE 2011-12 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2012. Following the audit, the financial statements were re-signed on 26 October 2012 and an unqualified audit report was issued on 6 November 2012.

The financial statements were prepared on the basis that Tasracing is a going concern. It is dependent on financial support from the State government

KEY FINDINGS AND DEVELOPMENTS

Impairment review and going concern considerations

Tasracing has experienced indicators suggesting the need to impair its non-current assets including continued losses and negative operating cash flows.

An impairment calculation was performed to determine whether the value in use of its non-current assets was less than their carrying amounts. The value in use calculation seeks to determine future net cash flows from those assets. These have been based on the Company's Corporate Plan for 2013-17.

The Corporate Plan contains elements of a package to assist the Company in improving its financial position and performance. On 6 August 2012, the Company received a letter from the Minister for Racing confirming shareholder support for this package. The package contains a combination of short and long-term actions for the Company to pursue which are currently being appraised and implemented. The aim of these measures is to provide the Company with a pathway to financial sustainability over an appropriate timeframe.

The impairment calculation demonstrated that non-current assets were impaired by $5.706m at 30 June 2012. The impairment was first applied to intangible assets and subsequently to tangible assets. The Company has one cash generating unit comprising its racing and training venues. In arriving at the level of impairment needed, the discount rate used in assessing the value in use of Tasracing's non-current assets was 10.6% with the terminal value of the cash flows in the final year of the forecast derived using a perpetuity rate of 9.4%.

Successful implementation of the strategies outlined in the Company's Corporate Plan are essential to Tasracing's financial sustainability and, ultimately, whether it can or cannot continue as a going concern. The Board will need to continue to examine all options for increasing income or reducing expenditure. Outcomes from these actions will be reflected in levels of the impairment, if any, in future periods.

Large volume payments

Audit identified procedural weaknesses surrounding payments which may increase the risk of material error or fraud. These weaknesses arose from Tasracing processing large volumes of payments but, because of limited staff numbers, being unable to undertake adequate review. Regular review of budget to actual expenditure by management mitigated the risks to some extent. Management acknowledged the risks and will review the adequacy of mitigation strategies.

Restatement of prior year error

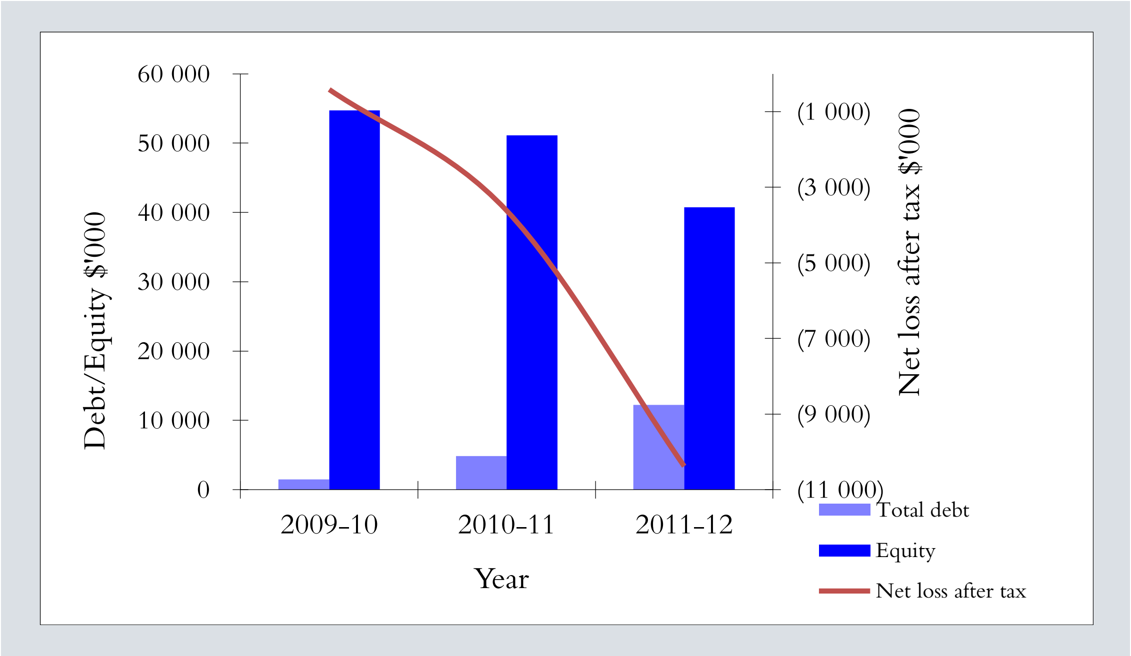
The financial statements for Tasracing for the year ended 30 June 2011 recognised a defined benefit liability which included amounts relating to a number of employees who were no longer the responsibility of Tasracing. As there was no obligation for Tasracing and the employees had ceased employment some time ago, the defined benefit liability was restated at 30 June 2010 and 2011. The impact in 2011 was a decreased current liability, $0.062m, and non-current liability, $1.193m, while Employee benefits expense increased, $0.012m.

Financial dependence on the State government

The funding deed with the State government provides base funding of $27.000m per annum plus CPI less 1% over 20 years commencing from 1 July 2009. This deed also allows for a $40.000m debt facility with the Tasmanian Public Finance Corporation which for the year 30 June 2012, $9.251m was drawn. The Department of Treasury and Finance provides support in the form of principle and interest payments, subject to certain conditions.

FINANCIAL RESULTS

The analysis in this Chapter is for three years as Tasracing was incorporated on 1 July 2009. The graph below shows the trend in financial performance, debt levels and equity for the past three years.



Tasracing's borrowings increased over the period from $4.864m at 30 June 2011 to $12.247m at 30 June 2012. These borrowings were needed to assist Tasracing for the installation of the synthetic track of Spreyton Park. The Net loss worsened, primarily due to the impairment of non-current assets, workers compensation costs and increased stakes in line with CPI.

STATEMENT OF COMPREHENSIVE INCOME

	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s
Revenue from Government	28 698	27 510	27 089
Racefield fees	4 714	3 195	0
Other income	1 118	2 264	2 378
Total Revenue	**34 530**	**32 969**	**34 613**
Employee benefits expense	5 417	4 866	4 756
Prizemoney, benefits and incentives	23 488	23 346	22 090
Depreciation and amortisation expense	2 903	2 603	2 285
Impairment	5 705	0	0
Raceday and racing expenses	3 915	3 799	3 586
Other expenses	3 130	2 344	2 530
Total Expenses	**44 558**	**36 958**	**35 247**
Net operating (loss) before finance costs and tax	**(10 028)**	**(3 989)**	**(634)**
Interest income	925	938	764
Finance and leasing costs	(1 157)	(461)	(374)
Interest cost on defined benefit superannuation plan	(119)	(107)	(170)
Net operating (loss) before tax	**(10 379)**	**(3 619)**	**(414)**
Net (loss) before tax	**(10 379)**	**(3 619)**	**(414)**
Income tax expense	0	0	0
Net Profit (Loss)	**(10 379)**	**(3 619)**	**(414)**
Other comprehensive income	0	0	0
Total Comprehensive Profit (Loss)	**(10 379)**	**(3 619)**	**(414)**

Comment

In 2011-12, Tasracing reported a Net operating loss before finance costs and tax of $10.028m, a higher loss by $6.039m on the previous year's result. The higher loss was primarily due to a $5.705m impairment of non-current assets.

Other factors which contributed to the loss were:

- Other income fell $1.145m because of changed arrangements in club financing. This was substantially offset by a $1.100m reduction in payments to clubs, meaning that net payments to clubs were unchanged at $1.200m
- increased workers compensation costs, $1.187m, due to a combination of higher cost per injury and more accidents
- Employee benefits expenses increased $0.638m mainly due to:
  - additional staff, $0.233m
  - higher long service leave expenses, $0.165m, as eligibility changed from 15 years to 10 years in 2011-12
  - enterprise award increase, $0.077m
  - adopted state superannuation act, $0.129m.

These factors were offset by increased Racefield fees, $1.519m, due to fees earned for 12 months as opposed to eight months in 2010-11 and wagering turnover increased by 8.4%.

Tasracing currently incurs no income tax expenses because of its current and accumulated tax losses. At 30 June 2012, its accumulated tax losses totalled $1.983m. However, no deferred tax entries have been recorded because of the uncertainty as to when, or whether or not, profits will be realised to enable Tasracing to take advantage of these losses.

STATEMENT OF FINANCIAL POSITION

	2012	2011	2010
		As restated	As restated
	$'000s	$'000s	$'000s
Cash and cash equivalents	4 235	4 900	7 886
Trade and other receivables	1 838	1 940	607
Prepayments	304	369	268
Total Current Assets	**6 377**	**7 209**	**8 761**
Trade and other payables	1 947	1 887	1 154
Employee benefits	686	442	423
Other financial liabilities	308	13	11
Total Current Liabilities	**2 941**	**2 342**	**1 588**
Working Capital	**3 436**	**4 867**	**7 173**
Non Current Assets			
Property, plant and equipment	51 732	53 117	50 851
Intangibles	1	6	11
Total Non-Current Assets	**51 733**	**53 123**	**50 862**
Non-Current Liabilities			
Borrowings	12 247	4 864	1 500
Employee benefits	2 194	2 018	1 808
Total Non-Current Liabilities	**14 441**	**6 882**	**3 308**
Net Assets	**40 728**	**51 108**	**54 727**
Contributed equity	55 141	55 141	55 141
Accumulated losses	(14 413)	(4 033)	(414)
Total Equity	**40 728**	**51 108**	**54 727**

Comment

Total Equity decreased by $10.380m, being the Comprehensive Loss for the year.

The corresponding decrease in Net Assets resulted in the following main line item movements:

- lower Cash and cash equivalents, down $0.665m, which is discussed further in the Statement of Cash Flows section of this Chapter
- decreased in property, plant and equipment, $1.385m, comprising additions to racecourse leasehold improvements, mainly at Spreyton, $7.218m, additions to plant and equipment, $0.251m, offset by depreciation and amortisation, $2.903m, and impairment, $5.705m
- higher borrowings, $7.383m, for Spreyton Park track improvements
- change in accounting estimates for the Tasbonus scheme which resulted in the recognition of a $0.300m liability
- increased employee benefits due mainly to an increase of $0.163m in the defined benefits liability because of lower discount rates.

STATEMENT OF CASH FLOWS

	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s
Receipts	35 866	33 903	36 164
Payments to suppliers and employees	(37 307)	(36 206)	(34 180)
Interest received	1 462	930	758
Interest and other costs of finance	(852)	(130)	(110)
Cash (used in) from operations	**(831)**	**(1 503)**	**2 632**
Proceeds from sales of property, plant and equipment	0	15	19
Payments for property, plant and equipment	(7 218)	(4 863)	(6 831)
Cash (used in) investing activities	**(7 218)**	**(4 848)**	**(6 812)**
Proceeds transferred from Tasmanian Racing Board	0	0	11 206
Equity transfer from Tasmanian Government	0	0	861
Repayment of Borrowings	(134)	0	0
New borrowings raised	7 518	3 364	0
Cash from financing activities	**7 384**	**3 364**	**12 067**
Net increase (decrease) in cash	**(665)**	**(2 987)**	**7 887**
Cash at the beginning of the year	4 900	7 887	0
Cash at end of the year	**4 235**	**4 900**	**7 887**

Comment

During 2011-12 cash fell $0.665m to $4.235m.

Negative Cash from operations of $0.831m in 2011-12 was lower than 2010-11 by $0.672m due to cost savings achieved in administrative and marketing expenditure, $0.762m, higher interest receipts, $0.532m, offset by higher interest expense due to increased debt, $0.722m, for Spreyton Park track improvements.

Reasons for variations in cash flow receipt and payment amounts also reflect the comments made previously in the Statement of Comprehensive Income and Statement of Financial Position sections of the Chapter.

Borrowings of $7.518m were drawn down to fund the Spreyton Park development.

FINANCIAL ANALYSIS

	Bench Mark	2011-12	2010-11	2009-10
Financial Performance				
Net Profit (Loss) ($'000s)		(10 379)	(3 619)	(414)
EBIT ($'000s)		(10 028)	(3 989)	(634)
EBITDA ($'000s)		(1 419)	(1 386)	1 651
Operating margin	>1.0	0.77	0.89	0.98
Financial Management				
Current ratio	>1	2.17	3.08	5.52
Debt collection	30 days	16	18	12
Creditor turnover	30 days	8	6	7
Asset Mangement				
Investment gap %	100%	84%	187%	299%
Capital replacement ratio	100%	84%	187%	57%
Other Information				
Average staff numbers (FTEs)		67	63	61
Average staff costs ($'000s)		83	82	82
Average leave balance per FTE ($'000s)		11	7	7

Comment

As noted previously, the decline in Financial Performance indicators is driven by Tasracing's difficulty in achieving a sustainable financial position. This led Tasracing to recognise an impairment loss on its non-current assets in 2011-12 of $5.705m.

Tasracing continued to operate with positive working capital as indicated by the Current ratio being above benchmark. Debt collection and Creditor turnover days remained better than benchmark.

Capital replacement ratio, also referred to as the asset renewal ratio, which was lagging in 2009-10, improved in 2010-11 due to the works at Spreyton Park in line with the State's support by providing funding for replacement of, or improvement to, existing racing assets. However the ratio fell in 2012 due to the impairment discussed earlier.

TASMANIAN RAILWAY PTY LTD

INTRODUCTION

Tasmanian Railway Pty Ltd (TasRail or the Company), was established under the *Rail Company Act 2009* for the purpose of acquiring, owning and operating the rail business in Tasmania. The Company commenced operations on 1 December 2009.

TasRail has two primary roles, being to:

- provide rail freight services to customers, own and operate the Burnie bulk storage and ship loader facility including all associated maintenance and capital programs – also referred to as the 'above rail' function
- manage and operate rail network infrastructure including all maintenance and capital programs - 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, Energy and Resources who hold their shares on behalf of the State of Tasmania.

The Board comprised five non-executive directors.

AUDIT OF THE 2011-12 FINANCIAL STATEMENTS

Signed financial statements were received on 6 August 2012, and an unqualified audit report was issued on the same day.

The 2011-12 audit was completed satisfactorily with no major matters outstanding.

KEY FINDINGS AND DEVELOPMENTS

Rail corridor lease and environmental obligations

On 30 June 2010, TasRail commenced negotiations with Department of Infrastructure, Energy and Resources (DIER) to finalise a rail corridor lease. The rail corridor is an asset of DIER. The lease agreement was signed on 2 December 2010. Under the terms of the lease, the Company is responsible for remediation of any environmental obligations that may become apparent as a result of its operations, or past operations, of the network. While no environmental liabilities were identified at balance date, if significant environmental liabilities relating to past operations are identified in the future, the Company will require financial support from the Tasmanian Government to fund any remediation.

The Company is also required under the lease to maintain non-operational lines acquired under the terms of the lease in the same condition as existed at the lease commencement date. As at 30 June 2012, the Company had put forward a proposal removing this requirement along with removal of the requirement for it to insure improvements to non-operational lines. The proposal is still under consideration by DIER.

Brighton Transport Hub

During the previous financial year, the State Government advised the Company that it was successful in being appointed as the operator of the Brighton Transport Hub which is owned by

DIER. The Company signed a terminal lease with DIER, effective 27 April 2012, covering the hardstand area, where the trains will operate and interface with operations. A warehouse lease for the land designated for warehouse buildings by tenants has not been activated as there were no signed tenants at 30 June 2012. This is expected to occur in 2012-13.

Capital Purchase Contracts

During 2011-12, the Company entered into forward foreign exchange purchase contracts for the acquisition of locomotives and concrete sleepers in order to reduce foreign exchange risk over the Company's largest cash flow capital commitment. The aim is to manage risk and limit the volatility on financial results. As a result, the Company recorded a hedge asset at 30 June 2012 of $0.137m for the purchase of concrete sleepers in New Zealand dollars and a hedge liability at 30 June 2012 of $0.902m for the purchase of Locomotives in US Dollars. The Company has committed to hedge contracts totalling $59.188m (AUS dollar).

Segment reporting

The Company has determined it operates two reportable segments:

- above rail – provision of rail freight services, which recorded a segment loss of $1.133m
- below rail – management and operation of the rail network and related infrastructure, which recorded a segment loss of $34.931m.

These results included a management fee (inter-entity pricing) of $2.439m for the use of the rail network by TasRail's above rail operations. The impact of this internal fee is noted in the following table:

	Above Rail $'000s	Below Rail $'000s	Total $'000s
Operating result before tax and management fee	1 306	(5 621)	(4 315)
Management fee	(2 439)	2 439	0
	(1 133)	(3 182)	(4 315)

Financial results and the Company's short-term future

Financial performance

As will be seen from the remainder of this Chapter, the Company generated operating losses before tax totalling $8.947m in the past two years of its activities. Operating grants of $33.365m were received over the same period. On-going operating losses are not sustainable. In recognition of this, the State Government has budgeted to spend $65.200m over the next four years to assist the Company to meet rail maintenance and administrative costs. The Company is heavily reliant on this support. The Company's financial position beyond this date is less clear but, based on current levels of profitability, it is unlikely to be able to operate beyond the forward estimates period without on-going financial support.

Capital program funding

To pay for its capital works program, the Company anticipates funding as follows:

- Above rail operations – the State Government, through equity retirements from Transend, provided $20.000m as an equity contribution to TasRail in 2011-12. An additional $80.000m over the next four years for upgrade of above rail network infrastructure, rolling stock and equipment is anticipated.
- Below rail operations – the Company will continue to undertake capital works on upgrading the below rail network and associated equipment, with $51.017m budgeted in its Capital Expenditure Program for 2012-13 and $31.268m in 2013-14. These works are expected to be, primarily, funded by the Australian Government. The Company will continue to record material below rail losses into the future from impairment of this capital expenditure. Impairments arise because the below rail operations are loss making.

The Company has indicated that at the end of the current Government funded capital programs for both above and below rail segments of the business, critical infrastructure and equipment will have been significantly improved. However on-going capital needs and investment into rail infrastructure and equipment will be required. This will allow for further below rail track infrastructure development and on-going above rail equipment and associated infrastructure replacement.

Government funding eliminates the need for the Company to borrow to fund its capital projects. TasRail have identified that there may be a funding gap between the capital programs and government funding requiring the Company to seek external funding in subsequent years.

FINANCIAL RESULTS

TasRail reported an Operating loss before tax of $4.315m, an improvement on the loss of $4.632m in 2010-11. Operating costs represented 108% (2010-11, 110%) of operating revenues with the reduced loss in 2011-12 assisted by an operating grant of $18.775m ($14.590m) from the State Government. A Comprehensive loss of $36.830m was recorded in 2011-12, ($27.869m) primarily due to the impairment of capital works on below rail assets of $31.750m ($30.391m). The Company considers below rail assets will generate insignificant cash flows and consequently capital works were impaired to nil.

Funding for capital works, $54.745m ($38.064m), was provided to the Company by the Federal and State Governments. The funding was received as an equity contribution from the State Government. This equity funding led to an improvement in the Company's equity position despite the 2011-12 Comprehensive loss.

At 30 June 2012, the Company held $22.785m in cash from unexpended equity contributions the majority of which was committed to on-going below rail capital projects.

STATEMENT OF COMPREHENSIVE INCOME

	2011-12	2010-11	1 December 2009 to 30 June 2010
	$'000s	$'000s	$'000s
Revenue from freight services	30 509	28 916	15 843
Grant income	18 775	14 590	0
Other revenue	5 379	5 171	1 696
Total Revenue	**54 663**	**48 677**	**17 539**
Finance costs	0	0	49
Depreciation and amortisation expense	5 063	5 556	3 562
Salary and wages	23 492	20 960	9 991
Maintenance and consumables	13 404	12 495	5 718
Fuel and oil	5 446	4 945	2 622
Administration	5 512	5 188	3 753
Other expenses	6 061	4 165	1 979
Total Expenses	**58 978**	**53 309**	**27 674**
Operating loss before taxation	**(4 315)**	**(4 632)**	**(10 135)**
Taxation equivalent expense *	9 754	6 971	87
Operating loss after taxation	**(14 069)**	**(11 603)**	**(10 222)**
Transfer of land for nil consideration	0	0	(1 725)
Gain on acquisition of business	0	0	1 852
Recognition of inventory		7 154	0
Impairment expense	(31 750)	(30 391)	0
Taxation equivalent benefit *	9 525	6 971	87
Net loss for period	**(36 294)**	**(27 869)**	**(10 008)**
Other comprehensive income			
Cash flow hedge reserve	(765)	0	0
Tax on other comprehensive income *	229	0	0
Total comprehensive (loss)	**(36 830)**	**(27 869)**	**(10 008)**

* *TasRail do not record tax assets and liabilities as it is not generating profits. The Tax entries noted offset to nil and are included to show the tax effect on the impairment expense and cash flow hedge reserve.*

Comment

In 2011-12, TasRail recorded an Operating loss before tax of $4.315m, an improvement of $0.317m on the operating result for the year ended 30 June 2011. The slight improvement was due to:

- $1.593m increase in freight revenue due to a small increase in rates to compensate for EBA increases, inflationary costs and higher fuel prices globally
- $4.185m increase in Grant revenue as TasRail is deficit funded
- offset by a $5.669m increase in Total operating expenses the reasons for which are documented on the following page.

Other revenue consisted of:

- rental income, $1.283m (2010-11, $1.056m)
- interest income, $2.349m ($2.909m)
- sundry sales, $1.701m ($1.023m).

The increase in Total operating expenses was largely the result of:

- salaries and wages, $23.492m, which increased from $20.690m in 2010-11, mainly due to the employment of 38 more full time equivalent staff
- higher maintenance and consumables, $13.404m (2010-11, $12.495m), which included maintenance of infrastructure assets, locomotives and wagons. In addition, the Company incurred $0.881m in incident costs associated with derailments
- increased fuel and oil costs, $5.446m ($4.945m), the majority of which related to locomotive fuel
- increased administration expenditure, $5.512m ($5.188m), which include insurance costs, directors' fees, security, power, rates and water and sewerage charges
- higher other expenses, $6.061m ($4.165m). During 2011-12, TasRail incurred consultant and information technology (IT) costs associated with the transfer of its payroll function in-house. In addition, higher equipment hire costs were incurred for below rail infrastructure maintenance works.

The majority of the Depreciation and amortisation 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. The decrease noted was due to a large number of wagons being fully depreciated compared to the prior year. TasRail has developed a Wagon Replacement Program over the next two years. Once completed, fully depreciated wagons will be retired.

