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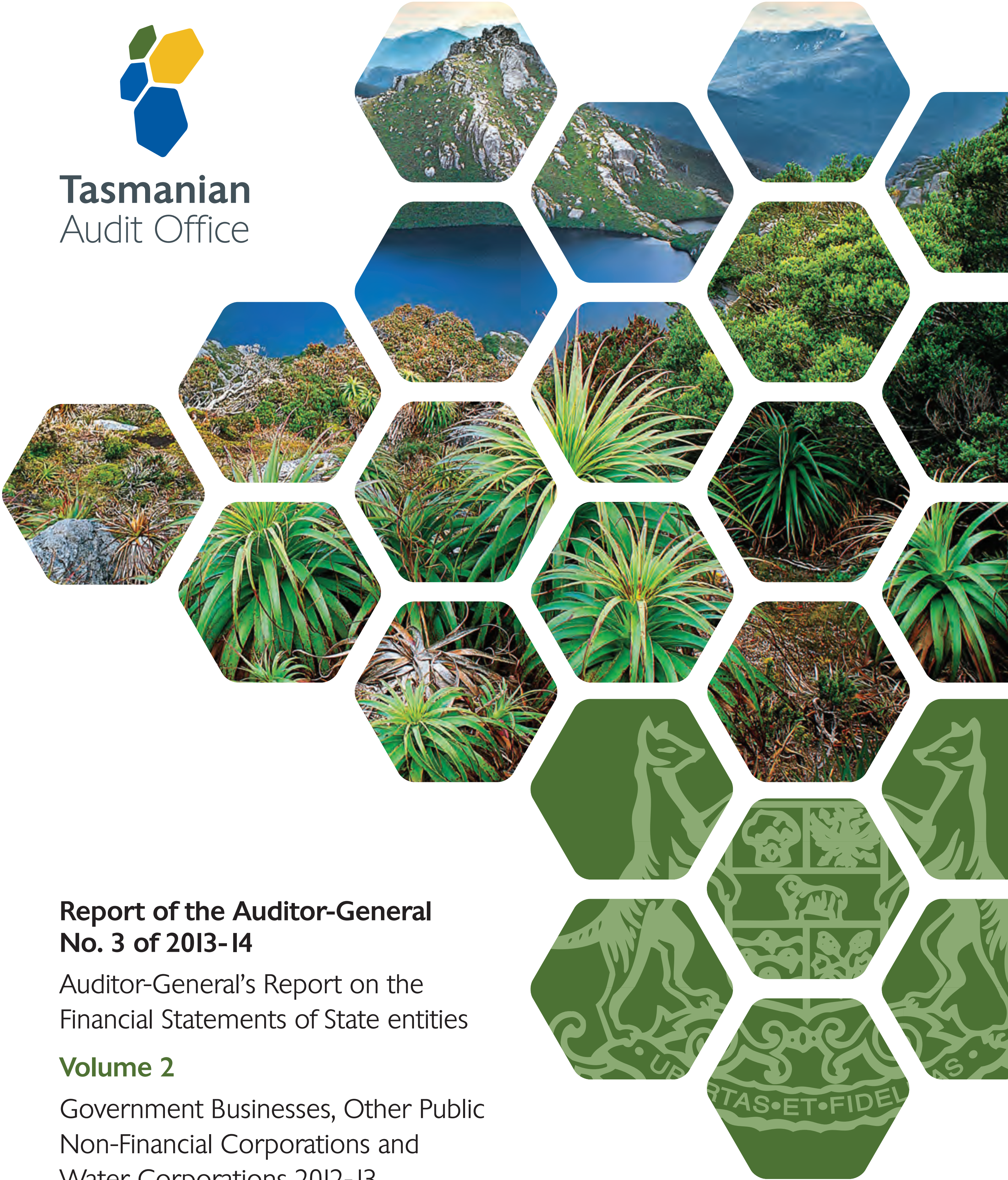
Audit Office



Report of the Auditor-General
No. 3 of 2013-14

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

Volume 2

Government Businesses, Other Public Non-Financial Corporations and Water Corporations 2012-13

November 2013

Strive · Lead · Excel | To Make a Difference

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.

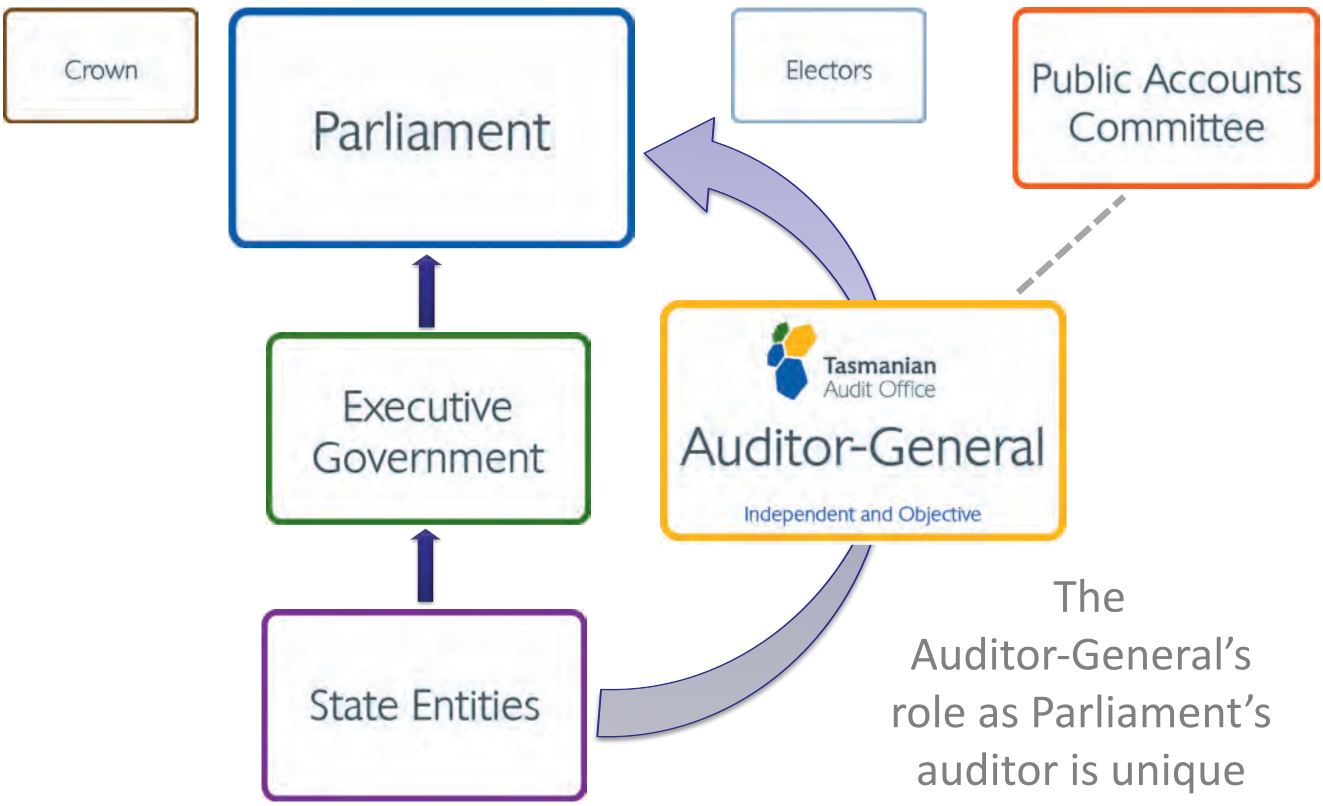
Compliance audits are aimed at ensuring compliance by State entities with directives, regulations and appropriate internal control procedures. Audits focus on selected systems (including information technology systems), account balances or projects.

We can also carry out investigations but only relating to public money or to public property. In addition, the Auditor-General is now responsible for state service employer investigations.

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



2013 (No. 22)

TASMANIA

2013
PARLIAMENT OF TASMANIA

REPORT OF THE AUDITOR-GENERAL
No. 3 of 2013-14

Volume 2

Government Businesses, Other Public Non-Financial Corporations and Water Corporations 2012-13

NOVEMBER 2013

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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21 November 2013

President
Legislative Council
HOBART

Speaker
House of Assembly
HOBART

Dear Mr President

Dear Mr Speaker

Report of the Auditor-General No. 3 of 2013-14 – Auditor-General's Report on the Financial Statements of State entities, Volume 2 – Government Businesses, Other Public Non-Financial Corporations and Water Corporations 2012-13.

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 Businesses, Other Public Non-Financial Corporations and Water Corporations.

Yours sincerely

H M Blake
Auditor-General

FOREWORD

This Report is the second Volume of my report to Parliament outlining outcomes of our financial audit work for the 2012–13 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 2013.

In the financial year ended 30 June 2013, entities making up the PNFC sector generated $3.984bn in revenue and incurred $3.721bn in expenditure including asset write downs. They managed total assets of $12.088bn and $6.337bn in liabilities which included borrowings from Tascorp of $2.665bn, superannuation obligations of $0.709bn and other liabilities of $2.963bn mainly comprising deferred tax provisions and financial liabilities.

Macquarie Point Development Corporation commenced operating in March 2013 and is included as a PNFC for the first time.

There are two entities making up the PFC sector; Tascorp and Motor Accidents Insurance Board, with total assets of $8.052bn comprising cash, investments and loans. Total liabilities were $7.628bn which included borrowings and provisions for outstanding and unreported insurance claims.

All audits were completed with unqualified audit opinions issued.

The format of this Report changed this year with details provided in the Introduction.

H M Blake
Auditor-General
21 November 2013

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KEY POINTS

This summary below notes the key points identified in this Report.

	Page
Remuneration Guidelines	**17**
The Treasurer released financial reporting guidelines, commencing with the 2012-13 reporting period, on board member and key management personnel remuneration related disclosures for Government businesses.	
In August 2013, the Treasurer determined that the proposed remuneration guidelines should be implemented through a two-staged approach, with disclosure relating to executive remuneration reduced in the first phase. We acknowledged this approach and ensured compliance as part of our audits. However, two difficulties were encountered: 1. The guidelines are just that, guidelines. There is currently no legislative requirement for State Owned Companies (SOC) to comply. While in all cases there was compliance, in the event that a SOC chose not, we could not have drawn attention to this in audit reports. 2. The guidelines, while a good initiative, are inconsistent with, when taken together, the requirements of Australian Accounting Standards and the *Corporations Act 2001* as it relates to remuneration disclosures required of disclosing entities.	
Recommendation: That all Government businesses fully adopt the remuneration related disclosure requirements of AASB 124 *Related Parties Disclosures* as well as the requirements of the *Corporations Act 2001* as they relate to disclosing entities.	
ENERGY BUSINESSES	**18**
These entities made a combined loss after tax of $81.900m (2011-12, profit $78.443m).	
The three entities continued to generate significant cash from operations, which totalled $536.242m in 2012-13, an increase of $142.492m compared to the previous year.	
Average Tasmanian electricity wholesale prices in the National Energy Market increased in 2012-13 to $48.30/MWh, compared to $32.58/MWh in 2011-12.	
The three electricity businesses incurred total electricity reform costs of $20.177m in 2012-13.	
GOVERNMENT BUSINESS ENTERPRISES	**30**
Audits of the financial statements of the six GBEs, and where relevant their subsidiary companies, were completed with unqualified audit opinions issued.	
All audits were completed satisfactorily with no major items outstanding.	
Financial statements were submitted within the statutory deadline being 45 days following the end of the financial year.	

Forestry Tasmania 33

Forestry recorded an Underlying Loss of $12.005m in 2012-13.

It recorded a Net loss after tax of $13.402m.

Sales were down $22.226m or 28% compared to last year.

Government provided:

- a reimbursement for the approximate cost of non-commercial activities, $20.000m
- one-off deficit funding of $15.000m
- equity funding of $10.000m.

Equity decreased by $4.190m to $72.528m at 30 June 2013.

A restructure of operations resulted in Forestry retaining its responsibility for wood production from State forest and it will remain the responsible land manager for production State forest.

Forestry's audit report contained an emphasis of matter paragraph drawing attention to circumstances giving rise to uncertainties as to its operations including its ability to continue as a going concern.

The value of standing timber declined by $42.902m to $104.958m.

The *Tasmanian Forest Agreement Act 2013* was enacted in June 2013 which will result in forest reserves and associated activities being transferred to the Department of Primary Industries, Parks, Water and Environment.

The proposed transfer resulted in an impairment of roads within reserves, $27.748m, and a reduction in Forestry's obligation for non-commercial zones of $48.000m.

Hydro-Electric Corporation 46

Hydro recorded an Underlying Profit of $237.716m for 2012-13.

It incurred a Net Loss after tax of $188.825m.

Aurora Energy Tamar Valley Pty Ltd was transferred from Aurora to Hydro, effective 1 June 2013.