The Company recorded a Comprehensive loss of $36.830m, which included impairment of below rail capital works, $31.750m, as detailed in the Financial Results section of this Chapter.

STATEMENT OF FINANCIAL POSITION

	2012	2011	2010
	$'000s	$'000s	$'000s
Cash	41 852	37 768	32 705
Receivables	4 503	6 351	3 624
Inventories	6 515	9 682	1 527
Other Assets	95	0	0
Total Current Assets	**52 965**	**53 801**	**37 856**
Payables	6 266	9 237	4 641
Employee benefits	4 012	4 111	2 816
Other Liabilities	212	0	0
Total Current Liabilities	**10 490**	**13 348**	**7 457**
Working Capital	**42 475**	**40 453**	**30 399**
Other Assets	42	0	0
Property, plant and equipment	58 614	41 716	41 523
Total Non-Current Assets	**58 656**	**41 716**	**41 523**
Employee benefits	473	117	65
Other Assets	691	0	0
Total Non-Current Liabilities	**1 164**	**117**	**65**
Net Assets	**99 967**	**82 052**	**71 857**
Capital	174 674	119 929	81 865
Accumulated losses	(74 171)	(37 877)	(10 008)
Other Reserves	(536)	0	0
Total Equity	**99 967**	**82 052**	**71 857**

Comment

The Company's Equity increased by $17.915m at 30 June 2012 due to:

- Equity contributions for capital projects, totalling $54.745m
- offset by the comprehensive loss of $36.294m
- the recognition of a hedge reserve of $0.536m. The Cash flow hedge reserve represents net gains and losses on holding forward foreign exchange purchase contracts at 30 June 2012. The deferred gain or loss on the hedge is recognised in profit or loss at the date of hedge settlement.

The corresponding increase in Net Assets was represented by the following:

- higher Cash balance at 30 June 2012, $4.084m. This increase is explained later in the Statement of Cash Flows section of this Chapter
- lower Receivables, $1.848m, due to the 2011 balance including a $2.200m debtor in relation to construction at Brighton Hub which was subsequently received
- decreased Inventories, $3.167m, due to use of sleepers in capital works during the current year
- decreased Payables, $2.971m, due to the earlier payment of large capital works invoices in the current year
- higher Employee benefits of $0.257m, due to the employment of 38 FTE this year

- a large increase in Property, plant and equipment, with asset additions and capital works for the year $54.179m, offset by impairment losses $31.750m and depreciation expenses of $5.063m
- cash flow hedge liabilities, $0.902m, and assets, $0.137m – during 2011-12 the Company entered into hedge contracts to insulate itself from future movement in exchange rates in relation to the purchase of locomotives in US dollars and concrete sleepers in NZ dollars. Refer to the Key Findings and Development section of this Chapter for additional explanations.

STATEMENT OF CASH FLOWS

	2011-12	2010-11	1 December 2009 to 30 June 2010
		$'000s	$'000s
Receipts from customers	39 157	29 898	15 481
Grants from operating activities	18 775	14 590	0
Payments to suppliers and employees	(57 277)	(44 930)	(21 477)
Finance costs	0	0	(49)
Interest received	2 349	2 909	683
Cash from (used in) operations	**3 004**	**2 467**	**(5 362)**
Consideration acquisition rail assets	0	0	(30 449)
Proceeds from sale of plant and equipment	46	229	0
Payments for property, plant and equipment	(53 711)	(35 697)	(13 349)
Cash (used in) investing activities	**(53 665)**	**(35 468)**	**(43 798)**
Proceeds from equity contributions	54 745	38 064	81 865
Cash from financing activities	**54 745**	**38 064**	**81 865**
Net increase in cash	**4 084**	**5 063**	**32 705**
Cash at the beginning of the year	37 768	32 705	0
Cash at end of the year	**41 852**	**37 768**	**32 705**

Comment

TasRail recorded a net increase in its cash balance of $4.084m and at 30 June held $41.852m. The strong cash position was primarily due to equity contributions received, but not yet expended. An analysis of the year end cash balance of $41.852m identified:

- approximately $22.785m related to equity contributions committed to on-going capital projects
- the remaining balance represented the carry-forward of working capital, operational funding, infrastructure inventory to be acquired and cash flows from operating activities not yet expended.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, Cash from operations increased by $0.537m to $3.004m which included:

- Net operating deficit, $4.315m, adjusted for depreciation, $5.063m and a reduction in Inventory, $3.167m, both being non-cash item, provided $3.167m in operating cash inflows
- a decrease in Receivables of $1.848m, resulting in additional cash being received in the period, offset by
- a decrease in Payables of $2.971m, with cash outflows required to lower the balance at year end.

Cash used in investing activities consisted primarily of capital purchases including upgrades to the rail network, $28.677m, and contract payments related to the current manufacture of locomotives, $15.783m.

The net cash outflows from investing activities were funded by Federal and State Governments. The funding was received as equity contributions of $54.745m ($38.064m in 2010-11).

FINANCIAL ANALYSIS

	Bench Mark	2011-12	2010-11	1 December 2009 to 30 June 2010
Financial Performance				
Operating Loss ($'000s)		(4 315)	(4 632)	(10 135)
EBIT ($'000s)		(4 315)	(4 632)	(10 184)
Operating margin	>1.0	0.93	0.91	0.63
Return on assets		(4.3%)	(5.3%)	(12.8%)
Return on equity		(40.5%)	(36.2%)	(13.9%)
Financial Management				
Current ratio	>1	5.05	4.03	5.08
Debt collection	30 days	40	28	66
Creditor turnover	30 days	23	45	48
Returns to Government *				
Asset Management				
Total capital expenditure/depreciation		2 205%	642%	375%
Other Information				
Average staff numbers (FTEs)		229	190	170
Average staff costs ($'000s) **		(1)	(11)	(10)
Average employee benefits ($'000s)		20	22	17

** No dividends or tax equivalent payments have been made.*

*** 2010 adjusted for part year of operations*

Comment

Financial Performance ratios show operating margin well below benchmark due to operating losses in the periods under review. The 2011-12 ratio improved only slightly. As noted previously, TasRail's below rail segment will not be profitable in the foreseeable future and will continue to be heavily reliant on Government support. This contributes to the negative Return on assets and equity ratios.

Current ratio was well above benchmark due to the Company's significant cash holdings, which will be used for capital projects in future years.

Debt collection days were above benchmark in two of the three periods under review. The Company has a low number of debtors with large balances, which, depending on the timing of receipts, may affect the ratio. The Company, at balance date, had no concerns over the recovery of debtors.

Creditor turnover improved significantly, and is now below benchmark. The ratio was impacted by a high level of capital payables outstanding at the prior year end. The Company is paying its creditors within agreed credit terms.

No dividends have been paid or declared during and no income tax was payable due to TasRail recording operating losses.

Total capital expenditure to depreciation ratio for all periods was high which reflected the Company's investments in the above and below rail networks. However, this ratio is significantly influenced by the fact that the below rail assets are recorded at nil because of impairment adjustments, whereas capital expenditure remains high.

Average staff costs were consistent with prior year. There has been a further increase in employee numbers, now reaching peak levels in-line with the capital program currently underway.

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 is a participant in Australia's National Electricity Market (NEM). The NEM operates an interconnected power system that extends from Queensland to South Australia. Tasmania is connected to the NEM via Basslink.

Transend's principal source of revenue is from owning and operating the electricity transmission system in Tasmania which transmits electricity from power stations to customers around the State. Transend currently has four generation, nine major industrial (ten in 2011) and two network connection customers (Aurora and Basslink).

Regulatory framework

The provision of transmission network services is regulated by the Australian Energy Regulator (AER) in accordance with the National Electricity Law and the National Electricity Rules. The regulatory framework is designed to encourage transmission network service providers to actively implement operational and capital expenditure efficiencies in meeting obligations while providing appropriate levels of service to customers. The AER sets maximum prescribed revenue for regulated services for a five year regulatory period. The current regulatory period will end in 2013-14.

Transend also provides negotiated and non-regulated transmission services which are outside of the regulated environment. In November 2008, Transend acquired a telecommunications business from Hydro Tasmania. This business serves customers in the electricity supply and other industries.

The Board currently comprises six non-executive directors. The Board appoints the Chief Executive Officer. Directors are appointed by the two shareholder Ministers.

AUDIT OF THE 2011-12 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2012 and an unqualified audit report was issued on the same day.

KEY FINDINGS AND DEVELOPMENTS

The audit was completed satisfactorily with no major issues outstanding.

Transend's future operations will be affected by the major reform of the electricity supply industry in Tasmania which was announced by the State Government in May 2012 and is discussed in the Energy Businesses 2011-12 Chapter in this Report.

Revenue

Over 90% of Transend's revenue is from prescribed transmission services. Under the AER's Transmission Determination for 2009-10 to 2013-14 (the determination), the annual maximum allowed revenue was set to increase by 7.8% each year from $164.700m in 2009-10 to $246.300m in 2013-14, totalling $1.583bn over the five-year regulatory period. In response to Tasmania's current economic conditions, Transend decided during 2011-12 to limit future increases in prescribed transmission revenue to less than the increase in the consumer price index. This decision means that for the remaining two years of the current regulatory period, Transend will not recover the maximum revenue allowed under the existing determination. Estimated impact of this policy will be an under recovery of Transend's allocated revenue by approximately $38.000m. This estimate is based on an annual increase in the maximum allowed revenue of 2.25% in 2012-13 and 2.25% in 2013-14 as per Transend's Corporate Plan.

In addition, Transend:

- delayed the recovery of under-recovered transmission use of system (TUOS) revenue beyond 12 months. This decisions resulted in an increase in Other Non-Current Assets by $6.764m, which was off-set by a similar decrease in Other Current Assets
- decided, after the loss of a major industrial customer, to write-off under-recovered revenue of around $2.500m in 2010-11 rather than increase transmission charges for 2011-12 for its remaining customers to recover this amount.

It is important to note that the AER, when setting the maximum allowed revenue, considers operating, maintenance and capital expenditure necessary to maintain supply and meet demand. For example, the maximum allowed revenue in the current regulatory period, was set on the basis of funding a comprehensive capital investment program, which included:

- Transend's asset renewal program, $200.000m
- Waddamana-Lindisfarne 200kv transmission line and substation, $120.000m
- Norwood-Mowbray 110kv transmission line, $28.600m
- George Town substation 220kv security upgrade, $18.300m
- all of Aurora's new connection point requests including, Hobart eastern shore, $23.500m, Wynyard substation, $23.400m, and St Leonards substation, $21.000m.

Asset revaluations

In 2011-12, Transend undertook a full revaluation of substations and transmission lines, which resulted in a net revaluation increment of $125.262m. Substation and transmission line assets are valued using the optimised depreciated replacement cost (ODRC) asset valuation methodology. ODRC represents the lowest alternative, efficient cost to replicate the asset as required for its current and intended use with a modern equivalent asset with the same required service delivery capability.

Land and buildings were also revalued, but on the basis of market values. Adverse economic and property market conditions led to a downward revaluation of $5.771m. Accounting standards require the decrease in value to be recognised in equity, to the extent it reverses previous increments, and the balance to be recognised in profit or loss. Consequently, Transend recognised a revaluation loss of $4.215m in the Statement of Comprehensive Income.

The main impacts of these revaluations were to:

- increase Reserves by $87.968m
- recognise impairment loss of $4.215m
- increase annual depreciation charges, in 2011-12, by $3.705m. As part of the revaluation, Transend reviewed the classification of its property, plant and equipment which resulted in the following changes:
    - assets previously classified separately as transmission lines and transmission substations were grouped together into a new class referred to as network assets
    - assets previously classified separately as land and buildings were grouped together in a new class land and buildings

- software assets previously included in other plant and equipment were transferred to intangibles.

Return of equity, dividend policies and borrowings

In June 2011, the shareholders issued a direction requiring additional dividends and returns of equity. The policy is now to pay an annual dividend of 60% (previously 50%) of net profit and a $20.000m annual return of equity, subject to operational requirements and borrowing capacity, for 2011-12 and the next two years.

Transend increased its borrowings by $61.707m to $609.707m in 2011-12 and plans to increase its debt to $708.000m by 2013-14. These increases are necessary to meet its operating demands, deliver its capital program while meeting the requirements of the new dividend policy and decision to return equity. As a result, the Company's projected debt to equity ratio, which currently stands at 88.0%, is likely to reach or exceed 100% by the end of 2014. In our view, the dividend policy, requirement for the Company to return capital and likely lower revenue, may place pressure on Transend's cash resources. This will need to be closely monitored by the Board.

The table below illustrates the effect of Transend's plan to borrow additional funds on financial leverage (calculated as total debt divided by equity plus interest bearing debt) and regulated asset base (RAB) gearing ratios for the remainder of the current regulatory period:

	2011-12	2012-13	2013-14
Debt/Equity Ratio	**$'000s**	**$'000s**	**$'000s**
Debt	610	673	708
Debt + Equity	1 297	1 361	1 413
Ratio (Debt/Debt + Equity)	47%	50%	50%
RAB Gearing			
Debt	610	673	708
Forecast RAB	1 249	1 342	1 401
Ratio (Debt/Forecast RAB)	49%	50%	50%

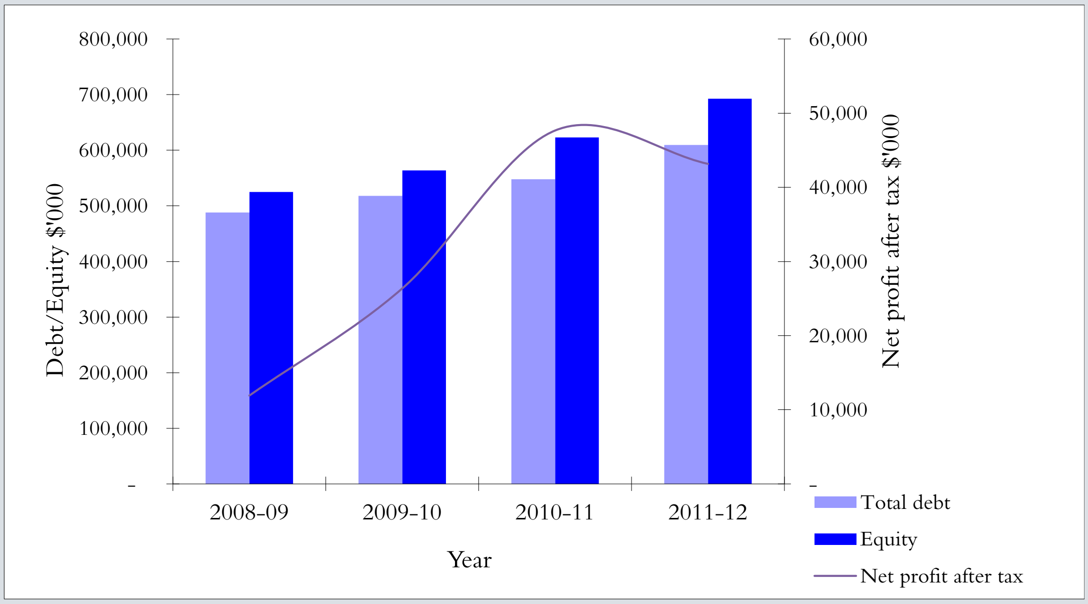
Major customers

During the financial year under review, two of Transend's largest industrial customers publically announced they are reviewing their future in Tasmania. In October 2011, Rio Tinto announced it was streamlining its aluminium product group. Rio Tinto owns the Bell Bay aluminium smelter, which is Transend's largest industrial customer. In February 2012, BHP Billiton announced its intention to temporarily suspend production at Temco, one of Transend's larger industrial customers.

These events threaten Transend's future revenue and profitability. Both companies have subsequently continued their operations and connection with Transend. Transend is continuing to work with existing and new customers on a number of development prospects, including two new wind farms and a number of mining ventures.

FINANCIAL RESULTS

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



Transend is in the third year of the current five-year regulatory control period and its financial performance over those three years improved significantly as a result of the increase in the maximum allowed revenue. At the start of the regulatory period in 2009-10, the TUOS revenue increased by 15.0% compared to the previous year and continued to rise each year in line with the determination. Over the same period, the net value of network assets measured at cost and after depreciation increased by $289.105m as Transend invested extensively in upgrading its network of transmission lines and substations.

Equity grew over the period under review by 32.0% or $167.848m as a result of net profits, $117.184m and increased asset values, $190.386m less dividends paid, $45.416m, equity returns of $20.000m and other comprehensive losses, $74.307m. Over the past four years, Transend incurred $201.030m in extra borrowings and in the current year total debt reached $609.707m or 88.0% of total equity.

STATEMENT OF COMPREHENSIVE INCOME

	2011-12	2010-11	2009-10	2008-09
	$'000s	$'000s	$'000s	$'000s
Transmission use of system (TUOS)	211 345	201 181	165 848	144 223
Other revenue	19 337	18 949	17 747	14 396
Total Revenue	**230 682**	**220 130**	**183 595**	**158 619**
Depreciation and amortisation	(69 664)	(65 959)	(58 031)	(58 552)
Other expenses	(54 558)	(54 176)	(55 953)	(51 747)
Total Expenses	**(124 222)**	**(120 135)**	**(113 984)**	**(110 299)**
Net operating profit (Loss) before finance cost, tax and other items	**106 460**	**99 995**	**69 611**	**48 320**
Finance costs	(37 315)	(29 698)	(29 982)	(30 571)
Interest cost on defined benefit superannuation plan	(3 240)	(2 997)	(2 607)	(1 842)
Net operating profit (loss) before tax and other items	**65 905**	**67 300**	**37 022**	**15 907**
Fair value movements	(4 215)	170	0	0
Gain on acquision of business	0	0	0	664
Net profit (loss) before tax	**61 690**	**67 470**	**37 022**	**16 571**
Income tax expense	(18 529)	(19 805)	(10 664)	(4 660)
Net Profit (Loss)	**43 161**	**47 665**	**26 358**	**11 911**
Gain on revaluation of property, plant and equipment	125 045	35 700	29 641	(91 364)
Superannuation actuarial gains (losses)	(18 749)	(307)	(6 250)	(6 684)
Income tax equivalent on items of other comprehensive income	(31 452)	(10 531)	(7 018)	29 515
Total other comprehensive income	**74 844**	**24 862**	**16 373**	**(68 533)**
Comprehensive Profit (Loss)	**118 005**	**72 527**	**42 731**	**(56 622)**

Comment

In 2011-12, Transend recorded a Net profit before tax of $61.690m, compared to $67.470m in 2010-11. The decrease of $5.780m was primarily caused by:

- higher Depreciation and amortisation expense, $3.705m, due largely to the upward revaluation of network assets
- increased Finance costs, up $7.617m, due to higher debt
- a downward revaluation of Land and buildings, $4.215m.

The increase in expenses was partly offset by higher TUOS revenue, up $10.164m in line with the AER's determination.

STATEMENT OF FINANCIAL POSITION

	2012	2011	2010	2009
	$'000s	$'000s	$'000s	$'000s
Cash	3 818	2 213	4 632	23 775
Receivables	21 680	20 449	17 575	24 970
Inventories	4 546	4 651	3 567	3 606
Current tax assets	0	0	0	4 939
Other	3 804	9 453	4 463	3 461
Total Current Assets	**33 848**	**36 766**	**30 237**	**60 751**
Payables	41 123	42 000	44 256	35 681
Borrowings	1 707	0	0	0
Employee benefits	6 575	6 141	6 874	6 114
Superannuation	1 219	1 332	1 009	1 035
Current tax liability	10 456	12 621	1 178	0
Income received in advance	22 516	23 248	23 318	33 037
Customer deposits and other	3 198	423	2 839	0
Total Current Liabilities	**86 794**	**85 765**	**79 474**	**75 867**
Working Capital	**(52 946)**	**(48 999)**	**(49 237)**	**(15 116)**
Property, plant and equipment	1 620 591	1 452 017	1 355 476	1 239 780
Other	9 787	3 023	2 525	4 266
Total Non-Current Assets	**1 630 378**	**1 455 040**	**1 358 001**	**1 244 046**
Borrowings	608 000	548 000	518 000	488 000
Employee benefits	1 869	1 880	1 761	1 322
Superannuation	66 005	45 314	43 157	34 116
Deferred tax liability	208 914	187 609	181 935	180 696
Total Non-Current Liabilities	**884 788**	**782 803**	**744 853**	**704 134**
Net Assets	**692 644**	**623 238**	**563 911**	**524 796**
Capital	46 549	66 549	66 549	66 549
Retained earnings	128 798	127 360	91 677	70 613
Reserves	517 297	429 329	405 685	387 634
Total Equity	**692 644**	**623 238**	**563 911**	**524 796**

Comment

Total Equity increased from $623.238m to $692.644m during 2011-12. The increase of $69.406m comprised the Comprehensive Profit of $118.005m, less dividends paid during the year, $28.600m and Return of capital, $20.000m.

Net Assets increased by the same amount as Total Equity, $69.406m, with the main movements being:

- additional Borrowings, $61.707m, which bring total debt to $609.707m. The new borrowings were necessary to fund Transend's capital expenditure program in light of increased dividends and equity return

- higher Property, plant and equipment, $168.574m, attributable to:
  - revaluation of network assets, land and buildings and other infrastructure, resulting in a net increment of $120.830m
  - new assets commissioned during the year, $95.740m, and additional work in progress, $20.021m
  - depreciation expense, $67.814m
- higher Deferred tax liability, $21.305m, due primarily to temporary differences for depreciation expense arising from the additions to, and revaluation of, property, plant and equipment in the current year
- increased total Superannuation, $20.578m, due primarily to a reduction in discount rates from 5.5% to 3.45% caused by the lower yields on Commonwealth bonds during the year.

Despite Transend's profitability, working capital continued to be negative, $52.946m at 30 June 2012 (2010-11, $48.999m).