It recognised impairment write-downs on:

- the acquisition of AETV's power station of $335.046m
- hydro generation assets of $439.220m, $321.351m of which was charged to the revaluation reserve
- goodwill attributable to hydro generation assets of $31.400m.

It generated $261.549m in cash flows from operating activities and was in a strong Net Asset position of $1.796bn at 30 June 2013.

It paid a dividend of $50.686m in 2012-13 based on 2011-12 results and proposed a dividend of $116.481m based on 2012-13 results.

In February 2013, Hydro completed the divestment of 75% of its 100% investment in Musselroe Holdings Pty Ltd to Shenhua Clean Energy Holdings Pty Ltd.

Motor Accidents Insurance Board 62

MAIB recorded an Underwriting Profit of $45.313m for 2012-13.

It recorded a Net profit after tax of $147.462m.

The strong result was almost entirely due to two factors – strong investment performance and low claims expenses.

At 30 June 2013, Total Equity was $382.416m.

Dividends paid this year totalled $6.140m, with an amount recommended for payment in 2013-14 of $23.219m.

MAIB's solvency ratio was 31.9%. This was above the Board's target of 20% to 25%.

The Tasmanian Economic Regulator recommended that from 1 December 2013 the base compulsory third party insurance premium for all vehicle classes be reduced by 7.4 per cent (excluding duty and GST).

Port Arthur Site Management Authority 72

The Authority recorded an Underlying Loss for the year of $0.231m.

Tasmania Bushfire Disaster funding of $0.133m was received from the State Government for reimbursement of evacuation costs.

Closure at the peak tourism season, caused by bushfires, had a negative impact on visitor numbers and revenue.

At 30 June 2013, Total Equity was $17.827m.

Public Trustee 79

Public Trustee generated an Underlying Profit of $0.804m for 2012-13.

It recorded a Net profit after tax of $1.314m.

Net profit improved significantly mainly due to higher income from investments.

At 30 June 2013, Total Equity was $4.283m.

A dividend of $0.151m was paid in 2012-13 related to the 2011-12 profit. No dividends will be payable on the 2012-13 result as the gap in CSO funding exceeded dividends payable.

The Department of Treasury and Finance conducted a funding operating model review to identify options to improve PT's financial sustainability over the long term. Outcomes from this review had not been finalised.	
At 30 June 2013, Public Trustee held funds in trust on behalf of clients totalling $133.246m.	
Tasmanian Public Finance Corporation	**86**
Tascorp recorded a Net profit after tax of $6.191m in 2012-13.	
At 30 June 2013, Total Assets were $5.881bn, Total Liabilities $5.839bn, and Total Equity was $41.458m.	
Borrowings remained consistent with prior year, Tascorp is required to maintain sufficient liquidity to meet funding requirements of public sector entities.	
Tascorp paid a dividend of $7.629m during the year ended 30 June 2013 (2011-12, $6.445m).	
STATE OWNED COMPANIES	**93**
Audits of the financial statements of the eight SOCs, and where relevant their subsidiary Companies, were completed with unqualified audit opinions issued.	
All audits were completed satisfactorily with no major items outstanding.	
Financial statements were submitted within the statutory deadline being 45 days following the end of the financial year.	
Aurora Energy Pty Ltd	**96**
Aurora recorded an Underlying Profit of $59.332m for 2012-13.	
It recorded a Net profit after tax of $59.115m.	
Equity decreased by $46.158m to $554.918m at 30 June 2013 due to the transfer to Hydro of the Aurora Energy Tamar Valley (AETV) power station plus the impact of dividend payments.	
Total debt reduced due to the transfer of AETV related debt ($205.000m) coupled with a $119.769m Net repayment of borrowings during the 2012-13 year.	
Aurora made a Return on equity of 10.2% and contributed $31.504m to the State comprising a $16.000m dividend, $3.386m in taxes and $12.118m in Government guarantee fees.	
The planned divestment of the Aurora retail customer base was withdrawn. Instead, Aurora will continue to operate its retail business, with full retail contestability planned for 1 July 2014.	

Aurora was subject to the Australian Government's Carbon Pricing Mechanism for the first time in 2012-13. This resulted in a total carbon related expense of $19.378m (of which $14.751m arose from operating the AETV power station until 31 May 2013).

Aurora's distribution business will merge with Transend into Tasmanian Networks Pty Ltd from 1 July 2014.

Metro Tasmania Pty Ltd 108

Metro recorded a Net Loss after tax of $0.217m for 2012-13.

It generated positive operating cash flows despite the loss.

Equity increased by $2.051m to $29.684m at 30 June 2013.

It continued to receive additional funding of $3.250m (2011-12, $3.250m) from the State to improve its bus fleet.

Tasmanian Irrigation Pty Ltd 114

Tasmanian Irrigation Pty Ltd recorded an Underlying Profit of $2.761m for 2012-13.

It recorded a Net Loss after tax of $12.550m.

Equity increased by $10.744m to $74.009m at 30 June 2013.

Since July 2009 equity contributions, operating grants and interest subsidies have totalled $160.321m and asset impairments over this period totalled $85.943m.

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

Tasmanian Ports Corporation Pty Ltd 122

Tasports recorded an Underlying Loss of $1.335m for 2012-13.

It recorded a Net Loss after tax of $1.393m.

Restructuring costs in 2010-11 and 2011-12 had a positive impact on current year costs. Employee expenses decreased by 15.3% since 2009-10 with FTE declining by 34 over this period.

At 30 June 2013, Total Equity was $175.128m.

No taxes or dividends were paid.

Tasracing Pty Ltd 130

Tasracing recorded an Underlying Loss of $1.973m for 2012-13.

It recorded a Net Loss after tax of $0.535m.

Partial impairment reversal of $2.472m, in line with adjustments made to Tasracing's Corporate Plan, reflected improved financial performance in 2012-13.

Equity totalled $40.334m at 30 June 2013.

Successful implementation of the strategies outlined in Tasracing's Corporate Plan is essential to financial sustainability and, ultimately, whether it can continue as a going concern.

During 2012-13, Tasracing paid no dividends or income tax equivalents.

Tasracing assumed responsibility for race day staff and operation of the Tasmanian Racing Club and the Devonport Racing Club.

Tasmanian Railway Pty Ltd 138

TasRail recorded an Underlying Loss of $6.301m for 2012-13.

It recorded a Net Loss after tax of $50.294m as a result of impairment of below rail capital expenditure, $45.233m.

It operates two reportable segments, above rail and below rail, which recorded segment losses before tax of $3.096m and $48.438m, respectively.

At 30 June 2013, Total Equity was $110.245m and it had no borrowings.

A Deed of Variation to the Rail Corridor lease with the Department of Infrastructure, Energy and Resources was signed.

A sub-lease for the Brighton Transport Hub Warehouse site with a third party was signed.

TasRail entered into three forward foreign exchange purchase contracts for the acquisition of new wagons, train control system and tamper.

A carbon surcharge was imposed on 1 July 2012 to recover costs under the carbon pricing regime.

The State Government has budgeted to spend $45.395m over the next three years. TasRail is heavily reliant on this support.

Transend Networks Pty Ltd 147

Transend recorded an Underlying Profit of $67.714m for 2012-13.

It recorded a Net Profit after tax of $47.810m.

Transend transmitted 12 959 GWh of energy in 2012-13 compared to 11 601 GWh in 2011-12. The increase was due primarily to higher energy exports over Basslink.

The decision to limit future increases in prescribed transmission revenue to less than the increase in the consumer price index, reduced revenue by $11.190m in 2012-13.

At 30 June 2013, Total Equity was $721.822m.

Borrowings were $631.197m, with a Debt equity ratio at 30 June of 87.4%.

During 2012-13 Transend paid dividends of $25.900m and income tax equivalents of $32.482m.

It returned capital to the State of $20.000m which was financed by borrowings.

Transend will merge with Aurora's distribution business into Tasmanian Networks Pty Ltd from 1 July 2014.

There is an expected material reduction in prescribed transmission revenue over the next five-year regulatory period, beginning 1 July 2014, due mainly to forecast changes in the cost of capital.

TT-Line Company Pty Ltd 157

TT-Line recorded an Underlying Profit of $15.209m for 2012-13.

It recorded a Net profit after tax of $12.684m.

At 30 June 2013, Total Equity was $270.500m.

Cash and deposits totalled $59.021m at 30 June 2013. Funds are being accumulated to enable the Company to replace Spirits I and II. TT-Line is not required to pay dividends.

TT-Line was debt free at 30 June 2013.

TT-Line worked on a number of options in relation to vessel replacement with a decision expected in 2014.

The new annual Port of Melbourne licence fee resulted in additional expenses of approximately $2.700m in 2012-13.

Verification was received from the Australian Navy that the dry dock bookings for 2014 is confirmed. However, there is doubt over the future use of the Garden Island dry dock facility.

To recover increased costs of fuel under carbon pricing, TT-Line imposed a carbon surcharge on its fares and freight from 1 July 2012.

OTHER PUBLIC NON-FINANCIAL CORPORATIONS (PNFC) 165

Audits of the financial statements of the two Other PNFCs were completed with unqualified audit opinions issued in each case.

Both audits were completed satisfactorily with no major items outstanding.

Financial statements were submitted within the statutory deadline being 45 days following the end of the financial year.

Macquarie Point Development Corporation 166

The Corporation commenced operating in March 2013.

The Australian Government provided a $50.000m grant to support the remediation of the Macquarie Point rail yards site and the redevelopment of the Brooke Street Pier in Hobart.

The Corporation recorded a Net Surplus of $50.620m mainly due to unexpended grant funds.

$5.000m of the grant was allocated to the redevelopment of public infrastructure at Brooke Street Pier.

Net equity at 30 June 2013 was $50.620mm, predominantly comprised cash.

When rail operations relocate to the Brighton Transport Hub in approximately January 2015, ownership of the site will be transferred to the Corporation.

It is not anticipated that remediation of the Macquarie Point site will start until 2015.

The Board has identified a range of issues related to the anticipated contamination of the Macquarie Point site as a result of the considerable industrial activity that has occurred over many years. Appropriate risk management policies and remediation procedures will be developed once the extent and potential impact of contamination is confirmed within the context of the proposed eventual use of the site.

Private Forests Tasmania 169

Private Forests Tasmania recorded a Net Deficit of $0.257m in 2012-13.

Net Equity at 30 June 2013 was $0.448m.

It is funded primarily by Tasmanian Government appropriations and aims to operate on a break even basis. However, it recorded Net deficits in each of the last four years.

Steps have been taken to find cost savings aimed at addressing its ongoing viability.

WATER AND SEWERAGE CORPORATIONS 172

Audits of the financial statements of the four water corporations were completed with unqualified audit opinions issued in each case.

All audits were completed satisfactorily with no major items outstanding.

Financial statements were submitted within the statutory deadline being 45 days following the end of the financial year.

Regional Water Corporations 172

The Regional Water Corporations generated a combined Underlying Profit of $15.230m for 2012-13.

The introduction of two-part pricing for water services led to increased revenues from water usage, of $20.433m.

The combined Net Profit after tax was $22.439m.	
Progress was made in recovering overdue charges which had a positive impact on cash flows. However, the percentage of receivables past due more than 90 days remained high, especially in the case of Southern Water.	
Over $84.000m was distributed to owner councils in the form of ordinary and special dividends, guarantee fees and income tax equivalents since 2009-10.	
Tasmanian Water and Sewerage Corporation Pty Ltd – trading as TasWater, commenced operations on 1 July 2013. Consequently the existing Regional Water Corporations and Onstream ceased operating at midnight on 30 June 2013.	
Onstream	**186**
Onstream recorded an Underlying Profit of $1.519m in 2012-13.	
It achieved a Net profit after tax of $0.185m.	
Net Equity at 30 June 2013 was $0.010m.	
It wrote-down its leasehold improvements and increased its provision for onerous contracts by $0.098m and $0.223m, respectively.	
The transition towards a single corporation resulted in the recognition of a redundancy provision of $0.215m.	
The cost of establishing TasWater and its initial operations was $1.719m to 30 June 2013, excluding in-kind services.	

INTRODUCTION

SCOPE OF THIS REPORT

This Report deals with the outcomes from audits completed of the financial statements prepared by Public Non-Financial Corporations, including Regional Water Corporations, and Public Financial Corporations, together with comments on other audit matters.

Also included is Macquarie Point Development Corporation (MPDC) which commenced operating this year and was classified for financial reporting purposes as a Public Non-Financial Corporation (PNFC).

STATUS OF AUDITS

All audits for the year ended 30 June 2013 have been completed. The financial statements of the Government Businesses and Water Corporations and where relevant their subsidiary companies, were completed with unqualified audit opinions issued in each case.

Compliance with statutory financial reporting requirements is detailed in individual chapters. A summary dealing with the timeliness and quality of financial statements submitted for audit will be included in Volume five to be tabled in 2014.

FORMAT OF THE REPORT

Unless specifically indicated, comments in this Report were current as at 6 November 2013.

In addition to this Introduction, this report includes:

- Key Points
- Executive Remuneration
- Energy Businesses 2012-13
- Audit Summary Government Business Enterprises – these pages provide a summary focussing on financial performance
- Individual chapters for each Government Business Enterprise
- Audit Summary State Owned Corporations – similarly, these pages provide a summary focussing on financial performance
- Individual chapters for each State Owned Company
- Individual chapters for Other PNFC entities.
- Summarised chapter for the three Regional Water Corporations
- Individual chapter on Regional Water Corporations' Common Service provider - Onstream.

We changed the format and contents of chapters this year to shorten the Report and provide a high level summary of key information.

The revised Report differs in the following main respects:

- snapshot summary of key points at the beginning of each Chapter
- concise outline of key developments and audit findings
- key areas of audit attention and how we addressed those areas during the audit
- greater use of charts to display information previously presented in textual format
- financial statements and analysis tables moved into Chapter appendices.

Individual chapters were structured as follows:

- a snapshot of the entity
- introduction
- audit of the 2012-13 statements
- key areas of audit attention*
- key findings*
- key developments*
- analysis of financial performance, concentrating on underlying result *
- analysis of financial position reviewing total assets and net assets*
- appendices covering the Statements of comprehensive income, financial position, cash flows and key financial ratios*.

* Because of the small size of some entities, some sections were combined and where not relevant left out altogether.

Underlying Result

Entities are required to follow an applicable financial reporting framework specified in relevant law or regulations. State entities prepare general purpose financial statements in accordance with Australian Accounting Standards. In certain circumstances a small number of State entities can prepare special purpose financial statements.

In our analysis of financial performance we have, if necessary, reallocated certain revenue or expenditure items to better assist readers interpret financial performance. We use the term 'Underlying Profit (Loss)' throughout the Report. We define 'underlying' as from continuing operations, excluding:

- non-operational capital funding
- revenue and expenses which are outside the normal course of operations, for example the cost of restructuring or significant gains or losses on sale or transfer of assets
- non-recurring items which are part of recurrent activities but unusual due their size and nature.

SUBMISSIONS AND COMMENTS RECEIVED

A copy of each chapter in this Report was provided to the relevant Government Business, Other PNFCs and Water Corporations for comment and response. The Hydro-Electric Corporation was the only entity to provide commentary, which was included in its individual chapter.

Comments provided are not subject to the audit nor the evidentiary standards required in reaching an audit conclusion. Responsibility for the accuracy, fairness and balance of these comments rests solely with those who provided the response or comment.

KEY AREAS OF AUDIT ATTENTION

Key areas of audit attention have been included in the Report to assist Parliamentarians and other users understand our approach in auditing Government Business, Other PNFCs and Water Corporations.

The identification of these areas, which are considered 'risks' associated with the entity's operation, ensure audit resources are allocated efficiently and effectively.

REMUNERATION GUIDELINES

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* and/or by the *Corporations Act 2001* where applicable. 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 partly adopted following release by the Treasurer of remuneration guidelines, commencing with the 2012-13 reporting period. The guidelines recommended disclosure of:

- remuneration earned by Board members and their appointment arrangements
- remuneration earned by other key management personnel, bonus and other remuneration and appointment arrangements.

In August 2013, the Treasurer determined that the proposed remuneration guidelines should be implemented through a two-staged approach, with disclosure relating to executive remuneration reduced in the first phase. We acknowledged this approach and ensured compliance as part of our audits.

For a number of Government businesses, advice on the change in disclosure requirements occurred after year-end financial statements were certified. Several Government businesses subsequently re-signed financial statements, whilst others did not consider the changes were of such significance that re-signing was warranted.

Although I acknowledge the improvement in disclosure noted in the financial reporting guidelines, two difficulties were encountered:

1. There is currently no legislative requirement for State Owned Companies (SOCs) to comply. While in all cases there was compliance, in the event that a SOC chose not to, we could not have drawn attention to this in audit reports.
2. The guidelines, while a good initiative, are inconsistent with, when taken together, the requirements of Australian Accounting Standards and the Corporations Act as it relates to remuneration disclosures required of disclosing entities. I still believe transparency and accountability requirements would be better served by all government businesses fully adopting the disclosure requirements of AASB 124 and the Corporations Act is disclosure requirements relating to disclosing entities.

Recommendation:

That all Government businesses fully adopt the remuneration related disclosure requirements of AASB 124 *Related Parties Disclosures* as well as the requirements of the *Corporations Act 2001* as they relate to disclosing entities.

COMMENTS RECEIVED FROM TREASURY

A copy of this Chapter was provided to Treasury for comment and response. Treasury provided the following commentary.

Response from Treasury follows:

Treasury is currently reviewing the guidelines to strengthen the approach in Government businesses to the setting and reporting of executive remuneration.

ENERGY BUSINESSES

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, there are many similarities and comparative assessment is 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), Aurora Energy Pty Ltd (Aurora) and Transend Networks Pty Ltd (Transend).

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 was the significant increase in electricity prices over the past five years. While increases in prices is a national issue, exacerbating factors for Tasmanian customers include lower than average incomes, higher electricity consumption due to the climate and the difficulty of all customers to access alternative fuels such as natural gas.

The reform package included a number of potential initiatives that have or will impact Tasmania's three power entities including:

- the transfer of Aurora Energy (Tamar Valley) Pty Ltd (AETV) from Aurora to Hydro
- on-going management by, or disposal of, Aurora's retail customer book and commencement of full retail competition by 1 January 2014
- merging of Aurora's distribution network with Transend's transmission network
- merging Aurora's retail service functions with Momentum Energy's mainland retail business.

At the time of writing this Report, some reforms had been completed, while others were underway or pending further consideration.

Electricity Reform Costs

The Department of Treasury and Finance established a business transition group to coordinate the electricity reforms. The three State owned electricity businesses have funded its operations and incurred other operational and capital costs as part of the reforms. The total cost of reforms in 2012-13 by the three electricity businesses was $20.177m as summarised in the following table.

	Total	Hydro	Aurora	Transend
	$'000s	$'000s	$'000s	$'000s
Business Transition Group costs	2 656	915	792	949
Employees, contractors and consultants costs	6 376	2 778	3 598	0
Redundancy costs paid	880	0	880	0
Other costs of reform	584	169	415	0
Total Operating Reform Costs	**10 496**	**3 862**	**5 685**	**949**
Capital costs incurred for distribution business Full retail contestability	9 681	0	9 681	0
Total Reform Costs	**20 177**	**3 862**	**15 366**	**949**

INCOME STATEMENTS

	Hydro	Aurora	Transend
	$'000s	$'000s	$'000s
Electricity sales/transmission/distribution	1 546 369	1 483 343	218 371
Share of profit of joint venture entities	1 756	0	0
Other operating revenue	11 860	67 059	22 485
Total Revenue	**1 559 985**	**1 550 402**	**240 856**
Depreciation and amortisation	91 373	119 692	74 793
Labour	120 539	98 183	27 668
Energy generation, acquisition and transmission	1 042 856	1 200 670	27 882
Total Expenses	**1 254 768**	**1 418 545**	**130 343**
Underlying Profit Before Interest and Tax	**305 217**	**131 857**	**110 513**
Finance costs	67 501	72 525	42 799
Underlying Profit Before Tax and Fair Value Movements	**237 716**	**59 332**	**67 714**
Movements in fair value	(1 923)	7 597	615
Customer contributions	0	7 471	0
Superannuation liability movement	0	10 096	0
Impairment expenses	(484 315)	0	0
Net profit (Loss) Before Taxation	**(248 522)**	**84 496**	**68 329**
Income tax benefit (expense)	59 697	(25 381)	(20 519)
Net profit (Loss) After Taxation	**(188 825)**	**59 115**	**47 810**
Net Profit (Loss) After Taxation in 2011-12	**13 872**	**21 410**	**43 964**
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**

These entities made a combined loss after tax of $81.900m (2011-12, profit $78.443m). Hydro recorded a loss of $188.825m against combined profits of $106.925m for Aurora and Transend. Hydro's profit was severely affected by impairment expenses of $484.315m. Had these expenses not been incurred, the three entities combined profit before tax would have been $388.618m.

Hydro's sales revenue grew by 48.7% (2011-12, 29.3%) mainly due to additional retail revenue generated by Momentum Energy Pty Ltd of $800.143m for 2012-13 (2011-12, $458.997m). Aurora's sales increased by 3.9% (7.9%) mainly associated with increases in the regulated tariff for 2012-13, growth in national electricity sales and in sales to major industrial customers in Tasmania.

Transend's revenue increased by 2.8% (5.6%), less than the increase in 2011-12 primarily due to the Board's decision to limit future increases in prescribed transmission revenue to less than the increase in CPI for the final two years of the current regulatory period.

Hydro's energy generation and other expenses increased from $673.929m in 2011-12 to $1.042bn in 2012-13 primarily due to higher energy purchases, mainly reflecting continued growth in Momentum Energy.

Aurora's expenses included energy generation, transmission and other costs of $1.201bn (2011-12, $1.144bn). Generation costs included costs incurred by the Tamar Valley Power Station (TVPS) up until its transfer to Hydro on 1 June 2013 and power acquired from Hydro via the National Energy Market and transmission costs paid to Transend. These costs grew by $65.462m or 6.9% (11.6%), due primarily to:

- increased electricity and gas costs to meet stable load requirements
- higher transmission costs associated with delivering the load
- $18.300m paid in relation to introduction of the carbon price on 1 July 2012.

However, Aurora's other costs reduced predominately due to:

- employee related costs decreased $21.111m mainly due to lower redundancy costs, $5.024m (2011-12, $24.723m) following restructures initiated in prior years
- Borrowing costs and guarantee fees reduced $8.386m due to slightly lower interest rates coupled with the net repayment of debt of $119.769m during 2012-13.

Labour costs movements were as follows:

- Hydro's costs increased by $15.737m during the year due to growth in Momentum, acquisition of AETV and an Enterprise Partnership Agreement increment of 3.0% . Labour costs were 9.6% (2011-12, 12.2%) of Total Expenses
- Aurora's costs decreased $20.920m primarily due to the effects of its restructuring transformation. Labour costs were 6.9% (8.6%) of Total Expenses
- Transend's labour costs increased by $1.130m mainly due to salary and wage increases of 3.5% in September 2012, higher performance bonuses and redundancy payments during the year, notwithstanding lower average staff numbers of 21. Labour costs were 21.2% (23.9%) of Total Expenses.

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

	2012-13	2011-12	2010-11	2009-10
Hydro	5.10%	9.15%	11.29%	12.28%
Aurora	4.86%	5.67%	5.80%	5.37%
Transend	24.72%	24.61%	21.42%	22.25%

Hydro's financing costs as a percentage of total costs decreased significantly in 2012-13. The primary factors were lower levels of debt held throughout the financial year (the debt acquired with AETV impacted finance costs for one month) and a reduction in the interest cost on the Retirement Benefits Fund (RBF) liability. In total Hydros financing costs decreased $19.186m.

Aurora's financing costs decreased by $9.970m in 2012-13 (2011-12, $3.418m), due to slightly lower interest rates coupled with the net repayment of $119.769m during the year.

Transend's financing costs increased by $2.244m (2011-12, $7.860m), due primarily to additional borrowings to fund operating and capital investment demands, meet dividend payments and to fund the $20.000m reduction in equity capital.

Hydro's impairment expenses included the impairment of AETV upon acquisition of $335.046m, a write down of the Corporation's hydro generation assets of $117.869m and the impairment of goodwill attributable to the hydro generation assets of $31.400m. Previously, AETV was part of Aurora's integrated business and not impaired.

Due to changed market conditions, namely carbon tax revenue expectations, Hydro also recorded a revaluation decrement for generation assets of $321.351m however, this was effectively reversing the previous year's revaluation increment for the same amount.