STATEMENT OF CASH FLOWS

	2011-12	2010-11	2009-10	2008-09
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	255 248	230 962	200 789	170 986
Payments to suppliers and employees	(77 737)	(76 742)	(74 426)	(74 897)
Interest received	6	22	455	0
Finance costs	(28 881)	(21 878)	(22 577)	(28 551)
Guarantee Fees Paid	(7 066)	(6 860)	(5 998)	(1 263)
Taxation paid	(30 843)	(13 218)	(10 326)	(18 610)
Cash from (used in) operations	**110 727**	**112 286**	**87 917**	**47 665**
Proceeds from sale of property and plant	283	1 100	422	531
Payments for property, plant and equipment	(122 512)	(132 605)	(133 866)	(113 755)
Payments for business	0	0	0	(13 889)
Cash from (used in) investing activities	**(122 229)**	**(131 505)**	**(133 444)**	**(127 113)**
Proceeds from borrowings	61 707	30 000	30 000	749 261
Repayment of borrowings	0	0	0	(658 177)
Return of shareholder's capital	(20 000)	0	0	0
Dividends paid	(28 600)	(13 200)	(3 616)	(9 360)
Cash from (used in) financing activities	**13 107**	**16 800**	**26 384**	**81 724**
Net increase (decrease) in cash	**1 605**	**(2 419)**	**(19 143)**	**2 276**
Cash at the beginning of the year	2 213	4 632	23 775	21 499
Cash at end of the year	**3 818**	**2 213**	**4 632**	**23 775**

Comment

Cash at the end of the year increased by $1.605m to $3.818m. Cash generated from operating activities and borrowings totalled $172.434m which was used to fund net capital expenditure, equity returns to government and dividends totalling $170.829m. The previously discussed change to the dividend policy and return of equity impacted on how much Transend needed to borrow to fund its capital expenditure program and maintain a sufficient cash balance. The increased debt led to higher Finance costs, up $7.003m.

During the year, Transend invested in a variety of projects, including the completion of a long-term program to upgrade the power supply to the Launceston area, development of the Kingston substation and redevelopment of substations at Burnie, Creek Road (in Hobart), Palmerston and Tungatinah.

The decrease in Cash from operations was a modest $1.559m, and was achieved despite an increase in Taxation paid, $17.625m, reflecting the higher profit in the previous year and the higher finance costs already referred to. These higher cash outflows were partly offset by higher Receipts from customers, $24.286m, mainly due to an increase in TUOS revenue.

FINANCIAL ANALYSIS

	Bench Mark	**2011-12**	**2010-11**	**2009-10**	**2008-09**
Financial Performance					
Net Profit (Loss) ($'000s)	≥$47m*	43 161	47 665	26 358	11 911
EBIT ($'000s)	≥$106m *	106 460	99 995	69 611	48 320
EBITDA ($'000s)		176 124	165 954	127 642	106 872
Operating margin	>1.0	1.86	1.83	1.61	1.44
Return on assets	≥6.9%*	6.7%	6.9%	5.2%	3.7%
Return on equity		6.6%	8.0%	4.8%	2.1%
Financial Management					
Debt to equity		88.0%	87.9%	91.9%	93.0%
Gearing	60%	46.8%	46.8%	47.9%	48.2%
Debt to total assets		36.6%	36.7%	37.3%	37.4%
Interest cover - EBIT	>2	2.4	2.4	1.8	1.4
Interest cover - Funds from operations	>2	3.5	3.7	3.3	2.3
Current ratio	>1	0.39	0.43	0.38	0.80
Cost of debt		7.7%	7.8%	7.6%	8.0%
Debt collection	30 days	4	4	7	38
Creditor turnover	30 days	8	0	10	11
Asset Management					
Investment gap %	100%	176%	201%	231%	194%
Returns to Government					
Dividends paid ($'000s)		28 600	13 200	3 616	9 360
Income tax paid ($'000s)		30 843	13 218	10 326	18 610
Total return to the State ($'000s)		59 443	26 418	13 942	27 970
Dividends paid or payable ($'000s)		25 897	28 600	13 200	3 616
Dividend payout ratio	60%	60.0%	60.0%	50.1%	30.4%
Dividend to equity ratio	6%	3.7%	4.6%	2.3%	0.7%
Other Information					
Average Staff numbers (FTEs)		271	284	274	245
Average staff costs ($'000s)		126	116	116	114
Average leave balance per FTE ($'000s)		31	28	32	30

* *Internal benchmark set by the Company*

Comment

Net Profit decreased by $4.504m from $47.665m last year to $43.161m in 2011-12 and was slightly below the target set by Transend. However, EBIT and EBITDA increased by $6.465m and $10.170m respectively, indicating that this year's result was largely affected by higher depreciation, due to growth in both the asset base and its value, and higher interest costs due to extra borrowings. Transend achieved its internal target for EBIT to be equal to or above $106.000m.

The previously discussed increase in debt, higher dividends and capital withdrawal had very little impact on financial management measures, as these were largely offset by the increase in asset values.

All financial performance and management measures were above bench marks. Gearing ratio refers to the previously discussed prudential requirement and was better than benchmark of 60%.

Transend continued to heavily invest in infrastructure, but its capital expenditure was slightly lower compared to previous years due to the completion of major projects. This was reflected in the drop in Investment gap ratio from an average 209% to 176%, but it was still well above the 100% benchmark.

Average staff numbers (FTEs) decreased by 13 in 2011-12, mainly as a result of a redundancy program aimed at reducing operating cost. However, Average staff cost increased, partly as a result of redundancy payments, but mainly due to salary and wage increases under a new Enterprise Bargaining Agreement, which saw a 3.5% increase in July 2011, backdated to April 2011, followed by another 3.5% increase in September 2011.

The increase in Average leave balance per FTE was a combination of higher salaries and wages and a lower discount rate used in calculations. Expressed in days, the average long service leave balance is 38.4 days and the average annual leave balance is 22.3 days. However, 53 employees had annual leave balances in excess of 40 days or two-year entitlement at 30 June 2012. The issue of excessive annual leave balances is being addressed by management.

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 Government, and the Chief Executive Officer.

AUDIT OF THE 2011-12 FINANCIAL STATEMENTS

The board signed the Company's financial statements on 14 August 2012 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

Valuation of vessels

The Company's two vessels, Spirit of Tasmania I and Spirit of Tasmania II, are valued on the basis of market values. As the prevailing market for these types of vessels is predominantly in Europe, the valuation is provided in Euros. The value of each vessel reduced from $103.909m (€78.000m) to $90.121m (€74.000m) between 2011 and 2012. The reduction in the value was due to adverse economic and market conditions in Europe and the movement of the Australian dollar and Euro exchange rate.

Port of Melbourne Corporation Licence Fee

During 2011-12, the Victorian Government passed legislation requiring the Port of Melbourne Corporation (PoMC) to pay a port licence fee each financial year, starting 1 July 2012. PoMC decided to pass on the fee to users of its port facilities, including TT-Line, through an increase in wharfage and channel fees.

Dry dock

Each vessel goes into dry dock on a two year rotational basis. The only suitable local dry-dock facility is on Garden Island in Sydney, which is owned by the Federal Government and used by the Australian Navy. The Federal Government is yet to decide whether to continue the current arrangement of leasing parts of the facilities to civil operators. Discussions with the Federal Government are on-going. If access to the dry-dock in Sydney is no longer available, the Company will be forced to send its vessels to dry-docks further afield, potentially increasing maintenance costs and prolonging the time vessels will be out of service.

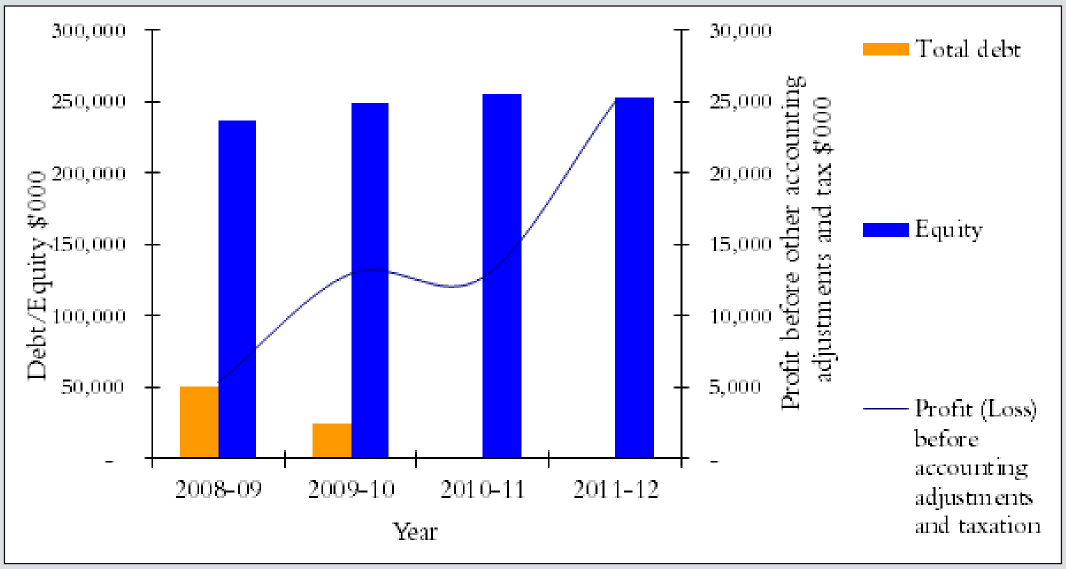
Carbon price

The carbon pricing mechanism started on 1 July 2012. Marine transport operators effectively pay no excise on the fuel they use, as their excise is offset under the fuel tax credits scheme. Indirectly a carbon price will be placed on these activities through reduced fuel tax credit entitlements. As a result, the Federal Government will impose, effectively, a carbon price on businesses fuel emissions through the existing fuel tax regime.

To recover the increased costs of fuel under the carbon pricing, the Company imposed a carbon surcharge on its fares and freight from 1 July 2012.

FINANCIAL RESULTS

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



In 2010-11, the Company repaid its remaining debt and has been debt-free since then, saving on average $2.700m in interest costs (based on interest on loans paid between 2008-09 and 2010-11). Profit before accounting adjustments, such as movements in the value of the vessels and superannuation liability, and taxation grew significantly since 2008-09. The Company's profit was at its lowest, $5.366m, in 2008-09 due to an increase in fuel costs. Since then, the implementation of a strategy, which reduced the number of winter sailings to eliminate unprofitable sailings, reduced operational costs together with lower deprecation due to the decline in the value of the vessels and lower interest costs all contributed to the growth in operating profits overall.

Movement in Equity over the period predominantly represents after tax profits, ship valuation adjustments and movements in the fuel hedge reserve.

STATEMENT OF COMPREHENSIVE INCOME

	2011-12 $'000s	2010-11 $'000s	2009-10 $'000s	2008-09 $'000s
Total Sales Revenue	**185 392**	**181 233**	**182 677**	**173 608**
Total Cost of Sales	**104 435**	**111 541**	**112 627**	**112 505**
Gross Profit	**80 957**	**69 692**	**70 050**	**61 103**
Gross Profit %	**43.7**	**38.5**	**38.3**	**35.2**
Investment revenue	1 385	1 450	886	1 978
Other gains and (losses)	9	66	(13)	1
Total Other Revenue	**1 394**	**1 516**	**873**	**1 979**
Depreciation and amortisation	(11 999)	(12 458)	(14 690)	(14 648)
Other operating costs	(44 993)	(43 939)	(40 577)	(38 710)
Total Other Expenses	**(56 992)**	**(56 397)**	**(55 267)**	**(53 358)**
Total Costs	**161 427**	**167 938**	**167 894**	**165 863**
Net operating profit (loss) before finance costs, taxation and other accounting adjustments	**25 359**	**14 811**	**15 656**	**9 724**
Finance costs	308	2 098	2 684	4 358
Net operating profit (loss) before taxation and other accounting adjustments	**25 051**	**12 713**	**12 972**	**5 366**
Other Accounting Adjustments:				
Ship valuation adjustment	(23 484)	(11 600)	(24 995)	0
Superannuation actuarial gain/(loss)	(2 198)	(460)	166	458
Net profit (loss) before taxation	**(631)**	**653**	**(11 857)**	**5 824**
Income tax benefit/(expense)	205	(147)	32 057	(8 260)
Net profit (loss)	(426)	506	20 200	(2 436)
Other Comprehensive Income - net of taxation				
Asset revaluation reserve	0	0	(14 733)	(7 067)
Hedging reserve	(2 353)	6 056	7 010	(12 206)
Total Comprehensive Profit (Loss)	**(2 779)**	**6 562**	**12 477**	**(21 709)**

Some items in the Statement of comprehensive income were reclassified for the purpose of this Report.

Comment

In 2011-12, TT-Line generated a Net operating profit before taxation and other accounting adjustments of $25.051m. This represented an increase of $12.338m or 97.1% compared to the previous year. The Company's Gross Profit was $11.265m higher than last year and its Gross Profit margin rose to 43.7% in spite of challenging economic conditions.

Total Sales Revenue increased by $4.159m due to higher freight revenue following increased volume of units of freight carried during the year as well as an increase in fuel surcharge. The increase in freight revenue was partly offset by a decrease in total passenger revenue, driven mainly by a reduction in passenger vehicles, food and beverage sales and other passenger charges. The decrease in the number of sailings led to lower Total Cost of Sales, which decreased by $7.106m mainly due to lower fuel costs, food, beverages and other consumables.

The Company remained debt-free and as a result saved $1.743m in interest cost on loans compared to last year.

The Net Loss before taxation of $0.631m (2010-11, profit $0.653m) reflected this year's decline in the value of the vessels, $23.484m, and an actuarial reassessment of the defined benefit superannuation liability, $2.198m.

Overall, the Company reported a Net loss after tax of $0.426m in 2011-12, compared to a Net profit after tax of $0.506m reported last year.

STATEMENT OF FINANCIAL POSITION

	2012	2011	2010	2009
	$'000s	$'000s	$'000s	$'000s
Cash and deposits	43 691	16 184	24 881	38 724
Receivables	15 520	13 124	13 063	10 588
Inventories	2 151	1 957	1 670	1 839
Fuel hedges - derivative asset	70	1 162	68	1
Prepaid expenses	1 336	623	1 018	511
Total Current Assets	**62 768**	**33 050**	**40 700**	**51 663**
Payables	10 864	11 710	11 346	12 076
Borrowings	0	0	25 000	25 000
Provisions	7 131	7 892	7 411	7 860
Revenue received in advance	9 833	9 046	9 365	8 701
Fuel hedges - derivative liability	1 239	471	7 913	10 233
Total Current Liabilities	**29 067**	**29 119**	**61 035**	**63 870**
Working Capital	**33 701**	**3 931**	**(20 335)**	**(12 207)**
Property, plant and equipment	16 675	16 906	16 744	12 942
Ships at fair value	180 243	207 817	223 636	274 278
Deferred tax asset	34 440	35 191	38 329	0
Fuel hedges - derivative asset	45	731	983	175
Total Non-Current Assets	**231 403**	**260 645**	**279 692**	**287 395**
Borrowings	**0**	**0**	**0**	**25 000**
Provisions	10 397	5 943	6 523	5 884
Deferred tax liability	602	2 567	2 962	0
Fuel hedges - derivative liability	1 010	192	560	7 379
Other	0	0	0	90
Total Non-Current Liabilities	**12 009**	**8 702**	**10 045**	**38 353**
Net Assets	**253 095**	**255 874**	**249 312**	**236 835**
Capital	328 981	328 981	328 981	328 981
Hedging reserve	(1 493)	860	(5 196)	(12 206)
Accumulated losses	(74 393)	(73 967)	(74 473)	(94 673)
Asset revaluation reserve	0	0	0	14 733
Total Equity	**253 095**	**255 874**	**249 312**	**236 835**

Comment

The Company's Equity decreased by $2.779m during the year to $253.095m as at 30 June 2012 due to:

- Net Loss of $0.426m
- a decrease in Hedging reserve, $2.353m, representing the movement in fair value of hedging instruments after tax. The Company began hedging its fuel costs in 2008-09 in order to gain long term certainty over one of its largest expenditure items and limit the volatility on its financial results.

The corresponding decrease in Net Assets was the result of the following factors:

- higher Cash and deposits balances of $43.691m, an increase of $27.507m (refer cash flow statement analysis below). The majority of this balance is invested in bank deposits
- higher Receivables, $2.396m, due to the increase in freight operations
- change in the net Fuel hedge position from net asset of $1.230m in 2010-11 to net liability of $2.134m in 2011-12. As a result, Net Assets decreased by $3.364m
- decline in the value of the vessels of $27.574m as shown in the table below:

Reconciliation of movements in vessels value	**2012**	**2011**	**2010**	**2009**
	$'000s	$'000s	$'000s	$'000s
Net value at beginning of year	207 817	223 636	274 278	290 466
Additions	1 207	1 671	3 297	2 248
Major cyclical maintenance	4 862	4 671	5 031	4 722
Depreciation	(10 160)	(10 561)	(12 929)	(13 063)
Net revaluation decrement	(23 483)	(11 600)	(46 041)	(10 095)
Net value at end of year	**180 243**	**207 817**	**223 636**	**274 278**

- higher Provisions, $3.693m, predominantly due to an increase in the defined benefit superannuation liability, $2.492m, mainly reflecting the reduction in discount rates from 5.5% to 3.45% caused by the lower yields on Commonwealth bonds during the year and in particular at 30 June 2012. The value of unfunded superannuation liability is assesed annually by an independant actuary.

STATEMENT OF CASH FLOWS

	2011-12	**2010-11**	**2009-10**	**2008-09**
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	202 269	199 218	199 065	193 489
Payments to suppliers and employees	(168 444)	(174 163)	(172 324)	(169 470)
Interest received	1 351	1 423	919	2 160
Finance costs	0	(1 840)	(2 599)	(4 341)
Cash from (used in) operations	**35 176**	**24 638**	**25 061**	**21 838**
Payments for property, plant and equipment	(7 792)	(8 520)	(14 041)	(8 318)
Proceeds from sale of property, plant and equipment	123	185	137	44
Cash from (used in) investing activities	**(7 669)**	**(8 335)**	**(13 904)**	**(8 274)**
Repayment of borrowings	0	(25 000)	(25 000)	(25 000)
Cash from (used in) financing activities	**0**	**(25 000)**	**(25 000)**	**(25 000)**
Net increase (decrease) in cash	**27 507**	**(8 697)**	**(13 843)**	**(11 436)**
Cash at the beginning of the year	16 184	24 881	38 724	50 160
Cash at end of the year	**43 691**	**16 184**	**24 881**	**38 724**

Comment

The Company reported Net cash from operating activities of $35.176m for 2011-12 which was considerably higher than the previous three years. Movements in operating cash flows reflect comments made in previous sections of this Chapter, mainly increased sales revenue, lower cost of sales and no finance costs.

Cash generated from operating activities was used to fund investing activities, $7.669m, mainly the vessel cyclical maintenance (dry dock) of $4.862m, capital additions to the vessels, $1.207m, and other plant and equipment, $1.250m.

Overall, cash balance increased by $27.507m to $43.691m at 30 June 2012. The Company is building cash reserves to fund the refurbishment and/or replacement of its current vessels.

FINANCIAL ANALYSIS

	Bench Mark	2011-12	2010-11	2009-10	2008-09
Financial Performance					
Net profit (loss)		(426)	506	20 200	(2 436)
EBIT ($'000s)		25 359	14 811	15 656	9 724
Operating margin	>1.0	1.16	1.09	1.09	1.06
Return on assets	7.0%*	8.6%	4.8%	4.7%	2.7%
Return on equity		(0.2%)	0.2%	8.3%	(1.0%)
Financial Management					
Debt to equity		-	-	10.0%	21.1%
Debt to total assets		-	-	7.8%	14.7%
Interest cover - EBIT	>2	-	8.50	6.72	2.40
Current ratio	>1	2.16	1.13	0.67	0.81
Debt collection	30 days	31	27	27	22
Creditor turnover	30 days	24	20	15	25
Other information					
Average Staff numbers (FTEs)		444	456	469	477
Average staff costs ($'000s)		94	92	84	87
Average leave balance per FTE ('$000)		21	19	17	16

* Internal benchmark set by the Company

Comment

The Company reported a Net loss of $0.426m for the year. However, at the same time EBIT was $10.548m higher and Operating margin and Return on assets reached 1.16 and 8.6% respectively, their highest in the past four years. These measures confirm that this year's result was largely affected by the decrement in the value of the vessels.

Return on equity ratio is based on results after taxation. Therefore, the ratio for 2009-10 was impacted by the Company bringing to account its deferred tax assets for the first time.

Refer to the Financial Results section of this Chapter for comments regarding the Company's Debt to Equity ratio.

The Current ratio was below the bench mark in both 2008-09 and 2009-10 as the Company used cash to repay Borrowings and entered into Fuel hedges. The ratio improved in recent years largely due to the repayment of Borrowings and the Company starting to build sufficient cash reserves to fund the refurbishment and/or replacement of its current vessels.

Average staff costs and Average leave balance increased in line with salary and wages increases under the Company's Enterprise Bargaining Agreement. Average staff numbers declined by 33 full time equivalents over the past four years through reduction of staff in the Company's Customer Contact Centre in response to customers favouring online booking and natural attrition.

No income tax payments were made in the past four years as the Company had carried forward tax losses, which at 30 June 2012 totalled $24.759m (2010-11, $29.344m). During the period under review, no dividend payments were paid. 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 cash surplus for the purpose of funding the replacement or refurbishment cost of its two vessels….'

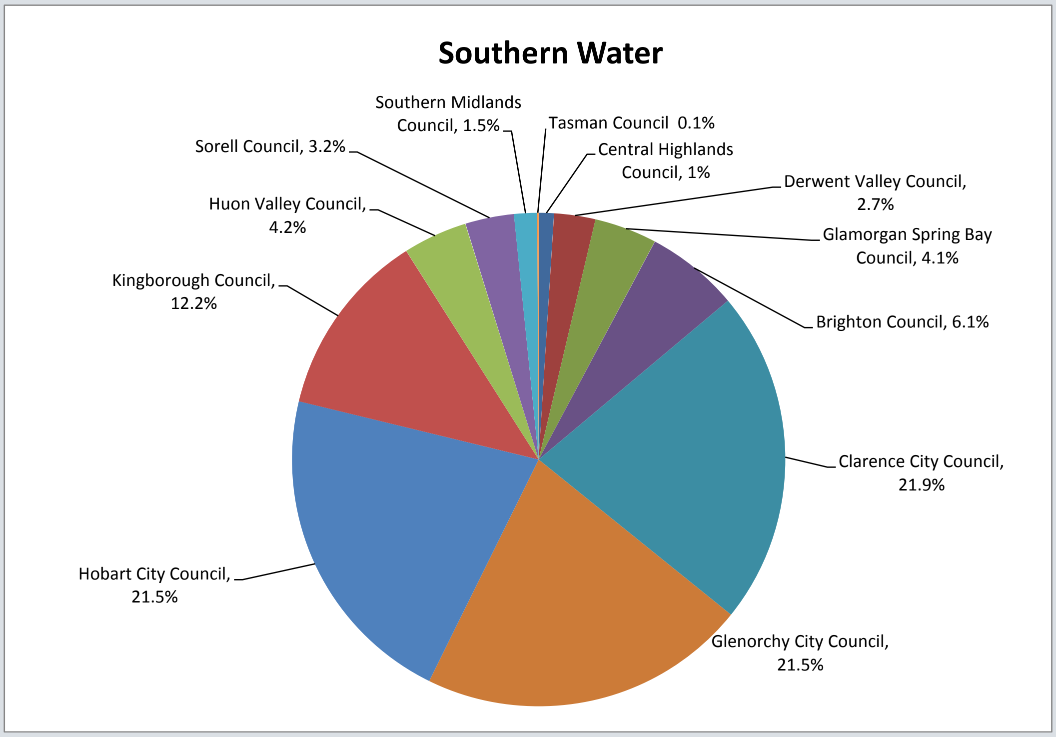
WATER AND SEWERAGE CORPORATIONS 2011-12

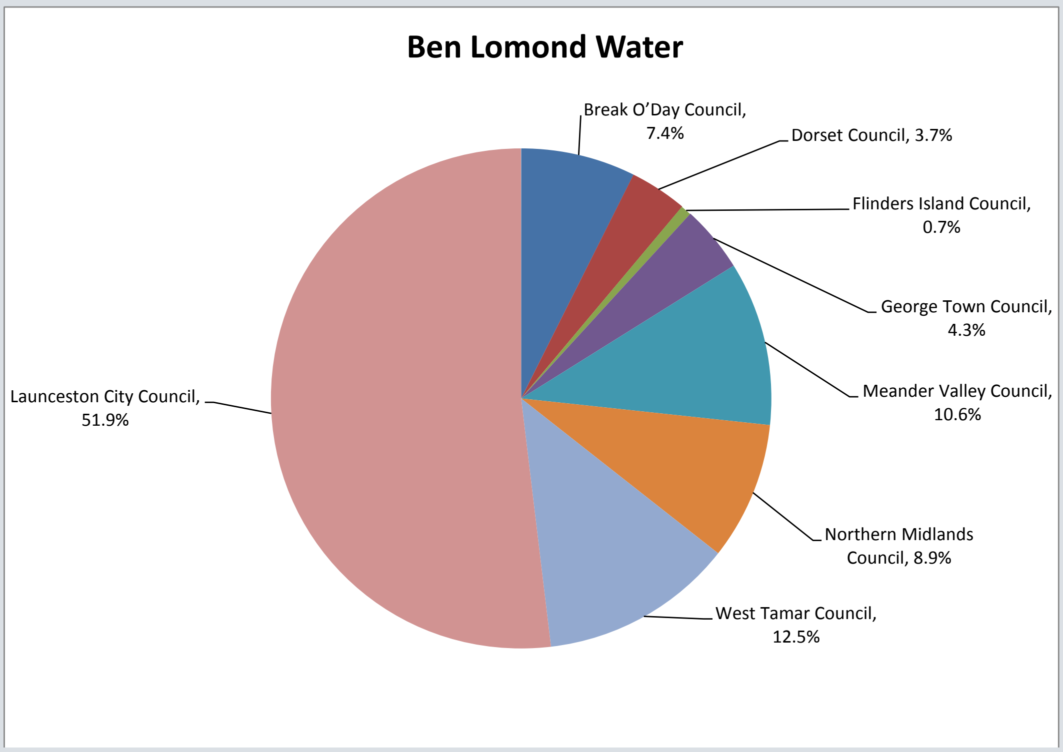
INTRODUCTION

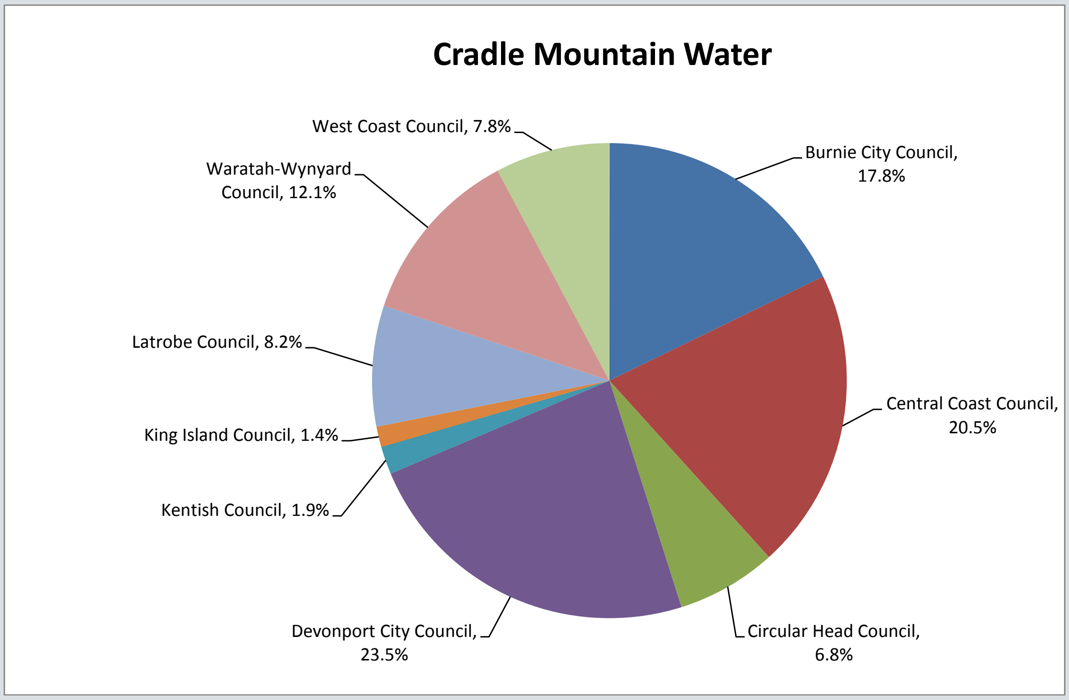
Tasmania's three regional water and sewerage corporations (the Regional Water Corporations) were established in 2008 under the *Water and Sewerage Corporations Act 2008* (the Act). The Corporations are separate legal entities each responsible for its own financial performance. The information provided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

The Regional Water Corporations are owned by councils in their respective regions:

The following charts show relative residual share percentages as per the *Treasure's Allocation Order for Water and Sewerage Returns* at February 2011.







The Regional Water Corporations provide bulk, distribution and retail water and sewerage services. A fourth Common Services Corporation (Onstream), in which the Regional Water Corporations have ownership interests, was established to provide a range of shared services aimed at supporting their operations. These include centralised payroll, human resources, finance, information and communications technology and billing services.

The Regional Water Corporations share distributions from Onstream based on their use of the services provided, which was approximately: Southern Water 50%, Ben Lomond Water 25% and Cradle Mountain Water 25%.

The Corporations' and the Common Services Corporation's, trading names and incorporation 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 (Onstream): 9 December 2008.

All Corporations commenced full operations on 1 July 2009.

The Regional Water Corporations have a common Chairman and a different common Chair of their Audit and Risk Committees and other Board Committees. Each Board has six directors, some of whom are common to the other Corporations. Cradle Mountain Water had one vacant position on its Board.

The Board of Onstream comprised six directors, the Chair who was common with the three Regional Water Corporations, their respective CEOs and two additional directors.

KEY FINDINGS

Asset valuations

At the end of each reporting period, the Regional Water Corporations review their assets for possible impairment by applying a cash generating unit test to determine recoverable amount represented by value in use. The value in use represents the discounted present value of future net cash flows expected to be generated from the assets. The discount rate used is based on a real pre-tax weighted average cost of capital (WACC). The calculation of value in use is dependent on a range of assumptions and estimates, such as the growth rate, inflation rate, operating expenditure growth rate, risk free rate etc. Last year, we recommended that variables impacting on the calculation of value in use be considered by Audit and Risk Committees and approved by the Boards of each Regional Water Corporation prior to the end of each reporting period. This recommendation was fully adopted and followed in the preparation of the 2011-12 financial statements.

The risk free rate is a key input when calculating WACC. Generally, the risk free rate is derived from Commonwealth government bond rates on the day of the valuation or an averaging period of around 20 days. During the current year, yields on 10-year Commonwealth government bonds declined significantly from 5.21% to 3.04%, reflecting sovereign debt apprehensions in Europe, global economic concerns and demand for the Australian dollar. This year, the Regional Water Corporations applied a risk free rate based on an average rate of the 10-year Commonwealth government bond rates over the last ten years. We concurred with this decision.

The change to the recoverable amount of assets was not material to warrant adjusting carrying amounts at 30 June 2012.

KEY DEVELOPMENTS

Bill to establish a single water coporation

Legislation to establish a single, statewide water and sewerage entity was tabled in Parliament on 23 October 2012. The target date for the new single water corporation is 1 July 2013. The assets, liabilities and employees of the existing Regional Water Corporations and Onstream would be transferred to the new Corporation assuming the bill proceeds as drafted.

The following events pre-dated the development and introduction of the proposed legislation.

House of Assembly Select Committee inquiry into the Tasmanian Water and Sewerage Corporations

In late 2010, the House of Assembly established a Select Committee to inquire into the governance and operating structure, and financial performance, of the Regional Water Corporations and Onstream (the corporations). The Committee also inquired into the impact of future prices and strategies to achieve an equitable pricing structure. In its interim report, released in April 2011, the Committee urged the Regional Water Corporations, their owner councils and the State Government to mitigate the price shock expected after the price cap is removed on 1 July 2012.

In its final report, the Committee made the following five recommendations:

1. the existing four corporations model for the provision of water and sewerage services in the State be collapsed into a single state-wide corporation
2. local government councils, as owners of the corporations, should proactively lead the restructuring process and be involved with the development of any legislative changes, with every assistance provided by the government

3. the existing governance arrangements be reviewed as part of the legislation development process and that the views of local government be fully considered and addressed as part of the review

4. the water and sewerage corporations be compelled to take into account the broader economic, social and environmental benefits flowing from development proposals and there should be a process established at an early point in the development process for the facilitation of medium to large development proposals with a water or sewerage component and the potential to deliver broader economic benefits

5. discussions be held with the Tenants' Union of Tasmania and representatives of property owners, as part of the review of the *Residential Tenancy Act 1997,* regarding the metering of strata titled and multi-tenanted properties and the billing of water and sewerage charges.

Local Government Association of Tasmania

The Local Government Association of Tasmania, at a special meeting on 5 June 2012, resolved to support the formation of a single water and sewerage corporation in Tasmania.

Price Cap

As part of the transition to the new water and sewerage arrangements, the State Government capped price increases for water and sewerage at 5% for three years until 2011-12. The Government also agreed to provide compensation payments to the Regional Water Corporations in recognition of lost revenues and other costs associated with this decision. In June 2011, the State Government announced changes to the water and sewerage arrangements as part of its 2011-12 Budget saving strategies, including lifting the price cap to 10% or $50 per service, whichever is greater and indexing concession payments. The following table summarises the amount of price cap rebates, other support and concessions received by the Regional Water Corporations since the introduction of the Price Cap:

Government Subsidies	Combined			SW		
	2011-12	**2010-11**	**2009-10**	**2011-12**	**2010-11**	**2009-10**
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
Price cap rebate	4 000	12 923	5 554	1 925	6 089	2 556
Other government support *	925	0	0	0	0	0
Other concessions **	6 696	5 873	5 551	3 081	2 719	2 614
Total Government Subsidies	**11 621**	**18 796**	**11 105**	**5 006**	**8 808**	**5 170**

	BLW			CMW		
	2011-12	**2010-11**	**2009-10**	**2011-12**	**2010-11**	**2009-10**
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
Price cap rebate	1 306	4 392	1 972	769	2 442	1 026
Other government support	0	0	0	925	0	0
Other concessions	1 930	1 712	1 553	1 685	1 442	1 384
Total Government Subsidies	**3 236**	**6 104**	**3 525**	**3 379**	**3 884**	**2 410**

**The government agreed to provide additional support to assist the on-going viability of Cradle Mountain Water and agreed to pay $4.225m over three years ($0.925m in 2011-12, $1.400m in 2012-13 and $1.900m in 2013-14).*

***Other concessions, mainly to eligible pensioners and low income earners, increased in line with price rises in water and sewerage charges.*

Evident from the table is the combined reduction in the price cap rebate in 2011-12 of $8.923m which, as noted later in this Chapter, reduced significantly the profitability of each Regional Water Corporation this year.

New Pricing Structure

Water and sewerage services are regulated services under the *Water and Sewerage Industry Act 2008*. Providers of regulated water and sewerage services are required to be licensed. The licence then binds the water and sewerage providers to comply with a number of regulatory obligations, including service standard obligations set out in the Water and Sewerage Customer Service Code, adoption of appropriate management practices in relation to, for example, asset management and compliance with prices set by the Regulator. The Regional Water Corporations are licensed regulated entities under the *Water and Sewerage Industry Act 2008*.

When the Regional Water Corporations started operations, prices were set by the Treasurer in the Interim Price Orders. This was a temporary measure and from 1 July 2012 water and sewerage prices are set independently by the Regulator through Price Determinations valid for the first regulatory period from 1 July 2012 to 30 June 2015.

In setting the prices, the Regulator acknowledged in its final report[1] that the Regional Water Corporations are currently not financially sustainable into the future at current revenue levels and set out a number of reform priorities for the first regulatory period, including ensuring the viability of the Regional Water Corporations, commencing the transition of revenues to achieve financial sustainability and introduction of a rational price structure, including two-part pricing of water. The Regulator also highlighted the need for managing the impact of price changes on customers and for this reason movements in annual prices will be regulated by applying caps on annual price movements.

Starting 1 July 2012, the Regional Water Corporations introduced universal postage stamp based two-part pricing for water charges: a fixed Water Service Charge and a variable Water Usage Charge. A fixed Sewerage Service Charge continues to apply for customers with a sewerage connection. The Water Usage Charge is based on the amount of water used, while Service Charges are levied annually per connection. All charges are billed quarterly.

The target tariffs proposed by the Regional Water Corporations were approved by the Regulator for each year of the regulatory period which will begin to move customers towards the real cost of providing the services. However, where current charges are less than the target tariffs, annual increases will be capped to 10% or $50 per standard domestic service, whichever is the larger. A standard domestic sewerage service is classed as one equivalent tenement and a standard domestic water service is classed as a 20mm connection.

Billing Arrangements

Onstream is responsible for providing billing services to the Regional Water Corporations. After the transition to the new water and sewerage arrangements, Onstream, during 2009-10, used a contracted billing arrangement with a number of councils. For part of 2010-11 Onstream used an interim billing system, which did not allow for an automated reminder notice of a customer's total debt being generated in circumstances where payment hadn't occurred by the due date, although instalment reminder notices were issued each quarter showing the outstanding balance of service charges. This caused delays in collecting outstanding charges.

A new billing system has been in place since January 2011 and each Regional Water Corporation started to implement strategies to recover outstanding charges, including the use of a debt collection agency.

[1] *2012 Price Determination Investigation – Regulated Water and Sewerage Services in Tasmania – Final Report.*

The following table provides details of the dollar value and % of receivables past due more than 90 days:

	SW		BLW		CMW	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Receivables past due > 90 days ($'000)	9 304	7 806	3 737	3 676	2 988	4 140
% of total receivables	27.0%	26.3%	21.5%	27.3%	48.6%	53.1%

While it may be understandable why the high levels of overdue Receivables has occurred, these delays must be impacting negatively on the cash flows of all three Regional Water Corporations.

Restructure of Onstream

In October 2011, Onstream restructured its operations and co-located within premises occupied by the Regional Water Corporations. The scope of services provided by Onstream to the Regional Water Corporations was reduced to allow Onstream to focus on the provision of core services in the areas of IT, billing, payroll, finance and procurement. On the other hand, the Regional Water Corporations provide Onstream with support in the areas of company secretariat, risk management, human resources and safety support. Onstream is managed by two Joint General Managers. These roles are fulfilled by Onstream's Chief Financial Officer and Onstream's Chief Information Officer. This new model aims to reduce costs and improve efficiencies. In the event that the Bill before Parliament is passed, the activities of Onstream will be taken over by the new entity.

FINANCIAL RESULTS

The financial information detailed below compares the results of the Regional Water Corporations in their third full year of operation ended 30 June 2012 and their financial position at that date.

Onstream's results are included in the results of the Regional Water Corporations.

Profitability

The Regional Water Corporations generated a combined Net operating profit before net finance costs, tax, contributions and other transactions of $22.188m in 2011-12, compared to $30.156m reported last year. The decrease reflected the Government's decision to reduce the price-cap rebate to $4.000m in 2011-12, a reduction of $8.923m.

On a net profit after tax basis, the combined result was $19.557m, which was $2.425m less than last year. Net profit after tax was boosted by contributions received from customers and developers, which increased in 2011-12 by $7.204m.

The decline in profit was reflected in lower average returns on assets of 1.1% (2010-11, 1.5%) and on equity of 0.9% (1.1%) and remained well below commercial returns. These levels of return will make it difficult to generate sufficient income to fully maintain the Regional Water Corporations' assets, to achieve their asset replacement programs and satisfy dividend expectations.

Asset management

From an asset management perspective, the Asset renewal ratios for Ben Lomond Water and Cradle Mountain Water exceeded our benchmark this year, indicating increased spending on upgrading existing infrastructure. Southern Water, on the other hand, invested the majority of its capital expenditure on significant new infrastructure projects, which caused the Asset renewal ratio below the benchmark. The Investment ratio was also high as the Regional Water Corporations continued to invest heavily in new and existing infrastructure assets. Consumption ratios indicate that infrastructure assets are, on average, at moderate level of financial sustainability risk.

Water inventory

From 2011-12, Ben Lomond Water and Southern Water no longer recognise water as inventory, unless the value is material. This change in approach resulted in a reduction in water inventory balances by Southern Water, $0.616m, and Ben Lomond Water, $0.088m. Cradle Mountain Water did not recognise water inventory in the past.

Paying dividends

In the current year, the Boards of the Regional Water Corporations adopted a dividend policy which excludes customer and developer contributions from profit for the purpose of determining ordinary dividends to council owners, a decision we support.

Compliance with accounting standards

In all cases our audits concluded that the three Regional Water Corporations and Onstream completed their financial statements in accordance with Australian Accounting Standards. However, in our analysis of each of the three Regional Water Corporations' financial performance we have, in some cases, reallocated certain revenue or expenditure items to better assist readers to interpret financial performance.

In the remainder of this Chapter we compare the results of the three Regional Water Corporations in 2011-12.

STATEMENT OF COMPREHENSIVE INCOME

	Combined	SW	BLW	CMW
	$'000s	$'000s	$'000s	$'000s
Sales revenue	221 656	111 398	58 950	51 308
Other operating revenue excluding contributions from customers and developers	2 355	1 228	322	805
Total Revenue	**224 011**	**112 626**	**59 272**	**52 113**
Depreciation	57 570	30 243	14 629	12 698
Employee benefits	59 284	30 093	15 409	13 782
Other operating expenses	84 969	40 954	24 079	19 936
Total Expenses	**201 823**	**101 290**	**54 117**	**46 416**
Net Operating Profit before finance cost, tax, contributions and other transactions	**22 188**	**11 336**	**5 155**	**5 697**
Finance costs	15 696	7 618	1 844	6 234
Interest cost on defined benefit superannuation plan	1 143	501	585	57
Net operating profit before tax, contributions and other transactions	**5 349**	**3 217**	**2 726**	**(594)**
Customer and developer contributions	22 555	14 117	7 204	1 234
Share of profit of associate	52	25	13	14
Net profit before tax	**27 956**	**17 359**	**9 943**	**654**
Income tax equivalents expense	(8 399)	(5 224)	(2 983)	(192)
Net Profit	**19 557**	**12 135**	**6 960**	**462**
Superannuation actuarial loss	(4 123)	(2 017)	(2 019)	(87)
Share of other comprehensive loss of associate	(189)	(90)	(48)	(51)
Income tax benefit on above items	1 236	604	606	26
Total other comprehensive income (expense)	**(3 076)**	**(1 503)**	**(1 461)**	**(112)**
Total Comprehensive Profit	**16 481**	**10 632**	**5 499**	**350**

Comment

The Regional Water Corporations generated a combined Net operating profit before net financing costs, tax, contributions and other transactions of $22.188m (2010-11, $30.156m) of which Southern Water contributed 51.1% (45.4%), Ben Lomond Water 23.2% (50.6%) and Cradle Mountain Water 25.7% (4.0%). The decrease of $7.968m was directly attributed to lower government subsidies, $7.175m, discussed previously. Revenue from the provision of water and sewerage services and operating costs both increased by 6.0%. In dollar term, the increases were $11.632m and $11.419m respectively.

Finance costs grew by $1.737m or 12.4% due to higher borrowings, which increased by 25.8%.

The Regional Water Corporations receive contributions from customers and developers. These contributions represent payments for the cost of new connections or expansion of water and sewerage infrastructure as well as, in the case of new subdivisions, the value of infrastructure assets provided by developers. The combined contributions, $22.555m, led to the Regional Water Corporations reporting a combined Net profit after tax of $19.557m ($21.982m), representing a decrease of $2.425m or 11.0% on last year's combined result.

STATEMENT OF FINANCIAL POSITION

	Combined	SW	BLW	CMW
	$'000s	$'000s	$'000s	$'000s
Cash	4 683	1 324	1 032	2 327
Receivables and prepayments	70 903	32 708	23 096	15 099
Inventories	6 976	4 774	1 247	955
Current tax asset	603	603	0	0
Total Current Assets	**83 165**	**39 409**	**25 375**	**18 381**
Payables	25 846	12 007	7 275	6 564
Borrowings	81 746	49 404	6 729	25 613
Employee benefits (incl. superannuation)	13 539	6 444	3 741	3 354
Unearned Income	1 146	670	223	253
Current tax liability	1 378	0	1 339	39
Restoration provision	325	325	0	0
Total Current Liabilities	**123 980**	**68 850**	**19 307**	**35 823**
Working Capital	**(40 815)**	**(29 441)**	**6 068**	**(17 442)**
Property, plant and equipment	2 061 920	1 109 918	533 112	418 890
Intangibles	3 939	1 201	812	1 926
Investment in associate	11	8	2	1
Total Non-Current Assets	**2 065 870**	**1 111 127**	**533 926**	**420 817**
Borrowings	194 601	97 171	26 780	70 650
Superannuaiton liability	13 939	7 229	5 776	934
Employee benefits	1 602	1 005	412	185
Unearned income	38 997	31 609	3 817	3 571
Deferred tax liabilities	27 081	18 456	7 279	1 346
Restoration provision	**3 078**	**3 078**	**0**	**0**
Total Non-Current Liabilities	**279 298**	**158 548**	**44 064**	**76 686**
Net Assets	**1 745 757**	**923 138**	**495 930**	**326 689**
Reserves	1 718 758	909 547	484 103	325 108
Retained earnings	26 999	13 591	11 827	1 581
Total Equity	**1 745 757**	**923 138**	**495 930**	**326 689**

Comment

Total Equity mainly represented transfers from owner councils and accumulated Net profits 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 continued to be negative and deteriorated again compared to last year (2011, SW: ($13.936m), CMW: ($2.861m)). The higher working capital deficits at Southern Water and Cradle Mountain Water was connected to higher current borrowings, which increased by $18.949m and $14.673m respectively. We acknowledge that current borrowings are likely to be re-financed being within existing borrowing facilities. However, Cradle Mountain Water's capacity to borrow is becoming limited in particular because at 30 June 2012, it was only $3.737m short of reaching the $100.000m loan facility limit set by Tascorp. An additional temporary line of credit for $10.000m was obtained by

Cradle Mountain Water in 2011-12 to cover potential cash shortfalls. This situation needs close monitoring by respective Boards.