STATEMENTS OF FINANCIAL POSITION

	Hydro	Aurora	Transend
	$'000s	$'000s	$'000s
Cash and investments	15 669	4 813	1 544
Receivables	220 828	150 792	25 985
Unbilled energy	0	80 895	0
Inventories	43 680	27 219	4 485
Financial assets	66 591	18 741	0
Financial assets - Basslink	30 823	0	0
Other	0	4 911	1 057
Total Current Assets	**377 591**	**287 371**	**33 071**
Payables	142 732	148 282	40 550
Borrowings	135 669	75 545	3 197
Financial liabilities	173 773	11 669	0
Provisions	58 570	21 514	8 728
Tax liabilities	61 606	19 957	8 974
Other	0	41 548	29 758
Total Current Liabilities	**572 350**	**318 515**	**91 207**
Net Working Capital	**(194 759)**	**(31 144)**	**(58 136)**
Property, plant and equipment	4 188 436	1 420 910	1 670 651
Investments	66 696	0	0
Deferred tax assets	0	0	0
Intangible assets	0	52 938	6 627
Financial assets - Basslink	361 718	0	0
Deferred tax assets	0	46 053	0
Goodwill	16 396	0	0
Other financial assets	112 197	8 924	97
Total Non-Current Assets	**4 745 443**	**1 528 825**	**1 677 375**
Borrowings	770 126	674 268	628 000
Provisions	492 799	94 200	59 430
Financial liabilities	934 355	14 353	0
Deferred tax liabilities	560 307	159 942	209 987
Other non-current liabilities	0	0	0
Total Non-Current Liabilities	**2 757 587**	**942 763**	**897 417**
Net Assets	**1 793 097**	**554 918**	**721 822**
Capital	360 239	225 116	26 549
Reserves	(19 226)	177 375	542 333
Retained profits	1 452 084	152 427	152 940
Total Equity	**1 793 097**	**554 918**	**721 822**
Total Equity at 30 June 2012	**2 132 047**	**601 076**	**687 607**
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**

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 2013 was negative $194.759m (2011-12, negative $360.967m). The improved working capital position was primarily due to a decrease in Financial liabilities to $173.773m (2012, $464.891m), caused by the classification of the Basslink facility fee swap into non-current. Short term borrowings decreased by $75.583m to $135.669m, with these borrowings likely to be re-negotiated. These improvements in net working capital were offset by lower Financial assets of $129.091m to $73.277m.

Aurora's working capital deteriorated from $3.044m in 2011-12 to ($31.144m) in 2012-13, mainly due to the reduction in cash used to repay borrowings.

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, $58.136m at 30 June 2013 (2011-12, $55.628m).

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:

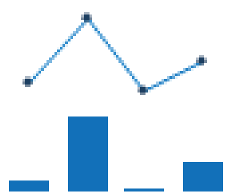
- Net deferred tax liabilities – these primarily arise from offsetting effects of asset revaluations giving rise to deferred tax liabilities and the establishment of provisions, in the main for unfunded superannuation liabilities, giving rise to deferred tax assets.
- In the case of Hydro and Aurora, financial assets and liabilities related primarily to major electricity contracts. 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 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
Borrowings at 30 June 2013	905 795	749 813	631 197
Increase (decrease) in borrowings 2009-13	32 931	(280 104)	113 197
Percentage change in borrowings 2009-13	3.5%	(30.0%)	23.2%

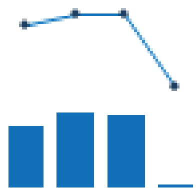
Total Borrowings of all three entities decreased by $113.976m over the four years under review. This was primarily due to their on-going capital investment programs, the completion of TVPS and development of new systems.

- Hydro's debt fluctuated over the four year period:
    - 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

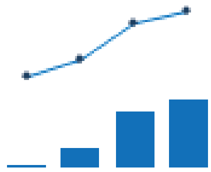


- ○ In 2011-12 total borrowings decreased by $126.560m due predominantly to the divestment of Woolnorth Wind Farms in February 2012 when borrowings of $163.000m were settled
- ○ Debt increased in 2012-13 due to debt acquired upon acquisition of AETV, $205.000m, offset by the repayment of $155.000m of debt during the year.

- Aurora's debt increased over the period 30 June 2010 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. In 2012-13 debt declined due to the transfer of AETV related debt, coupled with $119.769m net repayment of borrowings during the year.



- Transend's debt increased in the period 2009-10 to 2012-13 due to operating demands, extensive capital works programs, while meeting the requirements of its dividend policy and decision to return equity.



STATEMENTS OF CASH FLOWS

	Hydro	Aurora	Transend
	$'000s	$'000s	$'000s
Receipts from customers	1 496 060	1 634 420	265 076
Payments to suppliers and employees	(1 129 478)	(1 371 243)	(77 735)
Payments to Australian Government for carbon	0	(18 300)	0
Interest received	685	1 832	0
Finance costs	(44 354)	(54 300)	(32 406)
Income tax equivalents paid	(52 769)	(3 386)	(32 482)
Government guarantee fee paid	(8 595)	(12 188)	(7 299)
Settlement of AETV	0	(17 296)	0
Cash From (used in) Operations	**261 549**	**159 539**	**115 154**
Payments for investments	0	0	0
Proceeds from financial assets	31 679	0	0
Payments for assets and intangibles	(141 558)	(113 857)	(93 208)
Business acquisition	(4 326)	0	0
Proceeds from investments and asset sales	92 339	4 972	190
Cash From (used in) Investing Activities	**(21 866)**	**(108 885)**	**(93 018)**
Proceeds from borrowings	427 000	801 056	21 490
Repayment of borrowings	(583 252)	(920 825)	0
Dividend paid	(50 686)	(16 000)	(25 900)
Proceeds from equity issue	0	0	0
Return of shareholder's capital	0	0	(20 000)
Cash From (used in) Financing Activities	**(206 938)**	**(135 769)**	**(24 410)**
Net Increase (Decrease) in Cash	**32 745**	**(85 115)**	**(2 274)**
Cash at the beginning of the year	7 061	89 928	3 818
Cash at End of the Year	**39 806**	**4 813**	**1 544**

The three entities continue to generate significant cash from operations, which totalled $536.242m in 2012-13, a slight reduction of $5.770m compared to the previous year (2011-12, $393.750m; 2010-11, $399.520m; 2009-10, $328.904m).

Hydro's Cash from operations increased from $107.336m in 2011-12 to $261.549m in 2012-13. This increase of $154.213m was primarily due to Receipts from customers increasing by $481.077m, against payments to suppliers and employees only increasing by $345.467m.

Aurora's Cash from operations decreased by $16.148m to $159.539m in 2012-13. Although Receipts from customers increased by $28.607m, this was negated by the increase in supplier and employee costs, $9.534m and an additional new payment to the Australian Government for carbon, $18.300m. The decrease was mainly due to the settlement of AETV cash $17.296m, tax $3.386m and reduced interest received, $1.952m, offset by the reductions in borrowing and guarantee fees, $5.713m.

Transend's Cash from operations increased from $110.727m in 2011-12 to $115.154m in 2012-13, due predominantly to an increase in TUOS (transmission use of system) revenue while effectively managing its operating expenditure, especially employee benefits which remained relatively constant.

All three utilities continued to invest strongly in capital expenditure with $348.623m expended in 2012-13 (2011-12, $408.658m; 2010-11, $368.454m; 2009-10, $476.028m; 2008-09, $634.824m).

Hydro's Proceeds from investments and asset sales was $92.339m in 2012-13, due primarily to $89.447m received from the divestment of Musselroe Holdings Pty Ltd.

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 additional annual return of equity of $20.000m next year, subject to its operating and expenditure requirements and borrowing capacity.

FINANCIAL ANALYSIS

	Bench Mark	Hydro	Aurora	Transend
Financial performance				
Net profit after tax ($'000s)		(188 825)	59 115	47 810
Underlying Profit before tax and fair value movements		237 716	59 332	67 714
EBIT ($'000s)		305 217	157 021	110 513
EBITDA ($'000s)		396 590	276 713	185 306
Operating margin	>1.0	1.34	1.06	1.85
Return on assets		5.6%	7.8%	6.6%
Return on equity		(8.9%)	10.2%	6.8%
Financial Management				
Debt to equity		50.5%	135.1%	87.4%
Debt to total assets		17.7%	41.3%	36.9%
Interest cover - EBIT	>2	4.52	2.2	2.4
Interest cover - cash from operations	>2	6.90	3.2	3.5
Current ratio	>1	0.66	0.90	0.36
Cost of debt	6.9%	6.9%	7.8%	7.4%
Debt collection	30 days	52	50	10
Creditor turnover	30 days	19	23	12
Asset Management				
Investment gap %	100%	154.9%	95%	125%
Returns to Government				
Dividends paid ($'000s)		50 686	16 000	25 900
Income tax paid or payable ($'000s)		52 769	3 386	32 482
Government guarantee fees paid ($'000s)		8 595	12 118	7 299
Total return to the State ($'000s)		112 050	31 504	65 681
Dividends payable ($'000s)		116 481	25 000	28 686
Dividend payout ratio		(61.7%)	42.29%	60.0%
Dividend to equity ratio		5.9%	4.3%	4.0%
CSO funding		7 700	35 438	0
Other Information				
Average staff numbers (FTEs)		1 037	952	250
Average staff costs ($'000s)		116	101	137
Average leave balances per employee ($'000s)		27	15	35

Hydro's Return on equity was negative (9.6%) as a result of the Comprehensive loss in 2012 13. However, the Dividend payable for the year, which excludes certain Other comprehensive income items including impairments, was $116.481m.

Hydro's Debt to equity ratio increased by 10.3% to 50.5% in 2012-13 mainly due to the increase in net debt following the transfer of AETV and the Comprehensive loss for the year. Conversely, Aurora's Debt to equity ratio improved from 178.8% in 2011-12 to 135.1% in 2012-13 following the transfer of AETV and Net profit for the year. Debt to equity ratios of Aurora and Transend indicated they relied to a greater extent on debt funding than Hydro. Transend's Debt to equity ratio remained steady.

Both Hydro and Transend invested strongly in capital expenditure as indicated by their Investment gap ratios. For the first time since its incorporation, Aurora's Investment gap ratio declined below the benchmark to 95.1%.

Average staff numbers (FTE's) for the three entities decreased 62 FTEs from 2 300 in 2011-12 to 2 239 in 2012-13. Both Transend, (21 FTEs), and Aurora, (161 FTEs), reduced their average FTEs as a result of redundancy and restructuring programs. Aurora's reduction also included the effect of transferring AETV employees to Hydro, contributing to the offsetting increase in Hydro's FTEs of 121.

In total these three entities returned $209.235m in the form of taxes, dividends and guarantee fees to the State in 2012-13 (2011-12, $189.284m; 2010-11, $96.618m; 2009-10, $49.340m).

ENERGY PRICES

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

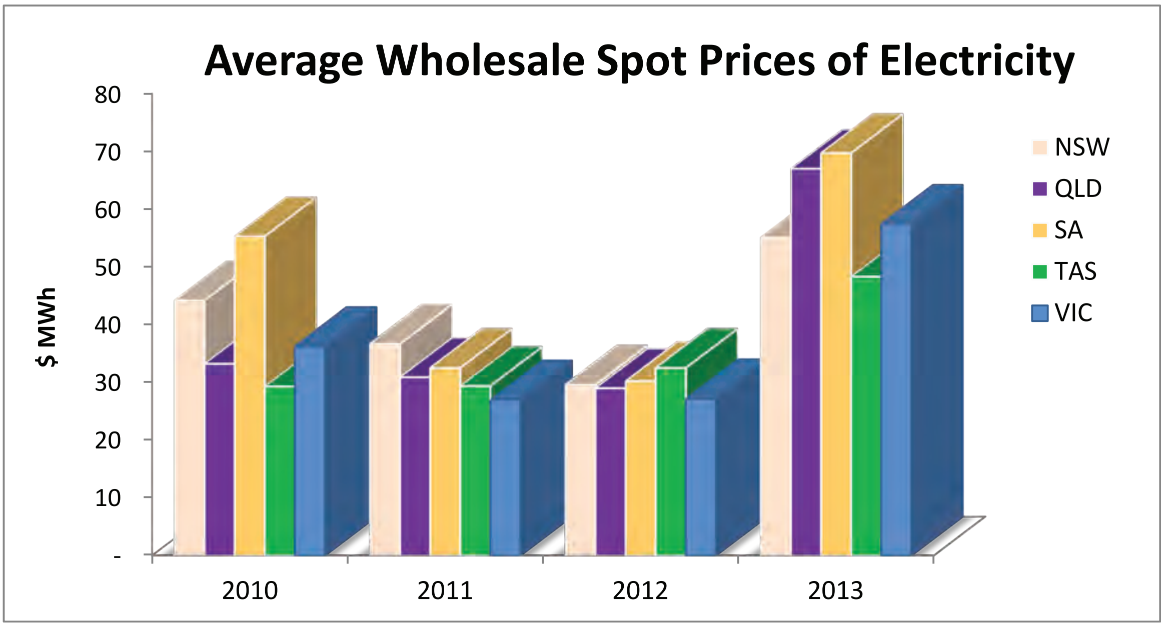
Year	NSW	QLD	SA	TAS	VIC
2009-2010	44.19	33.30	55.31	29.37	36.28
2010-2011	36.74	30.97	32.58	29.45	27.09
2011-2012	29.67	29.07	30.28	32.58	27.28
2012-2013	55.10	67.02	69.75	48.30	57.44

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

Since connecting to the National Electricity Market (NEM) in 2005, Tasmania has participated 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 $10.000 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, increased in 2012-13 to $48.30/MWh, compared to $32.58/MWh in 2011-12.

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.