Combined Receivables grew at twice the rate of the increase in water and sewerage charges, 12.0%, and were $70.903m at 30 June 2012 (2011, $63.319m and 2010, $52.278m). The disparity between the growth in Receivables and revenue from provision of water and sewerage services is indicative of the continued delays in billing and the delay in the implementation of debt recovery initiatives. The higher receivables balance at year end also reflects the introduction of progressive billing whereby bill delivery is smoothed over the quarter rather than issued at the start of the quarter. The above noted trend is also evident by the high number of days it takes to collect payments from customers as shown in the Financial Analysis Section of this Chapter.

An increase in combined Property, plant and equipment, $74.621m (2011, $50.680m), comprised mainly the additions less depreciation. The Regional Water Corporations were in the process of undertaking significant capital works.

Borrowings for the Regional Water Corporations totalled $276.347m ($219.629m). Southern Water's proportion of the borrowings was 53.1% (53.4%), Ben Lomond Water 12.1% (8.5%) and Cradle Mountain Water 34.8% (38.1%). The increase in borrowings was necessary to fund the extensive capital programs.

Total combined Unearned income increased by $12.308m, predominantly due to $10.000m in funding provided by the Australian Government for the installation of water meters across the State to properties which are currently un-metered and where the existing meters do not meet minimum standards. The meters are essential to the implementation of the two-part pricing system. The funding was provided under the *National Water Security Plan for Cities and Towns*. The allocation of the funding was Southern Water, $5.000m, and Ben Lomond Water and Cradle Mountain Water, $2.500m each. The total cost of the water meters roll-out is estimated at $50.000m, with $45.278m having been spent by 30 June 2012.

STATEMENT OF CASH FLOWS

	Combined	SW	BLW	CMW
	$'000s	$'000s	$'000s	$'000s
Receipts from customers and other sources	234 549	118 703	62 324	53 522
Payments to suppliers and employees	(159 068)	(80 115)	(43 720)	(35 233)
Interest received	292	166	45	81
Finance costs	(12 936)	(6 162)	(1 448)	(5 326)
Income tax paid	(9 299)	(4 889)	(2 763)	(1 647)
Guarantee fees paid	(2 108)	(1 077)	(171)	(860)
Cash from operations	**51 430**	**26 626**	**14 267**	**10 537**
Payments for property, plant and equipment	(110 018)	(58 494)	(28 989)	(22 535)
Capitalised costs	(13 581)	(8 342)	(1 732)	(3 507)
Proceeds from sale of property, plant and equipment	927	214	379	334
Cash (used in) investing activities	**(122 672)**	**(66 622)**	**(30 342)**	**(25 708)**
Proceeds from borrowings	158 825	74 713	66 371	17 741
Repayment of borrowings	(102 105)	(45 416)	(51 543)	(5 146)
Dividends paid	(11 178)	(8 612)	(2 566)	0
Customer and development contributions*	7 703	6 386	1 040	277
Grant funds received	12 084	8 084	2 050	1 950
Cash from financing activities	**65 329**	**35 155**	**15 352**	**14 822**
Net increase (decrease) in cash	**(5 913)**	**(4 841)**	**(723)**	**(349)**
Cash at the beginning of the year	10 596	6 165	1 755	2 676
Cash at end of the year	**4 683**	**1 324**	**1 032**	**2 327**

Comment

Combined Cash at the end of the year decreased by $5.913m to $4.683m as at 30 June 2012. All three Regional Water Corporations reported a Net decrease in cash, which primarily resulted from higher spending on capital projects, $40.151m. In 2011-12, investment in property, plant and equipment, including capitalised costs, totalled $123.599m (2010-11, $86.325m). Investing activities were funded by a combination of cash from operations, additional borrowings, government grants, contributions from customers and developers and cash from previous years.

In the case of Southern Water, the reduction in cash balance was also attributed to its strategy to utilise excess funds to repay overnight borrowings thus minimising finance costs. As mentioned previously, each Regional Water Corporation had to fund their capital expenditure by additional borrowings as they did not generate sufficient Cash from operations or other sources, for example government grants, while at the same time returned $11.178m ($9.976m) in dividends.

Combined borrowings increased by $56.718m ($16.012m), with Southern Water borrowing an additional $29.296m ($9.251m), Ben Lomond Water, $14.828m ($1.647m), and Cradle Mountain Water, $12.594m ($5.114m).

FINANCIAL ANALYSIS

	Bench Mark	SW	BLW	CMW
Financial Performance				
Net profit ($'000s)		12 135	6 960	462
Modified EBIT ($'000s)*		11 336	5 155	5 697
Operating margin*	>1	1.11	1.10	1.12
Return on assets*		1.0%	0.9%	1.3%
Return on equity		1.3%	1.4%	0.1%
Financial Management				
Indebtedness ratio		140.8%	74.3%	147.2%
Debt to equity		15.9%	6.8%	29.5%
Debt to total assets		12.7%	6.0%	21.9%
Interest cover	>2	1.5	2.8	0.9
Current ratio	>1	0.6	1.3	0.5
Cost of debt		5.2%	7.1%	6.9%
Debt collection	30 days	93	101	96
Creditor turnover	30 days	13	24	13
Asset Management				
Asset investment ratio	>100%	221.0%	210.0%	205.1%
Asset renewal ratio	>100%	31.9%	106.8%	113.8%
Consumption ratio	>40%	52.8%	62.5%	50.2%
Returns to Owners				
Dividends paid ($'000s)		8 612	2 566	0
Guarantee fee paid ($'000s)		1 103	171	860
Income tax paid ($'000s)		4 897	2 763	1 647
Total return to Owners		14 612	5 500	2 507
Dividends paid or payable ($'000s)		8 006	1 249	0
Dividend payout ratio	50%	66.0%	17.9%	0.0%
Dividend to equity ratio		0.9%	0.3%	0.0%
Other Information				
Average staff numbers (FTEs)		360	185	168
Average staff costs ($'000s)		94	88	96
Average leave balance per FTE ($'000s)		17	22	20

* *Contributions from customers and developers were excluded from Modified EBIT, Operating margin and Return of assets calculations.*

Comment

All three Regional Water Corporations reported profits and their Operating margins were above one. However, returns on assets and equity continued to be below what would be regarded as commercial rates of return of 6% and may not be sufficient to assure long-term sustainability including asset management. This was also noted in the Regulator's final report in that the Regulator concluded that the Regional Water Corporations are currently not financially sustainable into the future at current revenue levels. It is expected that this unfavourable position will continue over the first regulatory period.

However, we acknowledge that pricing principles is the *Water and Sewerage Industry Act 2008,* which are used as the basis for setting regulated prices, require the use of a lower percentage return on assets transferred to the Regional Water Corporation by previous owners before 1 July 2011. This pre-tax rate of return, not taking into account inflation, is set at 3% on the equity component. A commercial rate of return is applied to remaining assets and the debt component of the transferred assets.

Financial Management ratios reflected the Regional Water Corporations' higher levels of debt utilised to fund capital investment. Cradle Mountain Water's debt levels remained high relative to its revenue and assets base and compared to Southern Water and especially Ben Lomond Water.

The level of outstanding debtors remained high and was caused by delays in collecting outstanding charges as discussed previously in this Chapter.

Asset investment ratios (which measure capital investment in both new and existing assets compared to the total annual depreciation charge) exceeded benchmarks as the Regional Water Corporations continued to invest significantly in their infrastructure. In 2011-12, the combined capital investment totalled $123.599m compared to $86.325m invested last year. In addition to the roll-out of water meters, $45.278m, the Regional Water Corporations invested in upgrades to existing, or construction of new, water and sewerage infrastructure throughout the State.

However, the Asset renewal ratios (which measure capital investment only on existing assets compared to the annual depreciation charge) reflected the differences in priorities between regions, with:

- Ben Lomond Water and Cradle Mountain Water focusing on upgrading existing infrastructure in addition to investing in new assets resulting in both benchmarks being achieved, whereas
- Southern Water invested the majority of its capital expenditure on significant new infrastructure projects, including the Berriedale to Elwick and Bowen Bridge pipeline, construction of the Huon Valley Regional Water Scheme and installation of water meters in areas which were previously unmetered.

We have computed the Consumption ratios by comparing accumulated depreciation to deemed cost (based on depreciated replacement costs) of infrastructure assets. On this basis, the Consumption ratios indicate, that on average, the Regional Water Corporations had used (consumed) 44.8% of the service potential of their water and sewerage infrastructure assets meaning that their remaining service potential was 55.2%. At this level, these assets are at moderate level of financial sustainability risk. Ben Lomond Water's infrastructure assets have the highest remaining service potential at 62.5% and at this level are at low level of financial sustainability risk.

The three asset management ratios are useful measures for assessing management of long-lived assets. However, they need to be considered over lengthier timeframes than only one year and also need to take into account on-going maintenance programs and long-term asset management plans.

The Regional Water Corporations provided returns of $22.619m (2010-11, $22.113) to their owner councils. These returns represented final dividends for 2010-11, interim dividends, where declared, for 2011-12, income tax equivalent and guarantee fee payments. Dividends paid or payable showed dividends in relation to current year's results. Cradle Mountain Water proposed that no dividend be paid in relation to its 2010-11 and 2011-12 results.

Of the average 713 FTEs employed by the Regional Corporations, 50.5% were employed by Southern Water, followed by Ben Lomond Water, 25.9% and Cradle Mountain Water, 23.6%. Last year, the Regional Water Corporations finalised their respective Enterprise Bargaining Agreements, which harmonised industrial relations within each individual Corporation and across the sector. Staff numbers do not include employees of Onstream.

TASMANIAN WATER AND SEWERAGE CORPORATION (SOUTHERN REGION) PTY LTD - SOUTHERN WATER

INTRODUCTION

Tasmanian Water and Sewerage Corporation (Southern Region) Pty Ltd trading as Southern Water, was incorporated on 13 November 2008.

The owners of Southern Water, 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.

AUDIT OF THE 2011-12 FINANCIAL STATEMENTS

Signed financial statements were received on 10 August 2012 and an unqualified audit report was issued on the same day.

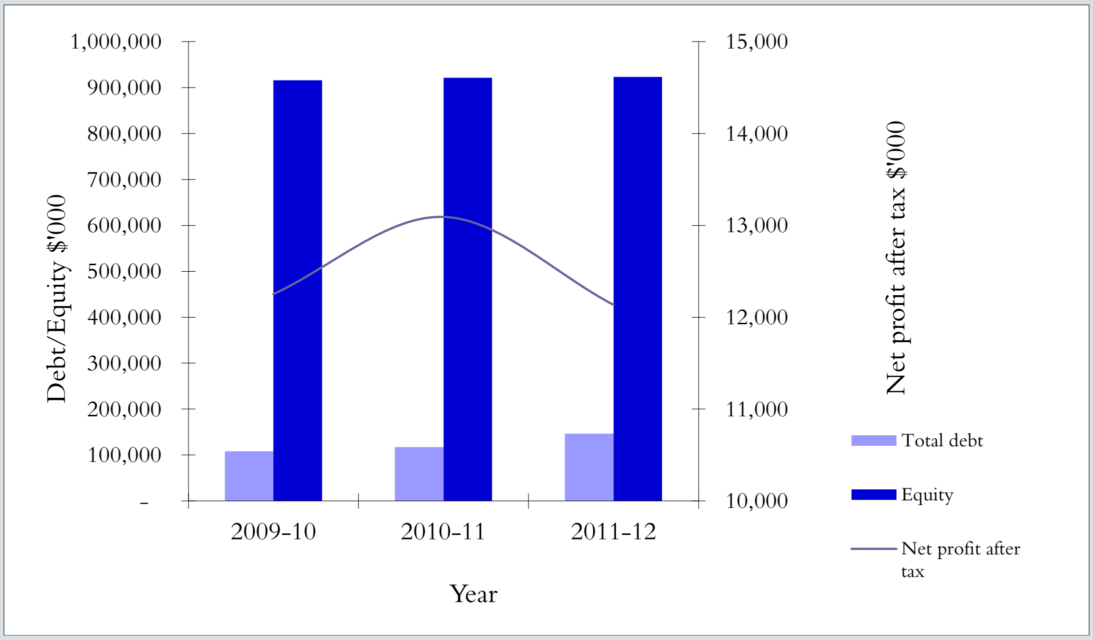
The audit was completed satisfactorily with no major items outstanding.

KEY FINDINGS AND DEVELOPMENTS

Key developments and findings are discussed in the Water and Sewerage Corporations Chapter of this Volume.

FINANCIAL RESULTS

Aspects of Southern Water's financial performance and financial position for the first three full years of its operations are shown in the graph below.



In 2011-12, Southern Water reported a Net Profit after tax of $12.135m which represented a 7.31% decline on last year's result. Included in this result were contributions from customers and developers of $14.117m (2010-11, $11.952m).

It is noted that Southern Water had accumulated tax losses which it can offset against current tax liabilities and therefore limit the amount of income tax equivalents paid to its owner councils. The accumulated tax losses included losses transferred from Hobart Water and the utilisation of those transferred losses was subject to limits determined under the available fraction method. In the current year, Southern Water utilised $1.104m (2010-11, $nil) of the accumulated tax losses.

Total dividends and tax paid, or payable from the 2011-12 profit to owner councils will be $14.612m. This means that for 2011-12 Southern Water, to a significant extent, is paying returns to owners from assets contributed to it by customers and developers rather than from operating profits. These assets represent elements of capital works which Southern Water will need to maintain, and generate revenues from, into the long term.

The decision to pay dividends at current levels has potentially negative consequences including:

- working capital deficit of $29.441m at 30 June 2012 (2011, $13.936m). Included in the net working capital deficiency are current borrowings totalling $49.404m ($30.455m) as Southern Water is maximising the benefit of low interest rates on short-term borrowing within the limits set by its Treasury Management Policy
- increasing levels of debt in particular if Southern Water needs to continue with its current asset replacement and upgrade programs. In making this observation, however, we acknowledge that Southern Water's debt equity ratio is low.

We also acknowledge that in accordance with Section 35(2)(d)(i) of the *Water and Sewerage Corporations Act 2008* there is an expectation to pay priority dividends to those owner councils as determined by the Treasurer. This arrangement will cease in 2013-14.

While total debt is relatively low in relation to total equity, around 16%, return on equity of 1.3% is below Southern Water's own target of 2.2% and well below what would be regarded as a commercial rate of return of around 6%. However, we acknowledge the pricing principles in the *Water and Sewerage Industry Act 2008*, which are used as the basis for setting regulated prices, require the use of a lower percentage return on assets transferred to Southern Water by previous owners before 1 July 2011. This pre-tax rate of return, not taking into account inflation, is set at 3% on the equity component. A commercial rate of return is applied to remaining assets and the debt component of the transferred assets.

At this level the operation does not provide an adequate return to fully maintain its assets and is heavily reliant on future price increases allowed by the Regulator and borrowings.

COMPREHENSIVE INCOME STATEMENT

	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s
Sales revenue	111 398	111 928	101 879
Other operating revenue	1 228	1 430	1 377
Total Revenue	**112 626**	**113 358**	**103 256**
Depreciation	30 243	29 780	25 829
Employee benefits	30 093	29 718	25 296
Other operating expenses	40 954	39 118	34 173
Total Expenses	**101 290**	**98 616**	**85 298**
Net Operating Profit (Loss) before finance cost, tax, contributions and other transactions	**11 336**	**14 742**	**17 958**
Finance costs	7 618	7 407	6 417
Interest costs on defined benefit superannuation plan	501	459	421
Net operating profit (loss) before tax, contributions and other transactions	**3 217**	**6 876**	**11 120**
Customer and developer contributions	14 117	11 952	5 911
Share of profit of associate	25	79	33
Net profit (loss) before tax	**17 359**	**18 907**	**17 064**
Income tax equivalents expense	(5 224)	(5 815)	(4 812)
Net Profit (Loss)	**12 135**	**13 092**	**12 252**
Superannuation actuarial gain (loss)	(2 017)	(358)	(515)
Share of other comprehensive loss of associate	(90)	(35)	(4)
Income tax benefit on above items	604	108	155
Total other comprehensive income (expense)	**(1 503)**	**(285)**	**(364)**
Total Comprehensive Profit (Loss)	**10 632**	**12 807**	**11 888**

Comment

Southern Water recorded a Net operating profit before tax, contributions and other transactions of $3.217m in 2011-12 compared to $6.876m reported last year. This decline of $3.659m, or 53%, resulted from a combination of a reduction in government funded compensation in lieu of the price cap and higher operating expenses although these expenses increased by only 2.71%.

Sales revenue decreased marginally, $0.530m, from $111.928m in 2010-11 to $111.398m in 2011-12, despite a 3.4% increase in water and sewerage charges. However, the increase in service and user charges was more than offset by the reduction in government funded compensation from $6.089m in 2010-11 to $1.925m in the current year. The reduction in the compensation was part of saving strategies announced in the 2011-12 State Budget. The number of properties connected to water increased from 95 304 in 2010-11 to 98 915 this year and to sewerage from 86 013 to 88 121 over the same period (these numbers are not audited).

The increase in Other operating expenses, $1.836m, was primarily due to higher costs relating to maintenance, operations and external works. Depreciation and Employee benefits increased only marginally. However, if capitalised salaries and wages, $6.573m, and write-back of provision for restructure, $0.788m, were added back, Employee benefits would have increased $4.041m or 12% compared to 2010-11. The increase was attributed to an increase in staff numbers due to increased level of capital works and a 4% increase in salaries and wages from 1 July 2012 in accordance with the *Southern Water Enterprise Agreement 2011.* Finance cost increased by $0.211m due to additional borrowings.

Customer and developer contributions represent payments for the cost of new connections or expanding water and sewerage infrastructure as well as, in the case of new subdivisions, the value of infrastructure assets provided by developers. In 2011-12, Southern Water received contributions totalling $14.117m (2010-11, $11.952m), comprising $6.386m cash ($4.740m) and $7.731m physical assets ($7.212m). The recognition of these contributions led to Southern Water reporting a net profit after tax of $12.135m for 2011-12, which was $0.957m or 7.3% lower compared to last year.

STATEMENT OF FINANCIAL POSITION

	2012	2011	2010
	$'000s	$'000s	$'000s
Cash	1 324	6 165	17 522
Receivables and prepayments	32 708	28 810	25 531
Inventories	4 774	3 767	3 253
Current tax asset	603	1 121	304
Total Current Assets	**39 409**	**39 863**	**46 610**
Payables	12 007	15 442	10 108
Borrowings	49 404	30 455	32 636
Employee benefits (incl. superannuation)	6 444	6 562	4 863
Unearned income	670	1 015	2 504
Restoration provision	325	325	0
Total Current Liabilities	**68 850**	**53 799**	**50 111**
Working Capital	**(29 441)**	**(13 936)**	**(3 501)**
Property, plant and equipment	1 109 918	1 071 625	1 034 254
Intangibles	1 201	2 462	1 814
Investment in associate	8	73	29
Total Non-Current Assets	**1 111 127**	**1 074 160**	**1 036 097**
Borrowings	97 171	86 824	75 392
Superannuation liability	7 229	5 741	5 343
Employee benefits	1 005	754	802
Unearned income	31 609	21 519	16 433
Restoration provision	3 078	5 000	0
Deferred tax liabilities	18 456	19 268	18 794
Total Non-Current Liabilities	**158 548**	**139 106**	**116 764**
Net Assets	**923 138**	**921 118**	**915 832**
Reserves	909 547	909 547	909 547
Retained earnings	13 591	11 571	6 285
Total Equity	**923 138**	**921 118**	**915 832**

Comment

Total Equity increased from $921.118m to $923.138m at 30 June 2012. The increase of $2.020m comprised the Total Comprehensive Profit of $10.632m less dividends paid, $8.612m.

The corresponding growth in Net Assets related to:

- decrease in Cash $4.841m, discussed in the Statement of Cash Flows section of this Chapter
- higher Receivables and prepayments, $3.898m, representing mainly outstanding water charges, due to delays in collections discussed previously in the Water and Sewerage Corporations Chapter of this Volume
- higher Inventories, $1.007m, due to a higher volume of spare parts and chemicals on hand
- decrease in Payables, $3.435m, due to lower accrued expenditure for capital works
- increased total Borrowings, $29.296m, to fund the capital works program

- increase in total Unearned income, $9.745m, due to a government grant for the roll-out of water meters. Government grants are recognised as revenue over the periods necessary to match related costs. These grants are recognised in the Statement of Financial Position as Unearned income and as revenue in the Statement of Comprehensive Income over the life of the corresponding asset
- increase in Property, plant and equipment, $38.293m, attributable to:
  - infrastructure and other assets additions, including work in progress, $61.833m
  - contributed assets, $7.731m
  - partially offset by Depreciation expense, $29.354m
- increase in the non-current defined benefit Superannuation liability, $1.488m, due primarily to the lower discount rate, from 5.5% to 3.45%, caused by the reduction in the yield on Government bonds
- lower provisions for restoration obligations, $1.922m, being a combination of an additional provision recognised during the year, $1.217m, and a reduction from re-measurement of the existing provision, $3.139m.

Despite Southern Water's profitability, working capital continued to be negative, $29.441m at 30 June 2012 (2011, $13.936m). As discussed previously, this is connected to Southern Water's decision to pay dividends, but also low interest rates which favour short-term borrowings in the current environment. However, we acknowledge that included in the net working capital deficiency are current borrowings totalling $49.404m ($30.455m) as Southern Water is maximising the benefit of low interest rates on short-term borrowing within the limits set by its Treasury Management Policy and these are likely to be rolled-over being within Southern Water's borrowing facility.