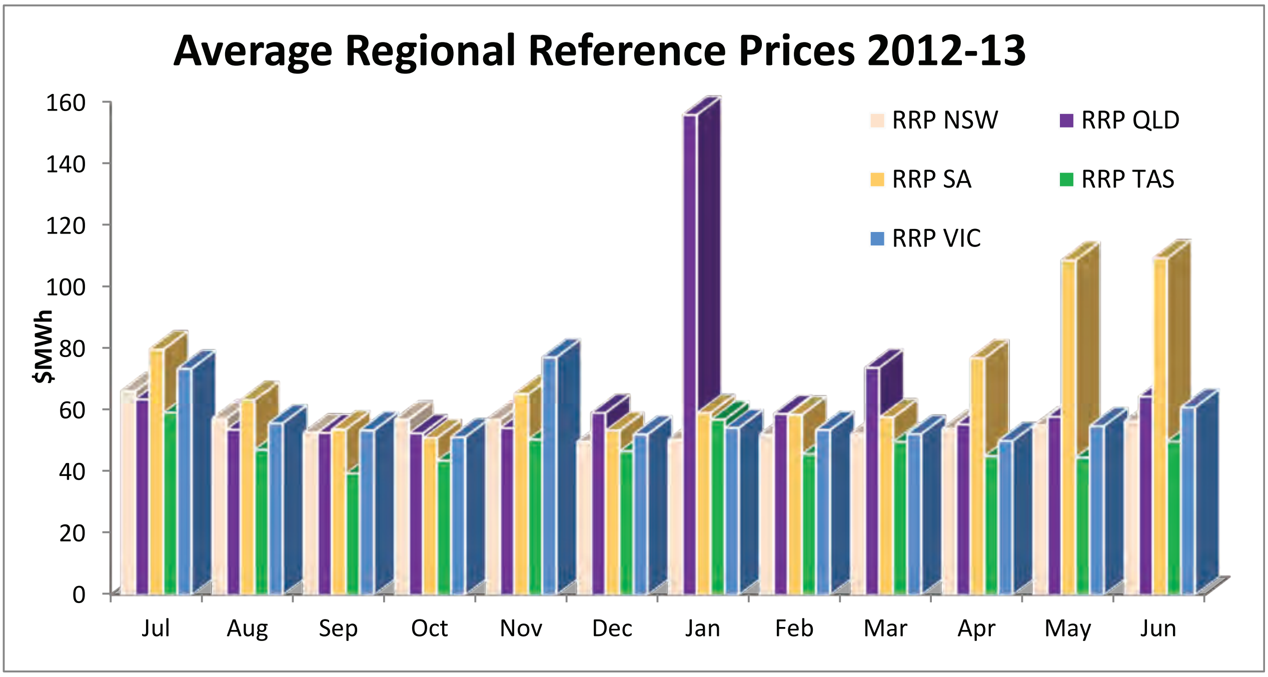
The following graph illustrates movement in the average annual wholesale spot prices for electricity for the past four years.



The NEM is a wholesale market. Following the introduction of a carbon price of $23/tonne CO^2-equivalent on 1 July 2012 there was a sharp increase in the NEM spot prices. An AEMO review of the carbon price effects for the first three months indicated the spot price increase was around $21/MWh. Other noticeable factors were a change in generation mix with hydro generation increasing and coal-fired generation decreasing. Also noted were increased exports from Tasmania to Victoria and Victoria to South Australia.

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 for each month per region over the financial year is shown in the following graph.



The Tasmanian market fluctuated again in 2012-13, with the highest and lowest electricity prices recorded being:

- lowest average daily price was \$33.85/MWh on 9 June 2013 (2011-12, negative \$94.67/MWh on 31 July 2011)
- highest average daily price was \$135.84/MWh on 5 Jan 2013 (\$139.05/MWh on 18 April 2012)
- lowest half-hour price was negative \$334.24/MWh on 21 June 2013 at 11.30am (negative \$956.35/MWh on 31 July 2011 at 11.30am)
- highest half-hour price was \$2 544.07/MWh on 21 Jan 2013 at 6.00pm (\$4 928.30/MWh on 18 April 2012 at 4.30pm).

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

While 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.

AUDIT SUMMARY - GOVERNMENT BUSINESS ENTERPRISES

BACKGROUND

Statutory authorities that are subject to the provisions of their enabling legislation, and also subject to the provisions of the *Government Business Enterprises Act 1995* (GBE Act), are referred to as Government Business Enterprises (GBEs).

The GBE Act, which commenced on 1 July 1995 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)
- Public Trustee (PT)
- Tasmanian Public Finance Corporation (Tascorp).

KEY OUTCOMES FROM AUDITS

Audits of the financial statements of the six GBEs, 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 GBEs submitted financial statements within the statutory deadline being 45 days following the end of the financial year.

FINANCIAL ANALYSIS

Tasmania's GBEs collectively had Net Assets of $2.312bn (2012, $2.510bn), employed 1 570 people (1 476), and generated $47.491m in after tax losses ($76.468m after tax losses).

Summarised Financial Results

	Underlying Profit (Loss)	Net Profit (Loss) Before Tax	Net Profit (Loss) After Tax	Total Comprehensive profit (Loss)	Net Assets
	$'000s	$'000s	$'000s	$'000s	$'000s
Forestry	(12 005)	(6 500)	(13 402)	(14 190)	72 528
Hydro	237 716	(248 522)	(188 825)	(377 495)	1 793 096
MAIB*	45 313	207 792	147 462	148 168	382 416
The Authority	(231)	(231)	(231)	1 364	17 827
PT	804	1 561	1 314	2 588	4 283
Tascorp	8 845	8 845	6 191	6 191	41 458
Total	**280 442**	**(37 055)**	**(47 491)**	**(233 374)**	**2 311 608**

* *Underlying profit (loss) refers to Underwriting results.*

Financial results were dominated by Hydro and MAIB. GBEs recorded Underlying Profits of $280.442m. However, significant asset impairments resulted in Hydro incurring an Net Loss of $188.825m, which more than offset the after tax results of the other GBEs.

Returns to Government

	Dividends	Taxation	Guarantee Fees	Total Returns
	$'000s	$'000s	$'000s	$'000s
Forestry	0	0	0	0
Hydro	50 686	52 769	8 595	112 050
MAIB	6 140	0	0	6 140
The Authority*	0	0	0	0
PT	151	121	0	272
Tascorp	7 629	3 371	0	11 000
Total	**64 606**	**56 261**	**8 595**	**129 462**

* *Is not required to pay dividends, taxes or guarantee fees.*

GBEs paid $129.462m to the State during 2012-13. The majority of the returns, 87%, were made by Hydro. Forestry made a loss and was not in a position to return dividends to the State.

RESPONSIBLE MINISTER

The Ministers responsible for the GBEs at 30 June 2013 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 (Forestry)

CONTEXT

- Forestry experienced trading difficulties in recent years which has been reported in a number of forums including reports by the Tasmanian Audit Office. Evident from a review of Forestry's Statement of Comprehensive Income is that difficult trading conditions continued in 2012-13. On a comparative basis, before accounting for the sale in 2011-12 of Forestry's 50% interest in the GMO joint venture and Government support of $35.000m in 2012-13, Underlying Losses of $35.000m to $45.000m were recorded in each of the past two financial years.
- The Net Loss result is more difficult to compare from year to year due to events outside Forestry's control including:
    - Passing of the *Tasmanian Forests Agreement Act 2013* which, so far, resulted in:
        - protection of an additional 392 327 hectares of land previously under Forestry's management
        - reduction in quantities available for harvest to 137 000 cubic metres of high quality sawlogs, 200 000 tonnes of eucalypt peeler logs and 870 000 tonnes of pulpwood associated with the high quality sawlogs
        - the consequential impact of the above two measures included write downs in the value of biological assets and roads within new reserves and the write back of liabilities established relating to anticipated costs of managing non-commercial zone forests
- In 2012-13 a significant gain when revaluing Forestry's unfunded superannuation liabilities. An even higher loss was recorded in 2011-12.

SNAPSHOT

- Forestry continued to operate at a loss as revenue from forest sales was down $22.226m or 28% compared to last year and $52.982m or 48.5% compared to average sales over the previous three years.
- Government support in the form of a reimbursement for the approximate cost of non-commercial activities, $20.000m, and one-off deficit funding, $15.000m, helped to reduce Forestry's loss to $12.005m for 2012-13. Without this support, the loss would be almost $5.000m worse than last year's result.
- Equity decreased a further $14.190m to $72.528m at 30 June 2013.
- Debt reduced over the last four years by $39.698m to $1.102m at 30 June 2013.
- The value of standing timber declined by $47.387m to $104.958m.
- Forest reserves and associated activities are to be transferred to the Department of Primary Industries, Parks, Water and Environment (DPIPWE). This resulted in an impairment of roads within reserves, $27.748m, and a reduction in Forestry's obligation for non-commercial forest zones of $48.000m.

Reconciliation

As explained in the Format of the Report section in the Introduction to this volume, we do at times vary from accounting standards and arrive at an Underlying Profit or Loss. This is the case with Forestry. The table following reconciles our Underlying Loss and our Net Profit with that reported by Forestry:

RECONCILIATION OF UNDERLYING AND NET LOSSES

	2012-13
	$'000s
Underlying Loss Before Tax Reported in this Chapter	**(12 005)**
Fair value movements in assets and liabilities before tax	(3 622)
TCFA capital grant income earned before tax	9 127
Net Loss Before Tax Reported by Forestry	**(6 500)**
Income Tax (Expense) Benefit:	
On the underlying loss – our estimate	(3 602)
On fair value and other movements – our estimate	(3 300)
Total income tax expense as reported by Forestry	**(6 902)**
Net Loss Reported by Forestry and (in this Chapter)	**(13 402)**

Key developments this year included:

- revised funding arrangements with Government
- an equity injection of $10.000m from Government to help Forestry to pay Tascorp debt and the capital component of a finance lease with Transend Networks Pty Ltd (Transend)
- enactment of the *Tasmanian Forest Agreement Act 2013* (TFA Act).

The audit was completed satisfactorily with no key findings. The audit opinion was issued with an emphasis of matter paragraph.

INTRODUCTION

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

Historically, Forestry Tasmania's responsibility under the *Forestry Act 1920* was to manage 1.5 million hectares of State forest, however with the passing of the TFA Act which amends the *Forestry Act 1920*, Forestry will in future be responsible for the management of approximately 800 000 hectares of State forest that is designated Permanent Timber Production Zone.

Government has decided responsibility for management of some 220 000 hectares of existing formal forest reserves will transfer to DPIPWE prior to 31 December 2013, as these areas transition to become reserves under the *Nature Conservation Act 2002*. In addition, new reserves of approximately 504 000 hectares to be created as part of the TFA process will also in future be managed by DPIPWE.

The main undertaking by Forestry is the sustainable management of Tasmania's State forest Permanent Production Timber Zone including the sustainable production and delivery of forest products and services, the facilitation of new forest based industries, the conservation of natural and cultural heritage values and the provision of education, recreation and tourism services.

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. As Tarkine and Maydena are located in reserves, they will become the responsibility of DPIPWE.

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. However, this component of Forestry's activities declined significantly in recent years.

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

KEY AREAS OF AUDIT ATTENTION

Description of Area	Audit Approach
Last year, we issued an unqualified audit report with an emphasis of matter, drawing attention to circumstances giving rise to uncertainties as to the operations of Forestry, the assessment by the Directors and their conclusion that it was appropriate for Forestry to continue to adopt the going concern basis in preparing its financial statements. Under ASA 570 *Going Concern*, we must consider the ability to continue as a going concern for a period of approximately twelve months from the date of our report on the financial statements.	Similar to previous years, we discussed the issue of going concern extensively with management and the Audit and Risk Management Committee. We also reviewed management reports, forecasts and minutes of the Board and Finance, Audit and Risk Management Committees and assessed correspondence from Forestry's stakeholder Ministers which confirmed that Government would continue to support Forestry.
The value of biological assets was determined as the residual amount of the present value of the combined asset less the fair value of land and improvements. This involves a complex calculation, performed by a third party engaged by Forestry and was subject to numerous assumptions. Changes in market conditions, the discount rate and key assumptions impact on the value of biological assets.	We audited the valuation methodology and its compliance with the accounting framework, specifically AASB 141 *Agriculture*. In accordance with Auditing Standards, we reviewed the work of the expert and assessed key assumptions and their expertise. We then examined the accounting treatment as it related to changes in the value of the forest estate and corresponding disclosures in the financial report.
New funding arrangements with Government this year which included: • $20.000m for performance of non-commercial activities, paid in quarterly instalments of up to $5.000m • $6.500m for immediate works required to be undertaken to support the implementation of the Tasmanian Forest Intergovernmental Agreement (TFIA). This funding was to be paid as an upfront lump sum payment • $15.000m deficit funding to cover losses as a result of the Voluntary Sawlog Contract Buyback Program or other claims in relation to the TFIA for 2012-13 • $10.000m equity injection to assist with the repayment of debt with Tascorp and Transend.	We audited the receipt, accounting treatments and disclosure of: • funding for non-commercial activities: 12 December 2012 $4.216m 2 January 2013 $4.149m 16 April 2013 $4.657m 25 June 2013 $6.978m **Total** **$20.000m** The June 2013 claim included the capital component of the exit services charges previously payable by Ta Ann from 15 January 2013 onwards.