STATEMENT OF CASH FLOWS

	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s
Receipts from customers and other sources	118 703	119 036	87 359
Payments to suppliers and employees	(80 115)	(71 731)	(66 058)
Interest received	166	412	487
Interest paid	(6 162)	(6 431)	(4 269)
Income tax equivalents	(4 889)	(6 051)	(7 057)
Gurantee fees	(1 077)	(976)	(868)
Cash from operations	**26 626**	**34 259**	**9 594**
Payments for property, plant and equipment	(58 494)	(51 461)	(27 486)
Capitalised costs	(8 342)	(5 390)	(3 160)
Proceeds from sale of property, plant and equipment	214	388	1 491
Cash (used in) investing activities	**(66 622)**	**(56 463)**	**(29 155)**
Proceeds from borrowings	74 713	61 761	69 803
Repayments of borrowings	(45 416)	(52 510)	(57 939)
Dividends	(8 612)	(7 521)	(4 255)
Customer and developer contributions*	6 386	4 740	2 555
Grant funds received	8 084	4 377	5 393
Owners cash contributions	0	0	21 526
Cash from financing activities	**35 155**	**10 847**	**37 083**
Net increase (decrease) in cash	**(4 841)**	**(11 357)**	**17 522**
Cash at the beginning of the year	6 165	17 522	0
Cash at end of the year	**1 324**	**6 165**	**17 522**

* *Contributions from customers and developers are shown as arising from financing activities because they represent capital provided for investment in infrastructure*

Comment

Cash at the end of the year decreased by $4.841m to $1.324m at 30 June 2012. Maintaining lower cash balance is part of Southern Water's strategy to utilise excess funds to repay overnight borrowings thus minimising finance costs.

Cash from operations decreased, $7.633m, compared to last year. This was mainly due to Payments to suppliers and employees growing at a faster rate, 11.7% or $8.384m, than Receipts from customers and other sources, which declined marginally by 0.3% or $0.333m, caused by the reduction in government compensation, delays in collecting outstanding charges and the introduction of progressive billing. Higher Payments to suppliers and employees reflected the increase in corresponding expenses and decrease in Payables.

Cash used in investing activities increased by $10.159m, mainly due to the installation of water meters at the cost of $24.295m in 2011-12. Overall, Southern Water spent $66.836m on capital projects, which, apart from the roll-out of water meters, included the completion of the Berriedale to Elwick and Bowen Bridge pipeline, construction of the Huon Valley Regional Water Scheme and improvements to water and sewerage infrastructure.

Cash from financing activities increase by $24.308m, caused primarily by additional borrowings, $29.297m, to fund capital projects.

During the year, Southern Water returned $14.578m to its owner councils, comprising Dividends $8.612m, Income tax equivalents, $4.889m and Guarantee fees, $1.077m. While cash generated from operations was more than adequate to fund this level of returns to owner councils, it does mean that Southern Water may have had to borrow more than otherwise needed to fund infrastructure projects.

FINANCIAL ANALYSIS

	Bench Mark	2011-12	2010-11	2009-10
Financial Performance				
Net Profit ($'000s)	14 700~	12 135	13 092	12 252
Modified EBIT ($'000s)*		11 336	14 742	17 958
Operating margin*	>1.0	1.1	1.1	1.2
Return on assets*	2.0%~	1.0%	1.3%	1.7%
Return on equity	2.5%~	1.3%	1.4%	1.3%
Financial Management				
Indebtedness ratio		140.8%	122.7%	113.1%
Debt to equity	14.7%~	15.9%	12.7%	11.8%
Debt to total assets		12.7%	10.5%	10.0%
Interest cover	>2	1.5	2.0	2.8
Current ratio	>1	0.6	0.7	0.9
Cost of debt	7.5%	5.2%	6.3%	5.9%
Debt collection	30 days	93	84	81
Creditor turnover	30 days	13	15	22
Asset Management				
Asset investment ratio	>100%	221.0%	190.9%	118.6%
Asset renewal ratio	>100%	31.9%	n/a	n/a
Consumption ratio		52.8%	52.0%	52.5%
Returns to Owners				
Dividends paid ($'000s)		8 612	7 521	4 255
Guarantee fee paid ($'000s)		1 103	976	868
Income tax paid ($'000s)		4 897	6 051	7 057
Total return to Owners ($'000s)	14 612~	14 612	14 548	12 180
Dividends paid or payable ($'000s)		8 006	8 357	6 110
Dividend payout ratio	50%	66.0%	63.8%	49.9%
Dividend to equity ratio		0.9%	0.9%	0.7%
Other Information				
Average staff numbers (FTEs)		360	345	346
Average staff costs ($'000s)		94	94	77
Average leave balance per FTE ($'000s)		17	16	14

** Contributions from customers and developers were excluded from EBIT, Operating margin and Return on assets calculations.*

~ Internal benchmarks set by the Company

Comment

Net Profit, which included Contributions from customers and developers, decreased by $0.957m, compared to a $3.406m drop in Modified EBIT in 2011-12. The disparity between the two profit measures illustrates the effect of Contributions from customers and developers, which increased by $2.165m this year, on Southern Water's bottom line. The reasons for weakening financial performance measures reflected the comments made previously in this Chapter, mainly in the Statement of Comprehensive Income section.

Return on equity was well below what would be regarded as a commercial rate of return of around 6% in all three years under review. However, as discussed previously, we acknowledge that the Regulator applies a lower percentage return on assets transferred to Southern Water by previous owners before 1 July 2011 and a commercial rate of return to remaining assets and the debt component of the transferred assets. Southern Water met its own financial performance targets, including Return on assets which was 2.2% when calculated using EBIT rather than Modified EBIT. The only target that Southern Water failed to meet was Debt to equity ratio, which was 1.2% above the target of 14.7%.

Financial management measures declined slightly in the last three years, which was mainly driven by an increase in Borrowings, $38.547m, since 2009-10. Interest cover fell below the benchmark this year as a result of an increase in interest expense and the decline in the operating result. Debt to equity of 15.9% exceeded the benchmark of 15.4% set by the Board although only marginally and remains low. We acknowledge that Southern Water is subject to certain conditions imposed by TASCORP, including maintaining interest cover and financial leverage ratios at certain levels. As at 30 June 2012, those ratios were within the levels set by TASCORP.

Debt collection worsened and remained high at 93 days. This was common to all three Regional Water Corporations and is discussed in the Water and Sewerage Corporations Chapter of this Volume. Southern Water raised an adequate allowance against overdue charges which it considered to be impaired, $1.835m (2010-11, $1.114m).

The increase in Asset investment ratio reflected the significant investment in infrastructure made during the year, which more than doubled to $66.836m compared to 2009-10. We have computed the Consumption ratio by comparing accumulated depreciation to deemed cost (based on depreciated replacement costs) of Southern Water's infrastructure assets. On this basis, the Consumption ratio indicates Southern Water had used (consumed) 47.2% of the service potential of its water and sewerage infrastructure assets meaning that their remaining service potential was 52.8%. At this level, these assets are at moderate level of financial sustainability risk. Asset renewal ratio, which measure capital investment only in existing assets compared to the annual depreciation charge, reflected that Southern Water invested the majority of its capital expenditure on significant new infrastructure projects, including the Berriedale to Elwick and Bowen Bridge pipeline, construction of the Huon Valley Regional Water Scheme and installation of water meters in areas which were previously unmetered.

Returns to owners remained fairly steady over the past two years. In the current year, the amount returned to council owners met the target set by the Board. Dividend pay-out ratio averaged 59.9% of Net Profit after tax over the past three years. In the last two years Southern Water exceeded the benchmark for a dividend distribution target of at least 50% of net profit after tax set in the Shareholders' Letter of Expectations.

The increase in Average staff numbers and staff cost between 2009-10 and 2010-11 was due to additional staff necessary to complete the transition from local government and to manage the works program.

Staff numbers in the Financial Analysis table represent average FTEs. Actual FTE numbers were 377 at 30 June 2012 (2011, 343). During this period, Southern Water also utilised more casual and contract labour to work on the water meters roll-out and increased staffing at the customer call centre.

TASMANIAN WATER AND SEWERAGE CORPORATION (NORTHERN REGION) PTY LTD - BEN LOMOND WATER

INTRODUCTION

Tasmanian Water and Sewerage Corporation (Northern Region) Pty Ltd, trading as Ben Lomond Water, was incorporated on 13 November 2008.

The owners of Ben Lomond Water, 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.

AUDIT OF THE 2011-12 FINANCIAL STATEMENTS

Signed financial statements were received on 10 August 2012 and an unqualified audit report was issued on that date.

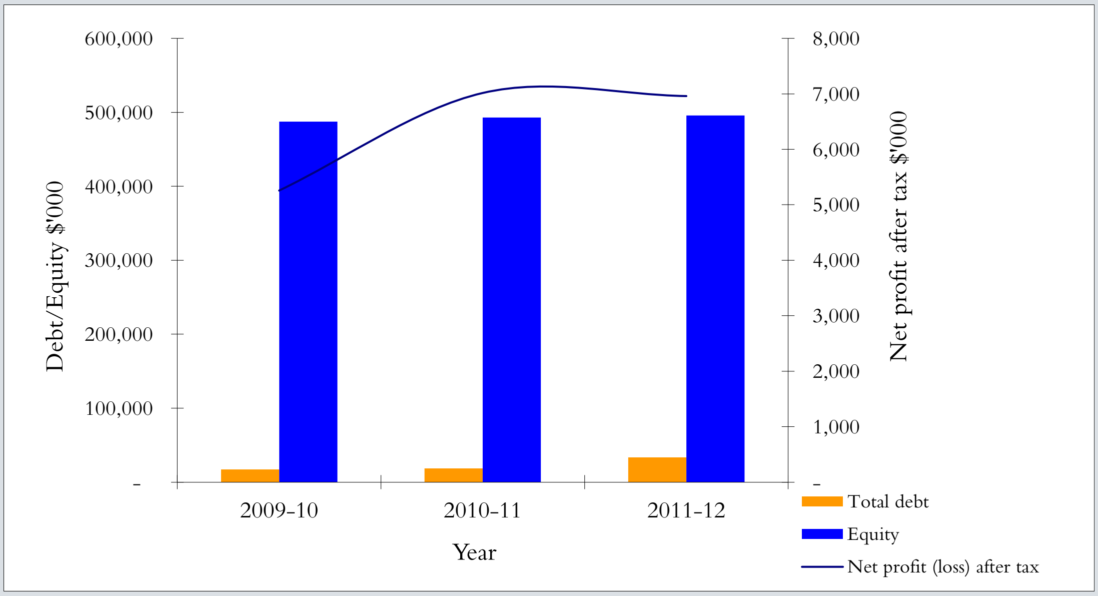
The audit was completed satisfactorily with no major items outstanding.

KEY FINDINGS AND DEVELOPMENTS

Key developments and findings relevant to all three Regional Water Corporations are discussed in the Water and Sewerage Corporations Chapter of this Volume.

FINANCIAL RESULTS

Aspects of Ben Lomond Water's financial performance and financial position for the first three years of its operations are shown in the graph below.



In 2011-12, Ben Lomond Water reported a Net Profit after tax of $6.960m which represented a 0.8% decline on last year's result. Included in this result were contributions from customers and developers of $7.204m (2010-11, $2.307m). Result from ordinary activities before tax, interest and contributions from customers and developers, referred to as Modified EBIT in this Chapter, is perhaps a better measure of how well an entity goes about its core business. Modified EBIT in 2011-12 was $5.155m, which was the lowest over the past three years (2010-11, $9.239m and 2009-10, $6.924m). Operating costs increased by 19.3% in the past three years, whereas operating revenue increased by only 13.8% over the same period. The disparity between the growth in operating expenses and revenues is even more evident in the last two years as costs increased by 10.9%, compared to only a 2.1% growth in revenue. The slower growth in sales revenue in 2011-12 was largely due to a reduction in government funded price cap compensation.Total dividends and tax paid, or payable from the 2011-12 profit to owner councils will be $3.626m plus the guarantee fee.

The decision to pay dividends at current levels can have negative consequences including:

- declining working capital
- increasing levels of debt in particular if Ben Lomond Water needs to continue with its current asset replacement and upgrade programs. In making this observation, however, we acknowledge that Ben Lomond Water's debt equity ratio is low and cash generated from its operating activities increased in each of the past three years.

We also acknowledge that under Section 35(2)(d)(i) of the *Water and Sewerage Corporations Act 2008* Ben Lomond Water has an obligation to pay priority dividends to those owner councils as determined by the Treasurer. This arrangement will cease in 2013-14.

Total debt is relatively low in relation to total equity at 6.8% and return on equity of 1.4% was above Ben Lomond Water's own target of 0.9%. However this was well below what would be regarded as a commercial rate of return of around 6%. However, we acknowledge the pricing principles in the *Water and Sewerage Industry Act 2008*, which are used as the basis for setting regulated prices, require the use of a lower percentage return on assets transferred to Ben Lomond Water by previous owners before 1 July 2011. This pre-tax rate of return, not taking into account inflation, is set at 3% on the equity component. A commercial rate of return is applied to remaining assets and the debt component of transferred assets.

At this level the operation does not provide an adequate return to fully maintain its assets and is heavily reliant on future price increases allowed by the Regulator.

STATEMENT OF COMPREHENSIVE INCOME

	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s
Sales revenue	58 950	57 814	51 785
Other operating revenue	322	240	511
Total Revenue	**59 272**	**58 054**	**52 296**
Depreciation	14 629	13 201	12 551
Employee benefits	15 409	14 003	12 995
Other operating expenses	24 079	21 611	19 826
Total Expenses	**54 117**	**48 815**	**45 372**
Net Operating Profit (Loss) before finance cost, tax, contributions and other transactions	**5 155**	**9 239**	**6 924**
Finance costs	1 844	1 061	1 089
Interest costs on defined benefit superannuation plan	585	525	476
Net operating profit (loss) before tax, contributions and other transactions	**2 726**	**7 653**	**5 359**
Customer and developer contributions	7 204	2 307	2 113
Share of profit of associate	13	41	16
Net profit (loss) before tax	**9 943**	**10 001**	**7 488**
Income tax equivalents expense	(2 983)	(2 985)	(2 231)
Net Profit (Loss)	**6 960**	**7 016**	**5 257**
Superannuation actuarial gain (loss)	(2 019)	533	(492)
Share of other comprehensive loss of associate	(48)	(18)	(2)
Income tax benefit (expense) on above items	606	(160)	148
Total other comprehensive income (expense)	**(1 461)**	**355**	**(346)**
Total Comprehensive Profit (Loss)	**5 499**	**7 371**	**4 911**

Comment

Ben Lomond Water recorded a Net operating profit before tax, contributions and other transactions of $2.726m in 2011-12 compared to $7.653m reported last year. This decline of $4.927m, or 64.4%, resulted from higher operating expenses, which increased by 10.9%, compared to only a 2.0% growth in Sales revenue.

Sales revenue increased slightly, $1.136m, from $57.814m in 2010-11 to $58.950m in 2011-12, despite an 8.4% increase in water and sewerage charges. However, the increase in service and user charges was largely offset by the reduction in government funded compensation in lieu of the price cap from $4.392m in 2010-11 to $1.306m in the current year. The reduction in the compensation was part of saving strategies announced in the 2011-12 State Budget.

The number of properties connected to water increased from 57 275 in 2010-11 to 59 276 this year and to sewerage from 49 987 to 51 447 over the same period (these numbers are not audited).

Total Expenses increased by $5.302m from $48.815m in 2010-11 to $54.117m this year. This increase was driven by:

- higher Depreciation expense, $1.428m, mainly related to water and sewerage infrastructure assets commissioned last year

- higher Employee benefits, \$1.406m, mainly due to an increase in staff numbers and a 4% increase in salaries and wages from 1 July 2012 in accordance with the *Ben Lomond Water Enterprise Agreement 2011* (the Agreement)
- greater Other operating expenses, \$2.468m, mainly as a result of higher costs relating to maintenance and operations.

Finance cost increased by \$0.783m due to additional borrowings.

Customer and developer contributions represent revenue from the cost of new connections or expanding water and sewerage infrastructure as well as, in the case of new subdivisions, the value of infrastructure assets provided by developers. In 2011-12, Ben Lomond Water received contributions totalling \$7.204m (2010-11, \$2.307m), comprising \$1.040m cash (\$0.229m) and \$6.164m physical assets (\$2.078m). The recognition of these contributions led to Ben Lomond Water reporting a net profit after tax of \$6.960m for 2011-12, which was only marginally below the profit reported last year of \$7.016m.

STATEMENT OF FINANCIAL POSITION

	2012	2011	2010
	$'000s	$'000s	$'000s
Cash	1 032	1 755	6 480
Receivables and prepayments	23 096	19 914	15 139
Inventories	1 247	1 228	1 297
Total Current Assets	**25 375**	**22 897**	**22 916**
Payables	7 275	3 959	5 123
Borrowings	6 729	6 874	5 211
Employee benefits (incl. superannuation)	3 741	3 566	3 153
Unearned income	223	44	44
Current tax liability	1 339	816	1 230
Total Current Liabilities	**19 307**	**15 259**	**14 761**
Working Capital	**6 068**	**7 638**	**8 155**
Property, plant and equipment	533 112	510 358	504 703
Intangibles	812	430	72
Investment in associate	2	37	14
Total Non-Current Assets	**533 926**	**510 825**	**504 789**
Borrowings	26 780	11 807	11 833
Superannuation liability	5 776	3 675	4 136
Employee benefits	412	257	193
Unearned income	3 817	1 539	1 583
Deferred tax liabilities	7 279	8 188	7 585
Total Non-Current Liabilities	**44 064**	**25 466**	**25 330**
Net Assets	**495 930**	**492 997**	**487 614**
Reserves	484 103	484 103	484 103
Retained earnings	11 827	8 894	3 511
Total Equity	**495 930**	**492 997**	**487 614**

Comment

Total Equity increased from $492.997m to $495.930m during 2011-12. The increase of $2.933m comprised the Comprehensive profit of $5.499m less dividends paid, $2.566m.

The corresponding growth in Net Assets related to:

- decrease in Cash, $0.723m, discussed in the Statement of Cash Flows section of this Chapter
- higher Receivables and prepayments, $3.182m, representing mainly outstanding water charges, due to delays in collections discussed previously in the Water and Sewerage Corporations Chapter of this Volume
- increase in Payables, $3.316m, due to higher creditors and accrued expenditure for capital works
- increased total Borrowings, $14.828m, to fund the capital works program
- increase in total Unearned income, $2.457m, due to a government grant for the roll-out of water meters. Government grants are recognised as revenue over the periods necessary to match related costs. These grants are recognised in the Statement of Financial Position as

Unearned income and as revenue in the Statement of Comprehensive Income over the life of the corresponding asset

- increase in Property, plant and equipment, $22.754m, attributable to:
    - infrastructure and other assets additions, including work in progress, $31.545m
    - contributed assets, $6.164m,
    - partially offset by Depreciation expense, $14.574m
- increase in the non-current defined benefit Superannuation liability, $2.101m, due primarily to the lower discount rate, from 5.5% to 3.45%, caused by the reduction in the yield on Government bonds.

Ben Lomond Water's working capital remained positive at $6.068m, although it declined in each year under review.

STATEMENT OF CASH FLOWS

	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s
Receipts from customers and other sources	62 324	58 329	41 468
Payments to suppliers and employees	(43 720)	(41 406)	(32 656)
Interest received	45	66	341
Interest paid	(1 448)	(927)	(891)
Income tax equivalents	(2 763)	(2 955)	(1 481)
Guarantee fees	(171)	(106)	(99)
Cash from (used in) operations	**14 267**	**13 001**	**6 682**
Payments for property, plant and equipment	(28 989)	(16 684)	(15 867)
Capitalised costs	(1 732)	(1 244)	(607)
Proceeds from sale of property, plant and equipment	379	314	136
Cash from (used in) investing activities	**(30 342)**	**(17 614)**	**(16 338)**
Proceeds from borrowings	66 371	33 932	16 187
Repayments of borrowings	(51 543)	(32 285)	(17 492)
Dividends	(2 566)	(1 988)	(1 990)
Customer and developer contributions*	1 040	229	442
Grant funds received	2 050	0	0
Owners cash contributions	0	0	18 989
Cash from (used in) financing activities	**15 352**	**(112)**	**16 136**
Net increase (decrease) in cash	**(723)**	**(4 725)**	**6 480**
Cash at the beginning of the year	1 755	6 480	0
Cash at end of the year	**1 032**	**1 755**	**6 480**

* *Contributions from customers and developers are shown as arising from financing activities because they represent capital provided for investment in infrastructure*

Comment

Cash at the end of the year decreased by $0.723m to $1.032m at 30 June 2012.

Cash from operations increased, $1.266m, compared to last year, due mainly to higher Receipts from customers and other sources, $3.995m, offset by higher Payments to suppliers and employees, $2.314m and Interest paid, $0.521m. The main reasons for the movements were discussed in the Statement of Comprehensive Income section of this Chapter. In addition, the growth in receipts was also impacted by higher net Goods and Services Tax (GST) receipts, $6.503m (2010-11, $4.227m) in line with the increased spending on maintenance and capital projects.

Cash used in investing activities increased by $12.728m, mainly due to the installation of water meters at the cost of $9.528m to date. Overall, Ben Lomond Water spent $30.721m on capital projects, which, apart from the roll-out of water meters, included upgrades to existing, or construction of new, water and sewerage infrastructure throughout the region.

Cash from financing activities increased by $15.464m, caused primarily by additional borrowings, $14.828m, to fund capital projects.

During the year, Ben Lomond Water returned $5.500m to its owner councils, comprising Dividends, $2.566m, Income tax equivalents, $2.763m, and Guarantee fees, $0.171m. While cash generated from operations was more than adequate to fund this level of returns to owner councils, it does mean that Ben Lomond Water may have had to borrow more than otherwise needed to fund infrastructure projects.

FINANCIAL ANALYSIS

	Bench Mark	2011-12	2010-11	2009-10
Financial Performance				
Net Profit ($'000s)	3 090~	6 960	7 016	5 257
Modified EBIT ($'000s) *		5 155	9 239	6 924
Operating margin *	>1.0	1.10	1.19	1.15
Return on assets *	1.1%~	0.9%	1.7%	1.3%
Return on equity	0.9%~	1.4%	1.4%	1.1%
Financial Management				
Indebtedness ratio		74.3%	43.9%	48.4%
Debt to equity	7.8%~	6.8%	3.8%	3.5%
Debt to total assets		6.0%	3.5%	3.2%
Interest cover	>2	2.8	8.7	6.4
Current ratio	>1	1.3	1.5	1.6
Cost of debt		7.1%	5.9%	6.4%
Debt collection	30 days	101	82	56
Creditor turnover	30 days	24	22	19
Asset Management				
Asset investment ratio	>100%	210.0%	135.8%	131.3%
Asset renewal ratio	>100%	106.8%	55.9%	111.7%
Consumption ratio		62.5%	63.6%	64.8%
Returns to Owners				
Dividends paid ($'000s)		2 566	1 988	1,990
Guarantee fee paid ($'000s)		171	106	99
Income tax paid ($'000s)		2 763	2 955	1,481
Total return to Owners ($'000s)	4 738~	5 500	5 049	3,570
Dividends paid or payable ($'000s)		1 249	2 765	1 961
Dividend payout ratio	50%	17.9%	39.4%	37.3%
Dividend to equity ratio		0.3%	0.6%	0.4%
Other Information				
Staff numbers (FTEs)		185	175	160
Average staff costs ($'000s)		88	86	83
Average leave balance per FTE ($'000s)		22	20	19

* *Contributions from customers and developers were excluded from Modified EBIT, Operating margin and Return on asset calculations.*

~ *Internal benchmarks set by the Company*

Comment

Net Profit, which included Contributions from customers and developers, decreased slightly by $0.056m, compared to a $4.084m drop in Modified EBIT in 2011-12. The disparity between the two profit measures illustrates the effect of Contributions from customers and developers, which increased by $4.897m this year, on Ben Lomond Water's bottom line. The reasons for stagnant, or in some cases, weaker financial performance measures reflected the comments made previously in this Chapter, mainly in the Statement of Comprehensive Income section.

Return on equity was well below what would be regarded as a commercial rate of return of around 6% in all three years under review. Ben Lomond Water met its own financial performance targets, including Return on assets which was 2.3% when calculated using EBIT rather than Modified EBIT.

Financial management measures declined in the last three years, which was mainly driven by an increase in Borrowings, $16.465m, since 2009-10. Interest cover fell considerably this year as a result of an increase in interest expense and lower EBIT. Debt to equity of 6.8% was better than the level set by the Board and remains low. Despite their decline, financial management ratios were at acceptable levels.

Debt collection also worsened and remained high at 101 days. This was common to all three Regional Water Corporations and is discussed in the Water and Sewerage Corporations Chapter of this Volume.

The increase in Asset investment ratio reflected the significant investment in infrastructure made during the year, which almost doubled to $30.721m. We have computed the Consumption ratio by comparing accumulated depreciation to deemed cost (based on depreciated replacement costs) of Ben Lomond Water's infrastructure assets. On this basis, the Consumption ratio indicates Ben Lomond Water had used (consumed) 37.5% of the service potential of its water and sewerage infrastructure assets meaning that their remaining service potential was 62.5%. At this level, these assets are at low level of financial sustainability risk.

Returns to owners remained fairly steady over the past two years. In the current year, the amount returned to owner councils was only slightly below the target set by the Board. Dividend pay-out ratio averaged 31.5% of Net Profit after tax over the past three years. In none of the past three years has Ben Lomond Water met the benchmark set in the Shareholders' Letter of Expectations which is for a dividend distribution of at least 50% of net profit after tax.

The increase in Average staff numbers and staff cost over the past three years was due to additional staff necessary to complete the transition from local government and to manage the works program. Staff numbers in the Financial Analysis table represent average FTEs. Actual FTE numbers were 184 at 30 June 2012 (2011, 184). Average staff costs increased slightly from 2010-11, mainly due to increased wages and salaries under the Agreement.

TASMANIAN WATER AND SEWERAGE CORPORATION (NORTH-WESTERN REGION) PTY LTD - CRADLE MOUNTAIN WATER

INTRODUCTION

Tasmanian Water and Sewerage Corporation (North-Western Region) Pty Ltd, trading as Cradle Mountain Water, was incorporated on 13 November 2008.

The owners of Cradle Mountain Water, 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.

AUDIT OF THE 2011-12 FINANCIAL STATEMENTS

Signed financial statements were received on 10 August 2012 and an unqualified audit report was issued on the same day.

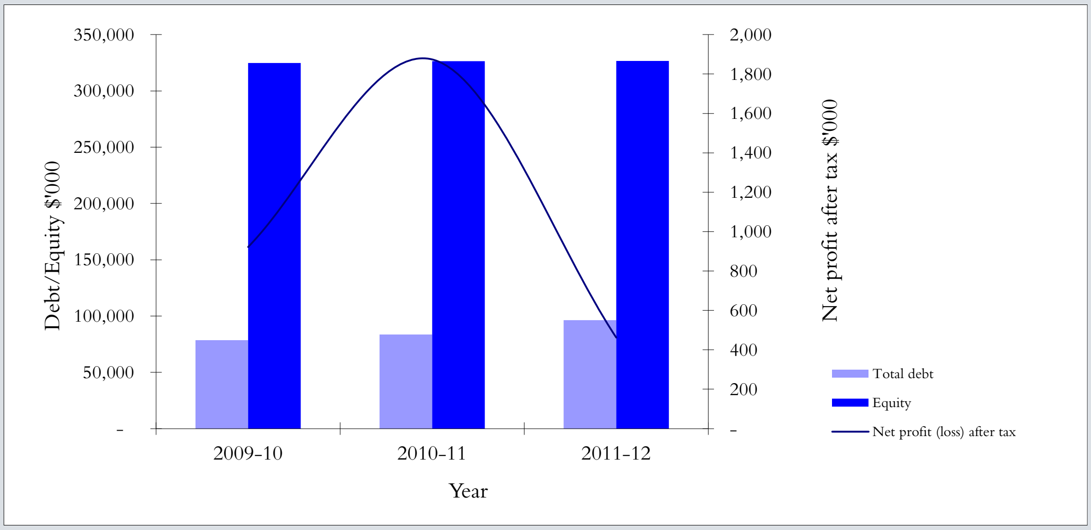
The audit was completed satisfactorily with no major items outstanding.

KEY FINDINGS AND DEVELOPMENTS

Key developments and findings are discussed in the Water and Sewerage Corporations Chapter of this Volume.

FINANCIAL RESULTS

Aspects of Cradle Mountain Water's financial performance and financial position for the first three years of its operations are shown in the graph below.



In 2011-12, Cradle Mountain Water reported a Net Profit after tax of $0.462m which represented a significant decline on last year's result. Included in this result were contributions from customers and developers of $1.234m (2010-11, $1.092m). However, analysing this result was complicated by various additional factors including:

- the 2010-11 result was positively affected by a $1.035m insurance settlement which, in the main, related to losses incurred in previous years. Without this settlement, net profit after tax would have been $0.725m less or $1.149m
- a decline in the government funded price cap which declined from $2.442m in 2010-11 to $0.769m this year
- receipt of additional government assistance, $0.925m, in 2010-11 to ensure Cradle-Mountain's on-going viability.

The Board has resolved to again pay no dividend based on Cradle Mountain Water's profits this year. This is despite positive operating cash flows but which were not sufficient to meet its capital works program without additional borrowings.

While, generally, a debt to equity ratio of around 30% would be regarded as reasonable, interest costs are contributing to a return on equity of 0.1% which is below target of 0.6% and well below what would be regarded as a commercial rate of return of around 6%. However, we acknowledge the pricing principles in the *Water and Sewerage Industry Act 2008*, which are used as the basis for setting regulated prices, require the use of a lower percentage return on assets transferred to Cradle Mountain Water by previous owners before 1 July 2011. This pre-tax rate of return, not taking into account inflation, is set at 3% on the equity component. A commercial rate of return is applied to remaining assets and the debt component of the transferred assets.

This level of profitability does not provide an adequate return to enable Cradle Mountain Water to fully maintain its assets and it is reliant on future price increases allowed by the Regulator.

Cradle Mountain Water's capacity to continue to invest in infrastructure at current levels is becoming limited in particular because at 30 June 2012, it was only $3.737m short of reaching the $100.000m loan facility limit set by TASCORP. An additional temporary line of credit for $10.000m was obtained in 2011-12 to cover potential cash shortfall. This situation needs close monitoring by the Board.

In arriving at the conclusions noted above, we acknowledge that Government agreed to provide separate funding assistance to Cradle Mountain Water of $4.225m over three years ($0.925m in 2011-12, $1.400m in 2012-13 and $1.900m in 2013-14) to ensure its on-going viability.

STATEMENT OF COMPREHENSIVE INCOME

	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s
Sales revenue	51 308	48 189	44 852
Other operating revenue	805	959	1 641
Total Revenue	**52 113**	**49 148**	**46 493**
Depreciation	12 698	12 424	12 129
Employee benefits	13 782	12 408	10 745
Other operating expenses	19 936	18 141	19 583
Total Expenses	**46 416**	**42 973**	**42 457**
Net Operating Profit (Loss) before finance cost, tax, contributions and other transactions	**5 697**	**6 175**	**4 036**
Finance costs	6 234	5 491	4 439
Interest costs on defined benefit superannuation plan	57	77	74
Net operating profit (loss) before tax, contributions and other transactions	**(594)**	**607**	**(477)**
Customer and developer contributions	1 234	1 092	1 352
Share of profit of associate	14	43	16
Recovery misappropriated funds	0	1 035	237
Net profit (loss) before tax	**654**	**2 777**	**1 128**
Income tax equivalents expense	(192)	(903)	(206)
Net Profit (Loss)	**462**	**1 874**	**922**
Superannuation actuarial gain (loss)	(87)	190	(112)
Share of other comprehensive loss of associate	(51)	(19)	(2)
Income tax benefit on above items	26	(57)	33
Total other comprehensive income (expense)	**(112)**	**114**	**(81)**
Total Comprehensive Profit (Loss)	**350**	**1 988**	**841**

Comment

Cradle Mountain Water recorded a Net operating loss before tax, contributions and other transactions of $0.594m in 2011-12 compared to profit of $0.607m reported last year. This turnaround of $1.201m resulted from higher operating expenses, which increased by 8.0%, compared to only a 6.0% growth in Sales revenue.

Sales revenue increased by $3.119m, from $48.189m in 2010-11 to $51.308m in 2011-12. This increase was driven mainly by higher water and sewerage charges, which went up by $3.985m or 11.0% and was partly offset by the reduction in government funded compensation in lieu of the price cap from $2.442m in 2010-11 to $0.769m in the current year. The reduction in the compensation was part of saving strategies announced in the 2011-12 State Budget. However, Cradle Mountain Water also received government funding in addition to the price cap rebate to assist its on-going viability of $0.925m.

While Sales revenue increased by 11.0%, it was negatively impacted by a write back of charges invoiced in June 2010 of $0.733m. At that time, the charges were considered to be legitimate, but legal advice obtained this year indicated otherwise. If these charges, including the write-back, were excluded altogether, Cradle Mountain Water's net operating result before tax, contributions and other transactions in 2010-11 would be a loss of $0.126m and a surplus of $0.139m in 2011-12.

The number of properties connected to water increased from 43 042 in 2010-11 to 43 983 this year and to sewerage from 40 326 to 41 090 over the same period (these numbers are not audited).

Total Expenses increased by $3.443m from $42.973m in 2010-11 to $46.416m this year. This increase was driven by:

- higher Employee benefits, $1.374m, mainly due to a 4% increase in salaries and wages from 1 July 2012 in accordance with the *Cradle Mountain Water Enterprise Agreement 2011* (the Agreement) and the full impact of an increase in FTEs from last year
- greater Other operating expenses, $1.795m, mainly as a result of higher costs relating to maintenance and operations.

Finance cost increased by $0.743m due to additional borrowings.

Customer and developer contributions represent revenue from the cost of new connections or expanding water and sewerage infrastructure as well as, in the case of new subdivisions, the value of infrastructure assets provided by developers. In 2011-12, Cradle Mountain Water received contributions totalling $1.234m (2010-11, $1.092m), comprising $0.277m cash ($0.357m) and $0.957m physical assets ($0.735m). The recognition of these contributions led to Cradle Mountain Water reporting a net profit after tax of $0.462m for 2011-12.

STATEMENT OF FINANCIAL POSITION

	2012	2011	2010
	$'000s	$'000s	$'000s
Cash	2 327	2 676	1 538
Receivables and prepayments	15 099	12 917	11 608
Inventories	955	849	604
Assets held for sale	0	0	3 008
Total Current Assets	**18 381**	**16 442**	**16 758**
Payables	6 564	4 235	5 565
Borrowings	25 613	10 940	9 249
Employee benefits (incl. superannuation)	3 354	3 169	2 668
Unearned income	253	123	123
Current tax liability	39	836	1 059
Total Current Liabilities	**35 823**	**19 303**	**18 664**
Working Capital	**(17 442)**	**(2 861)**	**(1 906)**
Property, plant and equipment	418 890	405 316	400 660
Intangibles	1 926	1 511	930
Investment in associate	1	38	14
Total Non-Current Assets	**420 817**	**406 865**	**401 604**
Borrowings	70 650	72 729	69 306
Superannuation liability	934	811	1 129
Employee benefits	185	178	279
Unearned income	3 571	1 917	2 041
Deferred tax liabilities	1 346	2 030	2 125
Total Non-Current Liabilities	76 686	77 665	74 880
Net Assets	**326 689**	**326 339**	**324 818**
Reserves	325 108	325 108	325 108
Retained earnings	1 581	1 231	(290)
Total Equity	**326 689**	**326 339**	**324 818**

Comment

Total Equity increased from $326.339m to $326.689m during 2011-12. The increase of $0.350m comprised the Comprehensive profit. No dividends were paid during the year.

The corresponding growth in Net Assets related to:

- decrease in Cash, $0.349m, discussed in the Statement of Cash Flows section of this Chapter
- higher Receivables and prepayments, $2.182m, representing mainly outstanding water charges, due to delays in collections discussed previously in the Water and Sewerage Corporations Chapter of this Volume
- increase in Payables, $2.326m, due to higher creditors and accrued expenditure for capital works
- increased total Borrowings, $12.594m, to fund the capital works program
- increase in total Unearned income, $1.784m, due to a government grant for the roll-out of water meters. Government grants are recognised as revenue over the periods necessary to match related costs. These grants are recognised in the Statement of Financial Position as

Unearned income and as revenue in the Statement of Comprehensive Income when related expenditure is incurred

- increase in Property, plant and equipment, $13.574m, attributable to:
    - infrastructure and other assets additions, including work in progress, $25.391m
    - contributed assets, $0.957m,
    - partially offset by Depreciation expense, $12.462m
- lower tax liabilities, $1.478m, due to income tax equivalent instalments paid during the year and a lower net deferred tax liability arising from timing differences between the book and tax values of related assets and liabilities.

Cradle Mountain Water's working capital deficit deteriorated significantly during the current year and at 30 June 2012 was at $17.439m (2011, deficit $2.861m). We acknowledge that included in the net working capital deficiency are current borrowings totalling $25.613m as Cradle Mountain Water is maximising the benefit of low interest rates on short-term borrowing within the limits set by its Treasury Management Policy and these are likely to be rolled-over. However, at 30 June 2012, Cradle Mountain Water was only $3.737m from reaching a $100.000m loan facility limit set by TASCORP, excluding the additional $10.000m line of credit. The working capital deficit, level of debt and volume of capital works, which are largely funded by borrowings, need close monitoring by the Board.

STATEMENT OF CASH FLOWS

	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s
Receipts from customers and other sources	53 522	51 037	42 457
Payments to suppliers and employees	(35 233)	(34 270)	(33 900)
Interest received	81	69	179
Interest paid	(5 326)	(4 819)	(3 622)
Income tax equivalents	(1 647)	(1 278)	(442)
Guranatee fees	(860)	(771)	(577)
Cash from (used in) operations	**10 537**	**9 968**	**4 095**
Payments for property, plant and equipment	(22 535)	(14 341)	(16 639)
Capitalised costs	(3 507)	(2 595)	(1 750)
Proceeds from sale of property, plant and equipment	334	3 102	311
Cash from (used in) investing activities	**(25 708)**	**(13 834)**	**(18 078)**
Proceeds from borrowings	17 741	19 816	49 265
Repayment of borrowings	(5 146)	(14 702)	(45 831)
Dividends	0	(467)	(455)
Customer and developer contributions*	277	357	0
Grant funds received	1 950	0	0
Owner cash contributions	0	0	12 542
Cash from (used in) financing activities	**14 822**	**5 004**	**15 521**
Net increase(decrease) in cash	**(349)**	**1 138**	**1 538**
Cash at the beginning of the year	2 676	1 538	0
Cash at end of the year	**2 327**	**2 676**	**1 538**

* *Contributions from customers and developers are shown as arising from financing activities because they represent capital provided for investment in infrastructure*

Comment

Cash at the end of the year decreased by $0.349m to $2.327m at 30 June 2012.

Cash from operations increased slightly, $0.569m, compared to last year, due mainly to higher Receipts from customers and other sources, $2.485m, offset by higher Payments to suppliers and employees, $0.963m and Interest paid, $0.507m. The main reasons for the movements were discussed in the Statement of Comprehensive Income section of this Chapter. In addition, the growth in receipts was also impacted by higher net Goods and Services Tax (GST) receipts, $3.844m (2010-11, $2.639m) in line with the increased spending on maintenance and capital projects.

Cash used in investing activities increased by $11.874m, partly due to the installation of water meters at a cost of $4.105m to date. Overall, Cradle Mountain Water spent $26.042m on capital projects, which, apart from the roll-out of water meters, included the completion of the Forth-Paloona Link and upgrades to existing, or construction of new, water and sewerage infrastructure throughout the region.

Cash from financing activities increase by $9.818m, caused primarily by additional borrowings, $12.594m, to fund capital projects.

During the year, Cradle Mountain Water returned $2.507m to its owner councils, comprising Income tax equivalents, $1.647m and Guarantee fees, $0.860m. No dividends were paid during 2011-12.

FINANCIAL ANALYSIS

	Bench Mark	2011-12	2010-11	2009-10
Financial Performance				
Net Profit ($'000s)	2 179~	462	1 874	922
Modified EBIT ($'000s) *		5 697	6 175	4 036
Operating margin *	>1.0	1.12	1.14	1.10
Return on assets *	0.5%~	1.3%	1.5%	1.0%
Return on equity	0.6%~	0.1%	0.6%	0.3%
Financial Management				
Indebtedness ratio		147.2%	158.0%	161.1%
Debt to equity	25.0%~	29.5%	25.6%	24.2%
Debt to total assets		21.9%	19.8%	18.8%
Interest cover	>2	0.9	1.1	0.9
Current ratio	>1	0.5	0.9	0.9
Cost of debt		6.9%	6.8%	5.7%
Debt collection	30 days	96	82	65
Creditor turnover	30 days	13	10	26
Asset Management				
Asset investment ratio	>100%	205.1%	136.3%	151.6%
Asset renewal ratio	>100%	113.8%	65.5%	78.7%
Consumption ratio		50.2%	51.2%	52.4%
Returns to Owners				
Dividends paid ($'000s)		0	467	455
Guarantee fee paid ($'000)		860	771	577
Income tax paid ($'000s)		1,647	1,278	442
Total return to Owners ($'000s)	2 932~	2,507	2,516	1,474
Dividends paid or payable ($'000s)		0	0	922
Dividend payout ratio	50%	0.0%	0.0%	100.0%
Dividend to equity ratio		0.0%	0.0%	0.3%
Other Information				
Average staff numbers (FTEs)		168	164	137
Average staff costs ($'000s)		96	90	89
Average leave balance per FTE ($'000s)		20	20	21

* *Contributions from customers and developers were excluded from Modified EBIT, Operating margin and Return on assets calculations.*

~ *Internal benchmarks set by the Company*

Comment

In 2011-12, Cradle Mountain Water reported a Net Profit of $0.462m compared to a Modified EBIT of $5.697m. The disparity between the two profit measures illustrates the effect interest costs have on Cradle Mountain Water's bottom line.

Net Profit, which included Contributions from customers and developers, decreased significantly by $1.412m in 2011-12, mainly due to the positive impact of the insurance settlement of $1.035m on last year's result. Modified EBIT decreased by $0.478m in 2011-12. The reasons for weakening financial performance measures reflected the comments made previously in this Chapter, mainly in the Statement of Comprehensive Income section.

Return on equity was well below what would be regarded as a commercial rate of return of around 6% in all three years under review. Cradle Mountain Water failed to meet its own financial performance targets, except for Return on assets, which was 1.3% or 1.6% when calculating using EBIT rather than Modified EBIT.

Financial management measures were largely affected by an increase in Borrowings, $17.708m, since 2009-10. Indebtedness ratio was relatively high at 147.2% in 2011-12 (2010-11, 158.0%) due to Cradle Mountain Water's level of long-term debt. The relatively high level of debt is also reflected in the Debt to equity and total assets ratios. Debt to equity of 29.5% was above the level set by the Board.

Debt collection also worsened and remained high at 96 days. This was common to all three Regional Water Corporations and is discussed in the Water and Sewerage Corporations Chapter of this Volume. Cradle Mountain Water raised an adequate allowance against overdue charges which it considered to be impaired, $0.734 (2010-11, $0.444m).

The increase in Asset investment ratio reflected the significant investment in infrastructure made during the year. We have computed the Consumption ratio by comparing accumulated depreciation to deemed cost (based on depreciated replacement costs) of Cradle Mountain Water's infrastructure assets. On this basis, the Consumption ratio indicates Cradle Mountain Water had used (consumed) 49.8% of the service potential of its water and sewerage infrastructure assets meaning that their remaining service potential was 50.2%. At this level, these assets are at moderate level of financial sustainability risk.

Cradle Mountain Water paid no dividends in 2011-12, but returned 100% of its 2009-10 profit to the owner councils in the form of an interim dividend paid in 2009-10 and a final dividend in 2010-11. Returns to owners, over the past two years, comprised income tax equivalents and guarantee fees and remained fairly steady. Total return to owner councils in 2011-12 was below the target set by the Board.

The increase in Average staff numbers and staff costs between 2009-10 and 2010-11 was due to additional staff necessary to complete the transition from local government and to manage the works program. Staff numbers in the Financial Analysis table represent average FTEs. Actual FTE numbers were 169 at 30 June 2012 (2011, 166 and 2010, 162). Average staff costs increased in 2011-12 largely due to increased wages and salaries under the Agreement, additional overtime costs and higher superannuation expenses.

TASMANIAN WATER AND SEWERAGE CORPORATION (COMMON SERVICES) PTY LTD - ONSTREAM

INTRODUCTION

Tasmanian Water and Sewerage Corporation (Common Services) Pty Ltd (Onstream), trading as Onstream, was incorporated on 9 December 2008.