Description of Area	Audit Approach
Government agreed to provide $10.000m equity contribution to Forestry to reduce its obligation to Transend for the Southwood transmission line. The contribution was conditional on Forestry reducing the capital charges for electricity at Ta Ann's Huon mill.	We audited the accounting treatment of the $10.000m equity injection and verified it was applied in accordance with the Government's requirements. We verified the payment with Transend and agreed to the accounting treatment of these transactions.
Forestry entered into an arrangement with a third party whereby it acquired two chippers in exchange for a partial forgiveness of that party's debt. Last year, Forestry also took possession of the Southwood Sawmill because a third party was unable to meet its obligations.	We agreed the accounting treatment for the transaction, which resulted in additions to Plant and equipment of $1.225m and a write down of the amount due by a third of the same amount. The amount of $1.225m was based on quotations for the supply and commissioning of similar assets obtained by Forestry.
The volume of redundancies or employees leaving the organisation was expected to increase due to economic conditions and structural changes facing Forestry.	The volume of redundancies and departures was not as high during the year as previously anticipated, due to the delay in establishing the process for the transfer of positions to DPIPWE. Nevertheless, we performed substantive procedures on a selection of terminations, which included redundancies, and ensured that calculations were correct and appropriately approved by management.
We dispensed with the audit of Newood at the request of the Directors on the basis that we are able to examine its assets, liabilities, income and expenditure as part of the audit of Forestry's consolidated financial statements.	We audited assets, liabilities, income and expenditure as part of consolidation procedures to ensure that the consolidated financial statements were not materially misstated. We also confirmed the balance due to Transend.

AUDIT OF THE 2012-13 STATEMENTS

Financial statements were approved by the Board and certified on 8 August 2013. The signed financial statements were received on 15 August 2013 and an unqualified audit report was 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 its financial report. My audit opinion is not qualified in respect of these matters.'*

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

> *'The Directors have reviewed the appropriateness of continuing to prepare the financial statements on the basis that Forestry Tasmania is a going concern.*
>
> *It is noted that the current trading outlook continues to present significant challenges in terms of sales volumes and pricing and in these circumstances there are material uncertainties over future trading results and cash flows. The Directors have concluded that under these circumstances there continues to be material uncertainty about the operation of the business.*

However, the Directors note that whilst demand and pricing generally remains challenging, demand and pricing for some products has improved and further, Forestry Tasmania continues to reduce its costs and measures have been instituted to preserve cash.

In addition, the recent depreciation in the value of the Australian Dollar relative to the United States Dollar will, if maintained, positively impact the competitiveness of exports which are invoiced in United States dollars.

After consideration of these matters the Board resolved that it is appropriate to prepare the financial statements on the basis that Forestry Tasmania is a going concern because:

- *as a Government Business Enterprise that is the Crown, the Government will ultimately be liable for Forestry Tasmania obligations in circumstances where it is not able to meet them and*
- *if required, the Government would provide deficit funding for Forestry Tasmania to remain solvent.*

This support is evidenced by:

- *the Government funding support in 2012-13*
- *inclusion of funding of $25 million in the State Budget for 2013-14 and that the forward estimates provide for financial support of up to $25 million in each of the ensuing 2 years.'*

KEY FINDINGS

No high risk findings were identified during the course of the audit. Testing of controls over supplier payments found that a number of payments from our sample were authorised incorrectly. As a result of these exceptions, we were unable to place reliance on controls in this area and performed additional substantive testing which focused on material payments. During this testing, we identified one instance where a payment was not authorised in accordance with delegations. Management accepted our finding and agreed to re-emphasise to staff the importance of authorising payments in accordance with policy.

KEY DEVELOPMENTS

Funding Arrangements and Equity Injection

There were new funding and equity arrangements with Government during 2012-13 as follows:

- up to $20.000m per annum for performance of non-commercial activities, paid in quarterly instalments in arrears
- $6.500m for immediate works required to be undertaken to support the implementation of the Tasmanian Forests Intergovernmental Agreement (TFIA). This funding was paid as an upfront lump sum payment $4.578m of which was received in advance and recorded as deferred income and the balance, $1.742m, recognised as revenue in the current year.
- $15.000m deficit funding in place of losses incurred as a result of the Voluntary Sawlog Contract Buyback Program or other claims in relation to the TFIA for 2012-13
- $10.000m equity injection to assist with the repayment of debt with Tascorp $4.000m and the balance used to reduce the obligation to Transend.

The State Budget includes a further $25.000m per annum support over the next three years to ensure Forestry continues to operate, meet its contractual obligations and perform its non-commercial functions in the current market environment.

Tasmanian Forests Agreement Act 2013

The TFA Act was enacted in June 2013. It provides wood supply guarantees by amending the *Forestry Act 1920* and established a framework to enable proclamation of reserves over time in accordance with a legislative process under the *Nature Conservation Act 2002*, and provides interim protection for those proposed reserves pending their proclamation.

The TFA Act gives Parliament a central role in the implementation of the TFIA. On 29 August 2013, Parliament passed the Initial Proposed Reserve Order which provided for the protection of 392 327 hectares of land.

The quantities available for harvest under the TFA Act are 137 000 cubic metres of high quality sawlog, 200 000 tonnes of eucalypt peeler logs and 870 000 tonnes of pulpwood associated with the high quality sawlogs.

Transfer of Formal Forest Reserves

Forestry's system of formal forest reserves and associated non-commercial reserve management activities are to be transferred to DPIPWE. It is planned that 220 000 hectares will be transferred to the Department by the end of 2013.

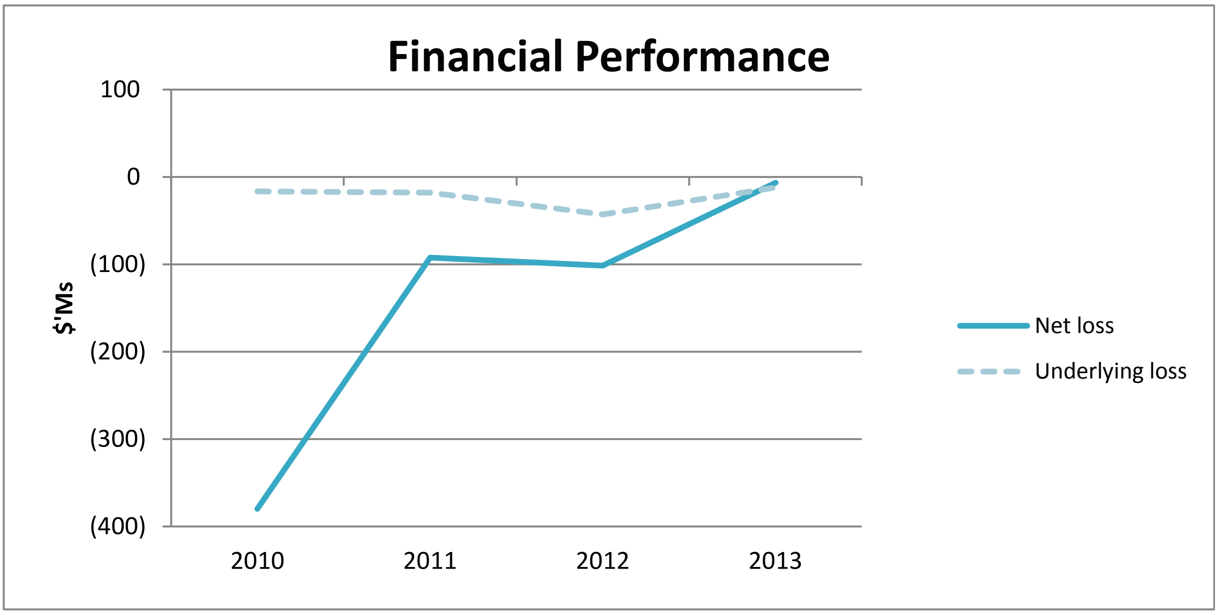
Restructure of Forestry's Operations

In late August 2012, the Government announced its decision to restructure Forestry, following a strategic review by URS Corporation Australia. Following completion of stages 1 and 2 of this review it was agreed by the stakeholder Ministers that Forestry will:

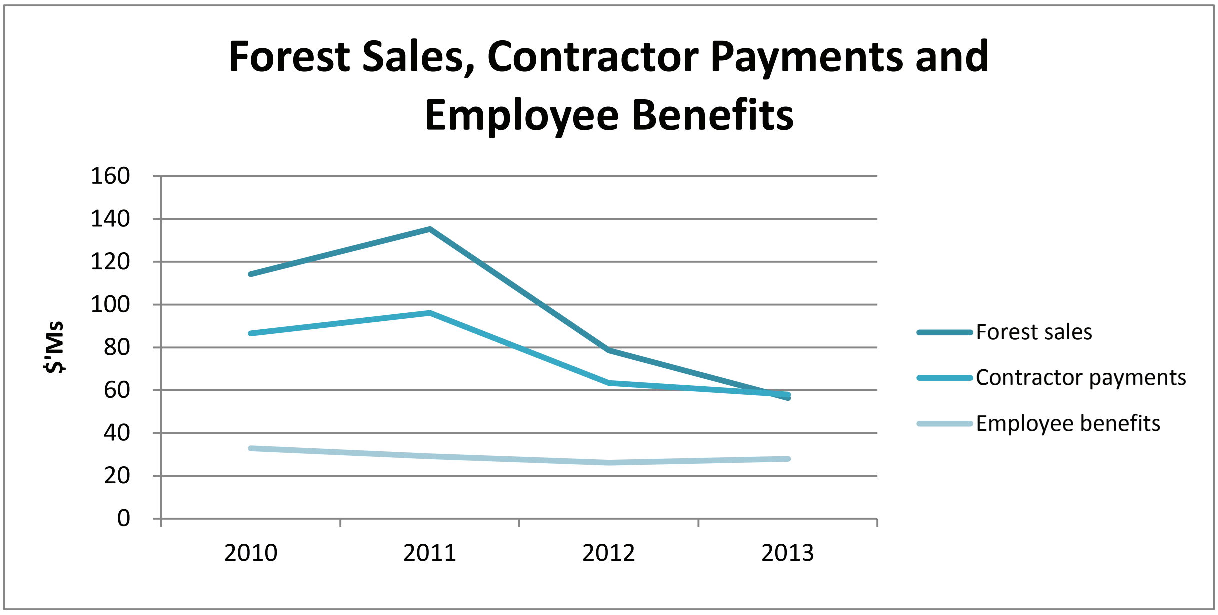
- retain its responsibility for wood production from State forest
- remain the responsible land manager for production State forest.

Further work is being conducted in 2013-14 to define Forestry's core activities within the above functions and to determine what, if any, non-core functions will transfer to other Government agencies.

FINANCIAL ANALYSIS



Forestry continued to operate at a loss. The Underlying Loss of $12.005m in 2012-13 was an improvement on the loss of $42.779m reported the year before and was due to Forestry being reimbursed for the cost of non-commercial activities, $20.000m, and one-off Deficit funding, $15.000m. Without this support from Government, the Underlying result would have been $5.000m worse than last year's result.



Forest sales reduced substantially over the period under review, as shown in the graph above.

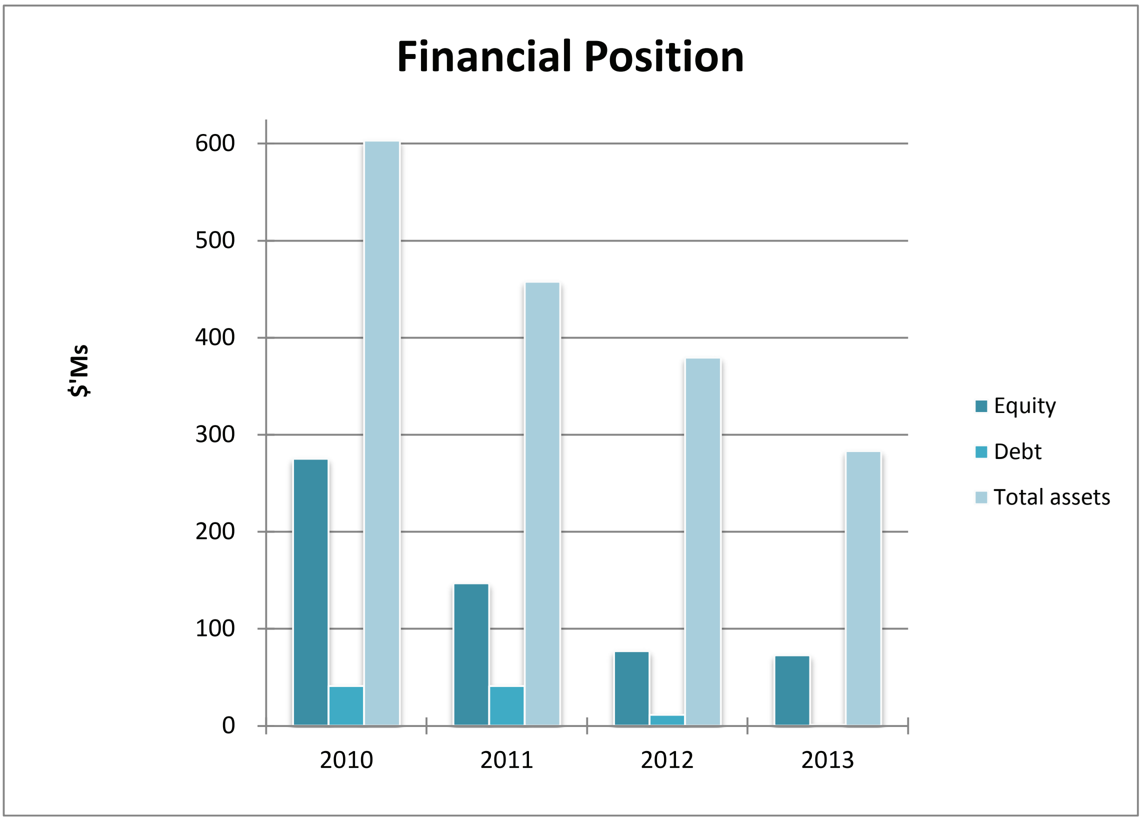
Revenue from Forest sales was down $22.226m or 28% compared to last year and $52.982m, or 48.5%, less than average sales over the last three years. The deterioration in 2011-12 was largely due to a significant reduction in the volume of pulpwood sales as major customers halted or reduced their production in response to lower demand and the closure of essential infrastructure. The relative strength of the Australian dollar also impacted on export sales.

Contractor payments were also lower and generally followed the trend in Forest sales. However, in 2012-13 Contractor payments exceeded Forest sales by $1.576m because of general upkeep costs, for example pruning, windrowing and maintaining firelines.

For several years, Forestry has been making changes to its cost structure to align this with its smaller revenue base, including reducing its workforce. Over the four year period, FTEs reduced by 141. Employee benefits in the graph above exclude redundancy costs.

Going back to the Financial Performance graph, Net Loss before tax for 2012-13 was significantly lower than the losses reported in previous years.

The Net Loss varied over the period primarily due to fluctuations in the valuation of biological assets, movements in obligations for non-commercial zones, impairment of forest land and roads within new reserves and superannuation actuarial adjustments. Forest valuation is discussed later in this Chapter.



Equity decreased over the period under review by $202.544m or 74%. It decreased significantly between 2010 and 2011 due to losses incurred mainly resulting from the impact of a revised valuation approach, which reduced the carrying amount of Forestry's integrated biological and forest estate assets.

The 2012 decrease in Equity was due primarily to the sale of Forestry's interest in the GMO joint venture and the significant increase in the superannuation liability. Equity remained consistent in 2013, reducing by the Comprehensive loss, $14.190m, offset by the equity injection from Government, $10.000m.

Debt reduced over the four year period by $39.698m to $1.102m. In 2012 Forestry repaid $29.800m of its borrowings using funds received from the sale of its share of the GMO joint venture. The equity injection from Government in 2012-13 enabled Forestry to almost extinguish its Debt.

Total Assets continued to decline over the period due to the TFA and downturn in the forest industry and the uncertainty about the industry's future, which led to significant write-downs in the value of biological and forest estate assets and impairment of forest land and roads.

COMPONENTS OF INTEGRATED FOREST VALUATION

	2013	**2012**	**2011**	**2010**
	$'000s	$'000s	$'000s	$'000s
Standing timber	104 958	147 860	145 927	247 846
Roads and structures	86 242	116 140	116 749	114 654
Total Biological and Forest Estate Assets	**191 200**	**264 000**	**262 676**	**362 500**
Obligations for non-commercial forest zones	(7 300)	(55 300)	(57 100)	(65 800)
GMO joint venture timber resource	0	0	85 650	70 891
Net Biological and Forest Estate Assets	**183 900**	**208 700**	**291 226**	**367 591**

The value of biological assets is determined as the 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 including changes in market conditions and discount rates.

The approach adopted for valuing biological assets at 30 June 2013 remained fundamentally unchanged. The underlying assumptions were updated to reflect the quantities available for harvest under the TFA Act, a progressive reduction of administration, forest management, overheads and research and development costs and the introduction of Government support. This resulted in a write down of standing timber of $42.902m.

Most importantly, the valuation took into account the transfer of formal forest reserves and associated non-commercial reserve management, which resulted in a reduction in Obligations for non-commercial forest zones of $48.000m and an impairment of Roads and structures within new reserves of $27.748m.

NEWOOD HOLDINGS PTY LTD (NEWOOD)

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

Significant revenue items for the Newood group are the sale of power and site rental. Expenditure items are electricity charges and finance lease repayments. In 2007, Newood entered into a 25-year connection agreement with Transend. Under that agreement, Newood is responsible for the repayment of the cost of constructing a high voltage transmission line and the substation required to bring power from Transend's network to the Huon Valley site and the cost of maintaining the infrastructure.

To reduce electricity charges, Government provided a $10.000m equity contribution to Forestry on the condition that $6.000m was used to substantially repay the capital component of Newood's obligation to Transend. The decrease in Newood's obligation to Transend was offset by an increase in an inter-company loan from Forestry. Therefore, there was no net effect on Newood's Net Assets.

CHAPTER APPENDICES

STATEMENT OF COMPREHENSIVE INCOME

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Revenue from forest sales	56 338	78 564	135 260	114 136
Share of GMO Joint Venture revenues	0	10 851	21 199	21 046
Forest management services revenue	2 973	3 222	5 733	5 982
Tasmanian Community Forest Agreement	885	1 010	3 716	4 282
Reimbursemment for non commercial activity costs	20 000	0	0	0
Deficit funding	15 000	0	0	0
Tasmanian Forest Agreement/World Hertitage Area Implementation	1 742	0	0	0
Fire fighting reimbursements	4 338	0	0	2 907
Other revenue	9 029	9 827	10 145	11 954
Total Revenue	**110 305**	**103 474**	**176 053**	**160 307**
Employee benefits	28 202	26 232	30 345	33 029
Contractors expenses	57 914	63 425	96 062	86 529
Share of GMO Joint Venture expenses	0	9 559	17 089	16 689
Depreciation and amortisation	9 669	10 362	10 514	11 797
Costs attributable to non commercial forest zones	6 285	5 269	5 255	6 390
Loss on sale of assets	440	3 198	8	53
Other expenses	12 455	19 104	25 289	13 279
Total Expenses	**114 965**	**137 149**	**184 562**	**167 766**
Net Operating Profit (Loss) Before Net Finance Cost and Tax	**(4 660)**	**(33 675)**	**(8 509)**	**(7 459)**
Finance revenue	1 404	2 050	2 331	2 023
Finance costs	(1 091)	(1 852)	(2 386)	(1 934)
Finance lease costs	(959)	(976)	(993)	(1 006)
Interest cost on defined benefit superannuation plan	(6 699)	(8 326)	(8 165)	(7 894)
Underlying Profit (Loss) Before Tax	**(12 005)**	**(42 779)**	**(17 722)**	**(16 270)**
Biological asset valuation adjustment	(47 387)	(4 175)	(95 253)	(74 630)
Movement in obligations for non commercial zones	48 000	1 800	8 700	(65 800)
TCFA capital grant income earned	9 127	5 345	7 496	5 836
Superannuation actuarial gains (losses)	23 513	(44 219)	3 232	(11 131)
Accumulated increments realised on sale of softwood joint venture	0	(17 316)	0	0
Investment market value adjustment	0	(139)	1 314	1 299
Impairment of forest land	0	0	0	(217 198)
Impairment of roads within new reserves	(27 748)	0	0	0
Impairment of other assets	0	0	0	(1 736)
Net Profit (Loss) Before Tax	**(6 500)**	**(101 483)**	**(92 233)**	**(379 630)**
Income tax benefit (expense)	(6 902)	30 554	(37 243)	115 748
Net Profit (Loss) After Tax	**(13 402)**	**(70 929)**	**(129 476)**	**(263 882)**
Increase (decrease) in the revaluation of land and buildings	(1 126)	1 444	1 150	(59 631)
Income tax on revaluation of land and buildings	338	(364)	(468)	17 844
Total Comprehensive Profit (Loss)	**(14 190)**	**(69 849)**	**(128 794)**	**(305 669)**

Note: Forestry reported a Net Loss before tax of $6.500m in 2012-13.

STATEMENT OF FINANCIAL POSITION

	2013	2012	2011	2010
	$'000s	$'000s	$'000s	$'000s
Cash	1 485	12 283	9 365	29 546
Investments	0	0	7 147	0
Receivables and prepayments	24 005	25 566	34 702	38 540
Inventories	11 414	13 349	12 684	12 189
Biological assets	17 424	10 923	6 741	5 559
Total Current Assets	**54 328**	**62 121**	**70 639**	**85 834**
Payables	13 095	12 431	15 170	20 509
Unearned revenue – TCFA	11 925	9 518	12 988	14 191
Borrowings	1 102	11 228	29 800	19 800
Employee benefits	5 028	5 296	4 943	5 540
Superannuation	5 060	5 348	4 556	4 187
Obligations for non commercial forest zones	665	2 288	1 463	5 354
Total Current Liabilities	**36 875**	**46 109**	**68 920**	**69 581**
Net Working Capital	**17 453**	**16 012**	**1 719**	**16 253**
Biological assets	87 534	136 937	224 836	313 178
Forest estate	86 242	116 140	116 749	114 654
Property, plant and equipment	40 419	42 998	43 999	46 385
Investments	0	0	0	13 666
Deferred tax assets	13 313	19 877	0	27 467
Other	1 181	1 155	1 289	1 714
Total Non-Current Assets	**228 689**	**317 107**	**386 873**	**517 064**
Borrowings	0	0	11 000	21 000
Finance lease and other payables	5 773	11 311	11 522	11 716
Unearned revenue – TCFA	22 666	31 193	34 744	45 775
Deferred tax liabilities	0	0	10 244	0
Employee benefits	0	0	911	1 080
Superannuation	138 540	160 885	117 898	118 228
Obligations for non commercial forest zones	6 635	53 012	55 637	60 446
Total Non-Current Liabilities	**173 614**	**256 401**	**241 956**	**258 245**
Net Assets	**72 528**	**76 718**	**146 636**	**275 072**
Contributed equity	244 457	234 457	234 457	234 457
(Accumulated losses) Retained profits	(179 866)	(166 464)	(95 695)	33 423
Reserves	7 937	8 725	7 874	7 192
Total Equity	**72 528**	**76 718**	**146 636**	**275 072**

STATEMENT OF CASH FLOWS

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	72 598	105 345	161 799	151 292
Distributions from GMO	0	4 641	2 250	1 695
TFA/WHA implementation subsidy	6 498	0	0	0
Reimbursemment for non commercial activity costs	20 000	0	0	0
Deficit funding	15 000	0	0	0
Interest received	1 263	1 995	1 796	2 023
Payments to suppliers and employees	(115 458)	(136 908)	(172 807)	(165 193)
Finance costs	(1 657)	(1 852)	(2 386)	(1 934)
Cash From (used in) Operations	**(1 756)**	**(26 779)**	**(9 348)**	**(12 117)**
Proceeds from investments	0	7 008	7 926	0
TCFA Grants	0	0	0	21 966
Payments for plantation activities	(4 485)	(6 107)	(8 094)	(8 070)
Payments for property, plant and equipment	(6 713)	(11 286)	(10 185)	(14 282)
Proceeds from sale of assets	7 820	71 020	690	6 176
Cash From (used in) Investing Activities	**(3 378)**	**60 635**	**(9 663)**	**5 790**
Equity contribution	10 000	0	0	0
Repayment of borrowings	(10 000)	(29 800)	0	0
Finance lease payments	(5 664)	(1 138)	(1 170)	(1 170)
Cash From (used in) Financing Activities	**(5 664)**	**(30 938)**	**(1 170)**	**(1 170)**
Net Increase (Decrease) in Cash	**(10 798)**	**2 918**	**(20 181)**	**(7 497)**
Cash at the beginning of the year	12 283	9 365	29 546	37 043
Cash at End of the Year	**1 485**	**12 283**	**9 365**	**29 546**