Onstream is equally owned by the three Regional Water Corporations.

AUDIT OF THE 2011-12 FINANCIAL STATEMENTS

Signed financial statements were received on 10 August 2012 and an unqualified audit report was issued on the same day.

The audit was completed satisfactorily with no major items outstanding.

KEY DEVELOPMENTS

In 2011-12, Onstream restructured its operations aimed at concentrating its focus on providing key shared services to the Regional Water Corporations, reducing costs and improved efficiencies. This restructure is discussed in the key developments section of the Water and Sewerage Corporations Chapter.

STATEMENT OF COMPREHENSIVE INCOME

	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s
Total Revenue	**16 402**	**16 201**	**15 145**
Employee benefits	6 827	7 064	6 069
Other operating expenses	7 493	8 458	8 719
Leasehold improvements write-off	773	0	0
Provision for onerous contracts	705	0	0
Total Expenses	**15 798**	**15 522**	**14 788**
Net operating profit (loss) before finance cost and tax	**604**	**679**	**357**
Finance cost	495	421	296
Interest cost on defined benefit superannuation plan	35	26	30
Net operating profit (loss) before tax	**74**	**232**	**31**
Income tax equivalents benefit/(expense)	(22)	(70)	36
Net Profit (Loss)	**52**	**162**	**67**
Superannuation actuarial gain/(loss)	(270)	(104)	(13)
Income tax benefit on above items	81	31	4
Total other comprehensive income (expense)	**(189)**	**(73)**	**(9)**
Total Comprehensive Profit\(Loss)	**(137)**	**89**	**58**

Comment

For 2011-12, Onstream recorded a Net operating profit before tax of $0.074m compared to $0.232m reported last year. It must be understood that Onstream's objective is the provision of shared services to the Regional Water Corporations on a cost recovery, rather than a profit generating basis.

The current year's Net profit before tax included the recognition of a Provision for an onerous contract, $0.705m, and a Leasehold improvements write-off, $0.773m. Both transactions were the result of the Onstream's decision to vacate its current premises and co-locate its operations within Southern Water and Ben Lomond Water. The onerous contract provision represented the present value of estimated future rent and associated costs under existing lease agreements, less any estimated recoveries from subleasing the premises.

The effects of the foregoing were offset in part by:

- lower Employee benefits, $0.237m, due to a reduction in staff numbers by nine FTEs, approximately $1.350m, as part of the restructure referred to in the Key Developments Section, partly offset by
    - higher redundancy costs, $0.500m
    - higher casual wages, $0.526m, largely with respect to billing and the new pricing model
    - annual salaries increments.

  Onstream was reimbursed by Southern Water for part of Employee benefits relating to employees with shared responsibilities, $0.368m.

- lower Other operating expenses of $0.965m, due predominately to lower printing, postage and receipting costs as the three Regional Water Corporations took responsibility for these activities.

Overall, Onstream reported a Total Comprehensive Loss of $0.137m (2010-11, profit $0.089m) due to a loss from an actuarial reassessment of its defined benefit superannuation liability.

ABRIDGED STATEMENT OF FINANCIAL POSITION

	2012	2011	2010
	$'000s	$'000s	$'000s
Total Current Assets	4 453	3 103	6 114
Total Current Liabilities	3 740	5 480	5 533
Working Capital	**713**	**(2 377)**	**581**
Total Non-Current Assets	5 858	7 157	4 490
Total Non-Current Liabilities	6 561	4 633	5 013
Net Assets	**10**	**147**	**58**
Total Equity	**10**	**147**	**58**

Comment

Total Equity decreased from $0.147m to $0.010m at 30 June 2012. The movement between years equalled to the comprehensive deficit for the year of $0.137m.

Onstream's Working Capital improved from negative $2.377m in 2011 to positive $0.713m in the current year. The turnaround of $3.090m was primarily driven by:

- higher receivables, up $1.922m, due largely to timing of billing for services
- lower payables, down $0.893m, due to lower accrued expenses, including redundancies
- a decrease in current borrowings,$0.500m, as a result of refinancing of debt
- lower employee related provisions, $0.495m, due to a reduction in staff numbers.

The above factors were partially offset by lower cash balance, $0.330m.

Net Assets decreased by the same amount as the decrease in Total Equity, $0.137m. The decrease reflected the improvement in Working Capital, offset by a decrease in Non-Current Assets following the write-down of leasehold improvements, $0.773m, and an increase in Non-Current Liabilities, $0.500m, and recognition of the provision for onerous contracts, $0.705m.

Onstream's borrowings totalled $7.000m at 30 June 2012 ($6.500). The majority of the debt, $6.500m, was raised in 2009-10 to fund the start-up costs of Onstream and development and implementation of the Gentrack billing system. Net book value of equipment and computer systems was $5.214m at 30 June 2012 (2011, $6.716m).

FINANCIAL ANALYSIS

	Bench Mark	2011-12	2010-11	2009-10
Financial Performance				
Net Profit ($'000s)		52	162	67
EBIT ($'000s)		604	679	357
Operating margin	>1.0	1.04	1.04	1.02
Return on assets		5.9%	6.5%	4.7%
Financial Management				
Indebtedness ratio		40.0%	28.6%	33.1%
Debt to total assets		67.9%	63.4%	61.3%
Interest cover	>2	1.2	1.5	1.2
Current ratio	>1	1.2	0.6	1.1
Cost of debt		7.3%	7.1%	5.9%
Debt service ratio		3%	3%	2%
Creditor turnover	30 days	17	20	57
Other Information				
Average staff numbers (FTEs)		64	73	59
Average staff costs ($'000s)		107	105	105
Average leave balance per FTE ($'000s)		9	14	14

Comment

Financial Performance ratios reflected the lower net profit this year. However, as discussed previously, charges are set to recover Onstream's costs rather than generate profits. Indebtedness ratios weakened slightly due to the refinancing of maturing loans, additional borrowings and the impact of Provision for onerous contracts and Leasehold improvements written off, as discussed in the Statement of Comprehensive Income section of this Chapter.

The decline in Averaged staff numbers and Average leave balance per FTE reflected the impact of the restructure. Average staff cost remained fairly consistent with prior years.

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 entitled the *Auditor-General's Report on the Financial Statements of State Entities*, comprising six volumes, satisfies this requirement each year. The volumes are:

- Volume 1 – Analysis of the Treasurer's Annual Financial Report
- Volume 2 – Executive and Legislature, Government Departments, State entities and Superannuation Funds
- Volume 3 – Government Business Enterprises, State Owned Corporations and Water Corporations
- Volume 4 – Local Government Authorities
- Volume 5 - Other State entities 31 December, including University of Tasmania.

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.

Departments are required to present budget amounts on the face of their primary statements. As a consequence details and commentary in relation to these amounts have been included in this Report.

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) ($'000s)		Result from Ordinary Activities before Gross Interest Expense and Tax
EBITDA ($'000s)		Result from Ordinary Activities before Gross Interest Expense, Tax, Depreciation and Amortisation
Operating margin	>1.0	Operating Revenue divided by Operating Expenses
Operating surplus (deficit) ($'000s)		Own source revenue percentage
Operating surplus ratio	>0	Net operating surplus (deficit) divided by total operating revenue
Own source revenue		Total Revenue less Total Grant Revenue, Contributed Assets and Asset Revaluation Adjustments
Return on assets		EBIT divided by Average Total Assets
Return on equity		Result from Ordinary Activities after Taxation divided by Average Total Equity
Self financing ratio		Net Operating Cash Flows divided by Operating Revenue

Financial Performance Indicator	Benchmark[1]	Method of Calculation
Financial Management		
Asset consumption ratio	Between 40% and 80%	Depreciated replacement cost of asset (eg. infrastructure, roads, bridges) divided by current replacement cost of asset
Asset renewal funding ratio	90%-100%	Future (planned) asset replacement expenditure divided by future asset replacement expenditure (actual) required
Asset sustainability ratio	>100%	Renewal and upgrade expenditure on existing assets divided by depreciation on existing assets
Capital Investment Gap, Asset investment ratio or Investment gap	>100%	Payments for Property, plant and equipment divided by Depreciation expenses
Capital Replacement Gap, Asset renewal ratio or Renewal gap	100%	Payments for Property, plant and equipment on existing assets divided by Depreciation expenses
Cost of debt		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 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 coverage ratio		Net operating cashflows less interest and tax payments divided by Net interest payments
Interest cover – EBIT	>2	EBIT divided by Gross Interest Expense
Interest cover – EBITDA	>2	EBITDA divided by Gross Interest Expense
Interest cover – Funds from Operations	>2	Cash from Operations plus Gross Interest Expense divided by Gross Interest Expense
Liquidity ratio	2:1	Liquid assets divided by current liabilities other than provisions
Net financial assets (liabilities) ($'000s)		Total financial liabilities less liquid assets
Net financial liabilities ratio	0 – (50%)	Total liabilities less liquid assets divided by total operating income

Financial Performance Indicator	Benchmark[1]	Method of Calculation
Returns to Government		
CSO funding ($'000)		Amount of community service obligation funding received from Government
Dividend payout ratio	50%	Dividend divided by Result from Ordinary Activities after Tax
Dividend to equity ratio		Dividend paid or payable divided by Average Total Equity
Dividends paid or payable ($'000s)		Dividends paid or payable that relate to the year subject to analysis
Effective tax rate	30%	Income Tax paid or payable divided by Result form Ordinary Activities before Tax
Government guarantee fees ($'000)		Amount of guarantee fees paid to owners (usually Government)
Income tax paid ($'000s)		Income Tax paid or payable that relates to the year subject to analysis
Total return to equity ratio		Total Return divided by Average Equity
Total return to the State ($'000s) or total return to owners		Dividends plus Income Tax and Loan Guarantee fees
Other Information		
Average leave per FTE ($'000s)		Total employee annual and long service leave entitlements divided by Staff Numbers
Average long service leave balance	Not more than 100 days	Actual long service leave provision days due divided by average FTE's
Average recreational leave balance	20 days [3]	Actual annual leave provision days due divided by average FTE's
Average staff costs [(2)] ($'000s)		Total employee expenses (including capitalised employee costs) divided by Staff Numbers
Employee costs [(2)] as a % of operating expenses		Total employee costs divided by Total Operating Expenses
Employee costs capitalised ($'000s)		Capitalised employee costs
Employee costs expensed ($'000s)		Total employee costs per Income Statement
Operating cost to rateable property		Operating expenses plus finance costs divided by rateable properties per valuation roll
Rates per capita		Population of council area divided by rates revenue

Financial Performance Indicator	Benchmark[1]	Method of Calculation
Rates per operating revenue		Total rates divided by operating revenue including interest income
Rates per rateable property		Total rates revenue divided by rateable properties per valuation rolls
Staff numbers FTEs		Effective full time equivalents

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.*

3 *May vary in some circumstances because of different award entitlements.*

An explanation of most financial performance indicators is provided below:

FINANCIAL PERFORMANCE

- **Earnings before interest and tax (EBIT)** – measures how well an entity can earn a profit, from its operations, 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.
- **Operating Surplus (Deficit) or Result from operations** – summarises revenue transactions and expense transactions incurred in the same period of time and calculates the difference.
- **Operating surplus ratio** – a positive result indicates a surplus with the larger the surplus the stronger surplus and therefore stronger assessment of sustainability. However, too strong a result could disadvantage ratepayers. A negative result indicates a deficit which cannot be sustained in the long-term.
- **Own source revenue** – represents revenue generated by a council through its own operations. It excludes any external government funding, contributed assets and revaluation adjustments.
- **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.
- **Self financing ratio** – this is a measure of council's ability to fund the replacement of assets from cash generated from operations.

FINANCIAL MANAGEMENT

- **Asset consumption ratio** – shows the depreciated replacement cost of an entity's depreciable assets relative to their "as new" (replacement) value. It therefore shows the average proportion of new condition left in the depreciable assets.
- **Asset renewal funding ratio** – measures the capacity to fund asset replacement requirements. An inability to fund future requirements will result in revenue, expense or debt consequences, or a reduction in service levels. This is a most useful measure relying on the existence of long-term financial and asset management plans.
- **Asset sustainability ratio** – provides a comparison of the rate of spending on existing infrastructure, property, plant and equipment through renewing, restoring and replacing existing assets, with depreciation. Ratios higher than 100% indicate that spending on existing assets is greater than the depreciation rate. This is a long-term indicator, as capital expenditure can be deferred in the short-term if there are insufficient funds available from operations and borrowing is not an option.
- **Capital Investment Gap, Asset investment ratio or Investment gap** – 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 Replacement Gap, Asset renewal ratio or Renewal gap** – 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 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.
- **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.
- **Net financial liabilities ratio** – indicates the extent to which net liabilities can be met by operating income. A falling ratio indicates that the entity's capacity to meet its financial obligations from operating income is strengthening.

RETURNS TO GOVERNMENT

- **Dividend payout ratio** – the amount of dividends relative to the entity's net income.
- **Dividend to equity ratio** – 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.
- **Dividends paid or payable** – payment by the entity to its shareholders (whether paid or declared as a payable).
- **Effective tax rate** – is the actual rate of tax paid on profits.
- **Income tax paid** – tax payments by the entity to the State in the year.
- **Total return to equity ratio** – measures the Government's return on its investment in the entity.
- **Total return to the State** – is the funds paid to the Owners consisting of income tax, dividends and guarantee fees.

OTHER INFORMATION

- **Average leave balance per FTE ($'000s)** – indicates the extent of unused leave at balance date.
- **Average long service leave balance or days long service leave due** – records the average number of days long service leave accumulated per staff member. In general public servants cannot accrue more than 100 days annual leave.
- **Average recreational leave balance or days annual leave due** – records the average number of days annual leave accumulated per staff member. In general public service employees accrue 20 days annual leave per annum.
- **Average staff costs** – measures the average cost of employing staff in the entity for the year.
- **Employee costs as a percentage of operating expenses** - indicates the relative significance of employee costs compared to other operating expenses.
- **Employee costs capitalised ($'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.
- **Staff numbers FTEs** – as at the end of the reporting period the number of staff employed expressed as full-time equivalents (FTEs).

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 statements						Timeliness of audit opinion issue from balance date					
	Financial Statement deadline	Signed Financial Statements Received	Re-signed/ Amended Financial Statement Received	Clear opinion issued	Emphasis of Matter	Audit opinion signed	< 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, WATER CORPORATIONS AND SUPERANNUATION FUNDS												
GOVERNMENT BUSINESS ENTERPRISES												
Forestry Tasmania	15 August 2012	9 August 2012		✓	✓	9 August 2012	✓					
Hydro-Electric Corporation	15 August 2012	13 August 2012		✓		13 August 2012	✓					
Motor Accidents Insurance Board	15 August 2012	14 August 2012		✓		15 August 2012	✓					
Port Arthur Historic Site Management Authority	15 August 2012	13 August 2012	25 September 2012	✓		28 September 2012				✓		
Tasmanian Public Finance Corporation (TASCORP)	15 August 2012	10 August 2012		✓		10 August 2012	✓					
Public Trustee	15 August 2012	9 August 2012		✓		9 August 2012	✓					
STATE OWNED CORPORATIONS												
Aurora Energy Pty Ltd	15 August 2012	13 August 2012		✓		13 August 2012	✓					
Metro Tasmania Pty Ltd	15 August 2012	9 August 2012		✓		9 August 2012	✓					
Tasmanian Irrigation Pty Ltd	15 August 2012	15 August 2012	17 September 2012	✓		28 September 2012				✓		
Tasmanian Ports Corporation Pty Ltd	15 August 2012	15 August 2012		✓		16 August 2012	✓					
Tasracing Pty Ltd	15 August 2012	15 August 2012	26 October 2012	✓		6 November 2012						✓
Tasmanian Railway Pty Ltd	15 August 2012	6 August 2012		✓		6 August 2012	✓					
Transend Networks Pty Ltd	15 August 2012	15 August 2012		✓		15 August 2012	✓					
TT-Line Company Pty Ltd	15 August 2012	14 August 2012		✓		14 August 2012	✓					

Entity	Financial statements						Timeliness of audit opinion issue from balance date					
	Financial Statement deadline	Signed Financial Statements Received	Re-signed/ Amended Financial Statements Received	Clear opinion issued	Emphass of matter	Audit opinion signed	< 8 weeks	8 to 10 weeks	10 to 12 weeks	12 to 14 weeks	14 to 16 weeks	> 16 weeks
TASMANIAN WATER & SEWERAGE CORPORATIONS												
Tasmanian Water and Sewerage Corporation (Southern Region) Pty Ltd	15 August 2012	10 August 2012		✓		10 August 2012	✓					
Tasmanian Water and Sewerage Corporation (Northern Region) Pty Ltd	15 August 2012	10 August 2012		✓		10 August 2012	✓					
Tasmanian Water and Sewerage Corporation (North Western Region) Pty Ltd	15 August 2012	10 August 2012		✓		10 August 2012	✓					
Tasmanian Water and Sewerage Corporation (Common Services) Pty Ltd	15 August 2012	10 August 2012		✓		10 August 2012	✓					

APPENDIX 3 - ACRONYMS AND ABBREVIATIONS

PNFC	Public Non-Financial Corporation
PFC	Public Financial Corporation
Woolnorth	Woolnorth Wind Farms
DPIPWE	Department of Primary Industries, Parks, Water and Environment
Hydro Tasmania or Hydro	Hydro-Electric Corporation
Forestry	Forestry Tasmania
Aurora	Aurora Energy Pty Ltd
TasRail	Tasmanian Railway Pty Ltd
Transend	Transend Networks Pty Ltd
Metro	Metro Tasmania Pty Ltd
Tas Irrigation	Tasmanian Irrigation Pty Ltd
Tasports	Tasmanian Ports Corporation Pty Ltd
Tasracing	TasRacing Pty Ltd
TT-Line	TT-Line Company Pty Ltd
PoMC	Port of Melbourne Corporation
Onstream	Tasmanian Water and Sewerage Corporation (Common Services) Pty Ltd
Cradle Mountain Water	Tasmanian Water and Sewerage Corporation (North-Western Region) Pty Ltd
Ben Lomond Water	Tasmanian Water and Sewerage Corporation (Northern Region) Pty Ltd
Southern Water	Tasmanian Water and Sewerage Corporation (Southern Region) Pty Ltd
EBA	Enterprise Bargaining Agreement
TUOS	Transmission Use of System
CSO	Community Service Obligation
RRP	Regional Reference Prices
GST	Goods and Services Tax
the Authority	Port Arthur Historic Site Management Authority
the Site	Cascades Female Factory Historic Site
JV	Joint Venture
FSI	Forest Services International
Statement of Principles	the Principles
TFIA	Tasmanian Forests Intergovernmental Agreement
IFM	Intensive Forest Management
HT Wind or HT Wind Operations	HT Wind Operations Pty Ltd
ODRC	Optimised depreciated replacement cost
RWSC	Rivers and Water Supply Commission
FY	Financial Year
NBN	National Broadband Network
Ezikey	Ezikey Group Pty Ltd
PAYG	Pay As You Go

the Regulator	Office of the Tasmanian Economic Regulator
MI	Tasmanian Major Industrials
LRET	Large-scale Renewable Energy Target
SRES	Small-scale Renewable Energy Scheme
STC	Small-scale Technology Certificates
LGC	Large-scale Generation Certificates
IRS	Interest rate swaps
Metro Coaches	Metro Coaches (Tas) Pty Ltd
DHHS	Department of Health and Human Services
TI	Tasmanian Irrigation Pty Ltd
HIAPL	Hobart International Airport Pty Ltd
RAB	Regulated Asset Base
WACC	Weighted Average Cost of Capital
TVPS	Tamar Valley Power Station
TWSC	Tasmanian Water and Sewerage Corporation
VaR	Value at Risk

APPENDIX 4 - RECENT REPORTS

TABLED		No.	TITLE
May	2011	97	Follow of special reports 69–73
May	2011		Volume 5: Other State Entities 30 June 2010 and 31 December 2010, including University of Tasmania
Jun	2011	98	Premier's Sundry Grants Program and Urban Renewal and Heritage Fund
Jun	2011	99	Bushfire management
Jun	2011		Volume 4 Part 1: Local Government Authorities and Business Units 2009–10
Jun	2011		Volume 4 Part 2: Local Government Authorities and Business Units 2009–10
Jul	2011	100	Financial and economic performance of Forestry Tasmania
Sep	No. 1 of 2011–12		Tourism Tasmania: is it effective?
Sep	No. 2 of 2011–12		Children in out of home care
Nov	No. 3 of 2011–12		Financial Statements of State Entities: Volume 1 — Analysis of the Treasurer's Annual Financial Report 2010–11
Nov	No. 4 of 2011–12		Financial Statements of State Entities: Volume 2 — Executive and Legislature, Government Departments and other General Government Sector entities 2010–11
Nov	No. 5 of 2011–12		Financial Statements of State Entities: Volume 3 — Government Business Enterprises, State Owned Companies, Water Corporations and Superannuation Funds 2010–11
Nov	No. 6 of 2011–12		Financial Statements of State Entities: Volume 4 Part I — Local Government Authorities 2010–11
Dec	No. 7 0f 2011–12		Financial Statements of State entities: Volume 5 — Other State Entities 30 June 2011 and 31 December 2010
Mar	No. 8 of 2011–12		The assessment of land-use planning applications
Jun	No. 9 of 2011–12		Financial Statements of State Entities: Volume 6 — Other State Entities 30 June 2011 and 31 December 2011
Jun	No. 10 of 2011–12		Public Trustee: Management of minor trusts
Jun	No. 11 of 2011–12		Updating the Motor Registry System
Jun	No.12 of 2011–12		Follow up of special Reports 75–81
Jul	No. 1 of 2012–13		Sale of TOTE Tasmania
Oct	No. 2 of 2012-13		TasPorts: benefits of amalgamation

Auditor-General's reports are available from the Tasmanian Audit Office. These and other published reports can be accessed via the Office's homepage www.audit.tas.gov.au

Tasmanian Audit Office

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Our Vision

STRIVE | LEAD | EXCEL | TO MAKE A DIFFERENCE

Our Purpose

To provide independent assurance to the Parliament and Community on the performance and accountability of the Tasmanian Public sector

Availability of reports

Auditor-General's reports are available from the Tasmanian Audit Office, Hobart. This report and other recent reports published by the Office can be accessed via the Office's home page. For further information please contact the Office.

This report is printed on recycled paper.

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.

Photo courtesy of Tourism Tasmania & Garry Moore

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