FINANCIAL ANALYSIS

	Bench Mark	2012-13	2011-12	2010-11	2009-10
Financial Performance					
Net Profit (Loss) ($'000s)		(6 500)	(101 483)	(92 233)	(379 630)
EBIT ($'000s)		(4 660)	(33 675)	(8 509)	(7 459)
Operating margin	>1.0	0.96	0.75	0.95	0.96
Return on assets		(1.4%)	(8.0%)	(1.6%)	(0.9%)
Return on equity		(8.7%)	(90.9%)	(43.7%)	(88.6%)
Financial Management					
Debt to equity		1.5%	14.6%	27.8%	14.8%
Debt to total assets		0.4%	3.0%	8.9%	6.8%
Interest cover - EBIT	>2	(0.6)	(3.3)	(0.8)	(0.8)
Interest cover - operating cash flows	>2	(0.2)	(2.6)	(0.9)	(1.2)
Current ratio	>1	1.5	1.3	1.0	1.2
Cost of debt		11.3%	7.1%	5.8%	4.7%
Debt collection	30 days	154	130	95	89
Creditor turnover	30 days	66	41	37	52
Other Information					
Average staff numbers (FTEs)		338	369	433	479
Average staff costs ($'000s)		83	71	70	69
Average leave balance per employee per FTE ($'000s)		14	13	11	12

NEWOOD CONSOLIDATED FINANCIAL STATEMENTS

	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s
Total revenue	2 804	2 921	3 124
Total expenditure	2 400	3 200	3 463
Profit (Loss)	**404**	**(280)**	**(339)**
	2013	**2012**	**2011**
	$'000	$'000	$'000
Current assets	3 980	2 400	1 383
Non-current assets	20 208	21 227	22 348
Total Assets	**24 188**	**23 627**	23 731
Current liabilities	850	664	685
Non-current liabilities	23 052	23 157	22 984
Total Liabilities	**23 902**	**23 821**	**23 669**
Net Assets	**286**	**(194)**	**62**
Equity	**286**	**(194)**	**62**

HYDRO-ELECTRIC CORPORATION (Hydro)

SNAPSHOT

- On a turnover of $1.546bn, Hydro generated a Profit before impairment expenses, fair value movements and tax of $237.716m. Turnover increased significantly.
- Hydro generated $261.549m in cash flows from operating activities and was in a strong net asset position of $1.793bn at 30 June.
- It paid a dividend of $50.686m in 2012-13 based on 2011-12 results and proposed a further dividend of $116.481m based on 2012-13.
- After taking into account impairment expenses, fair value movements and tax, Hydro incurred a net loss after tax of $188.825m, and a Total Comprehensive Loss of $377.495m for 2012-13. The total comprehensive loss takes into account the net loss after tax and all items debited or credited to reserves or retained earnings.
- Included in the Comprehensive Loss was impairment recognised; on the acquisition of Aurora Energy Tamar Valley (AETV) power station of $335.046m, the Corporation's hydro generation assets of $439.220m and goodwill attributable to the hydro generation assets of $31.400m.
- Impairment recognised on the acquisition of AETV power station arose in relation to the value of the power station plant acquired. Impairment was also recognised in connection with onerous contracts for the transportation of gas over Bass Strait via the Tas Gas Pipeline and on to various delivery points within Tasmania.
- The unfavourable movement in the valuation of the hydro generation assets was due in most part to changes in assumptions in the expected revenues generated, long term energy pricing, assumptions around sales made over Basslink and capital costs expected to be incurred in the maintenance of generation assets.

A number of recommendations were made to management regarding the monitoring of controls, governance of and inputs into significant models, monthly reporting procedures and information technology accesses and securities. None of these was considered to be significant, and did not impact on our ability to issue an unqualified audit opinion. Also noted was the need for Hydro to ensure timely completion of financial statements of all its subsidiary and related companies.

The audit was completed on time with no other items outstanding.

Key developments in the year included:

- transfer of AETV power station to Hydro by Ministerial Notice
- divestment of 75% of Hydro's investment in Musselroe Holdings Pty Ltd (Musselroe).

Major variations between the 2012-13 and 2011-12 financial years, were:

- increase in retail revenue generated by Momentum Energy Pty Ltd to $800.143m (up from $459.997m in 2011-12)
- increase in Tascorp debt to $900.000m, up from $850.600m in 2011-12, due to the net impact of debt totalling $205.000m acquired on the transfer of AETV power station and the repayment of $155.000m to Tascorp
- deterioration of the outlook for energy prices, particularly the carbon price, that resulted in an impairment of hydro generation assets of $439.220m, compared with a revaluation increment in 2011-12 of $321.351m
- recognition of impairment in connection with the transfer of AETV power station of $335.046m with no transaction with any such impact in 2011-12.

INTRODUCTION

Hydro 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 joint venture on the North-west and North-east coasts of Tasmania
- operates a number of wind farm development sites through its subsidiary HT Wind Operations Pty Ltd.

After consideration of the Electricity Supply Industry Expert Panel report (March 2012), Government announced its energy reform blueprint, whereby the decision was made that AETV power station would be transferred from Aurora Energy to Hydro, effective 1 June 2013.

Key Subsidiary and Associated Companies

- **Bell Bay Power Pty Ltd** (BBP) has the responsibility for demolition of this station which ceased operations in March 2009. BBP has previously raised a provision for demolition and site restoration. This provision reduced in 2012-13 and is currently estimated to be $17.500m.
- **Bell Bay Three Pty Ltd**. This company's assets have been disposed of and it did not operate in 2012-13.
- **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 $0.080m in 2012-13 (2011-12, $0.047m).
- **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 $0.050m during 2012-13 (2011-12, $0.020m).
- **RE Storage Project Holding Pty Ltd** was established for the purpose of participating in renewable energy development projects. The company did not operate in 2012-13 or 2011-12.
- **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 to form the Woolnorth Wind Farm joint venture. In February 2013, 75% of Musselroe Wind Farm Pty Ltd was divested to the same joint venture. A number of companies wholly owned by HT Wind Operations are holding companies for potential future developments. The divestment of Musselroe Wind Farm is 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 is discussed later in this Chapter.

- **AETV Pty Ltd (AETV)** is a wholly owned subsidiary that was transferred to Hydro by Ministerial Direction and was incorporated into the group on 1 June 2013. AETV operates three gas-fired power generation units in Tasmania. The operation and transaction will be discussed later in this Chapter.
- **Hydro Tasmania South Africa Pty Ltd** was established in 2012, and in 2012-13 became a joint venture partner in a joint venture to develop a mini-hydro scheme in Neusberg, South Africa. Hydro's investment in the joint venture was $4.326m at balance date.

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

KEY AREAS OF AUDIT ATTENTION

Description of Area	Audit Approach
The Asset Revaluation Model (ARM) is a 100 year discounted cash flow model that calculates the value in use of Hydro's generation assets.	We audited the key components of the ARM, including the functionality and mechanics of the model, the inputs including forecast revenues and expenses, and the other drivers of the valuation, including inflation and discount factors. The ARM is sensitive to changes in discount rates and projected electricity prices. Valuation and modelling experts were engaged to assist in our assessment of the ARM.
Sophisticated modelling and significant management estimates are required to accurately value the unbilled energy delivered to Momentum Energy's retail customers.	We tested the key components of the unbilled energy model prepared by management, including the functionality and mechanics of the model, the inputs including customers, customer pricing and kilowatt hours supplied and other drivers of the valuation. In addition, actual results to forecast were examined throughout the year.
The transfer of AETV to Hydro resulted in recognition of a number of liabilities relating to onerous gas transportation contracts and impairment of the power station. Goodwill was recognised upon the transfer of AETV to Hydro, and subsequently impaired.	Accounting technical specialists were engaged to assist in assessing the appropriate treatment of the onerous contracts, provision for impairment and goodwill upon the transfer of AETV. This is discussed later in this Chapter.
In accordance with the requirements of Australian Auditing Standards, and given the quantum and significance to the financial report, revenue and revenue recognition are considered to be key areas.	Procedures were performed to verify revenue earned through the sale of electricity into the National Electricity Market. Our approach to assessing revenue earned by Momentum included analysis of the relationship between kilowatt hours sold on a monthly basis and revenue generated.

Description of Area	Audit Approach
Due to their complex nature and the significance of their values, energy and treasury derivatives were an area of key audit focus.	Financial instrument valuation specialists were involved in the audit of energy and treasury derivatives in existence at Hydro. Particularly, assessment was made as to the appropriateness of the discount curve and electricity curve used in the valuation.
The Basslink valuation is considered to be a significant area due to its complexity and the level of assumptions involved in modelling the fair value of the contract.	Financial instrument valuation specialists were involved in the audit of the Basslink valuation. The key area of focus was the assessment of calculated revenues receivable by Hydro for the supply of energy across the Basslink to mainland Australia, given the complexity of the calculation, the significant judgement exercised in the calculation and the sensitivity of the calculation to a range of inputs. We also assessed the amendment to the facility fee with Macquarie Bank, which resulted in a settlement in the form of a $15.000m interest rate swap, resulting in the payment of cash flows to Macquarie Bank through to 2030-31. The net present value of the cash flows was $15.000m.

AUDIT OF THE 2012-13 STATEMENTS

The Directors signed Hydro's financial statements on 14 August 2013 and an unqualified audit report was issued on 16 August 2013.

The audits of Hydro's 100% owned subsidiaries with significant operations were completed on the following dates, with unqualified audit opinions being issued for all entities:

Subsidiary	Date opinion issued
Momentum Energy Pty Ltd	15 August 2013
AETV Pty Ltd	20 September 2013
Bell Bay Power Pty Ltd	20 September 2013
RE Storage Project Holding Pty Ltd	20 September 2013
Lofty Ranges Power Pty Ltd	20 September 2013
HT Wind Operations Pty Ltd	30 September 2013

KEY DEVELOPMENTS

Transfer of AETV

After consideration of the Electricity Supply Industry Expert Panel report (March 2012), Government announced its energy reform blueprint, whereby the decision was made that the AETV power station would be transferred from Aurora to Hydro, effective 1 June 2013. This occurred through the transfer of the Company in which the AETV power station is held, (AETV

Pty Ltd, previously Aurora Energy Tamar Valley Pty Ltd), including all assets, liabilities, and equity balances of the Company as at 31 May 2013.

Upon the transfer of AETV, a fair value assessment of the assets acquired and liabilities assumed was performed, which resulted in an impairment being recognised in connection with the power station (plant and equipment) and onerous gas transportation contracts. Internal pricing arrangements[1] in place meant that the gas transportation contracts were not previously onerous to AETV. These guarantees did not transfer to Hydro.

AETV was transferred to Hydro at the recorded net book value of its assets and liabilities of $89.139m. This transfer price was considered to be an equity contribution from the State in accordance with the Treasurer's Transfer Notice. A fair value assessment undertaken on transfer of AETV resulted in Hydro restating the assets and liabilities by $335.046m, resulting in a net liability position of $245.907m.

The value of Hydro's investment in AETV was fully impaired at balance date.

Divestment of Musselroe

In February 2013, Hydro completed the divestment of 75% of its 100% investment in Musselroe to Woolnorth Wind Farm Holdings Pty Ltd, a joint venture with Shenhua Clean Energy Holdings Pty Ltd (SCE). Transactions and results up to that date continued to be consolidated.

The divestment resulted in a nil profit or loss accounting result for Hydro. A total of $29.826m was capitalised from shareholder loans into equity in Woolnorth Wind Farm Holdings Pty Ltd, representing 25% of total equity. An amount of $89.447m was received from SCE for their 75% investment.

Demonstrated through equal representation on the Board, the requirement for unanimous consent for any decisions of the Board and the separate legal entity status of the entity, the 25% investment in Woolnorth Wind Farm Holdings Pty Ltd represents an investment in a jointly controlled entity. Hydro applies equity accounting to account for this investment.

Impairment of Hydro Generation Assets

Hydro recognised a $439.220m impairment of its hydro generation assets and impairment of goodwill attributable to these assets of $31.400m in 2012–13, reversing a revaluation increment of $321.351m recognised in 2011–12. The impairment was recognised based on the valuation of the generation assets as determined through the ARM.

The unfavourable movement in the valuation was due in most part to changes in assumptions in the expected revenues generated, driven by long term energy pricing, the expectation of the carbon pricing fixed floor dropping away and declining demand in the National Electricity Market (NEM) pushing prices down. Changes in assumptions around the allocation of revenues earned from energy sold over Basslink and the inclusion of capital costs expected to be incurred in the maintenance of the assets also impacted on the overall valuation.

Of the impairment, $321.351m was allocated against the asset revaluation reserve that was recognised in 2011–12, with the remaining $117.869m being taken through profit or loss. Goodwill that was recognised on the acquisition of Momentum Energy was partially attributed to the assets as a result of expected increases in the volume of electricity able to be sold into the NEM. Accounting standards require this portion of the goodwill to be impaired first if the fair value of the assets is reduced. Total goodwill arising from the acquisition of Momentum Energy was $47.796m, with $31.400m being impaired in 2012–13, resulting in a balance at 30 June 2013 of $16.396m.

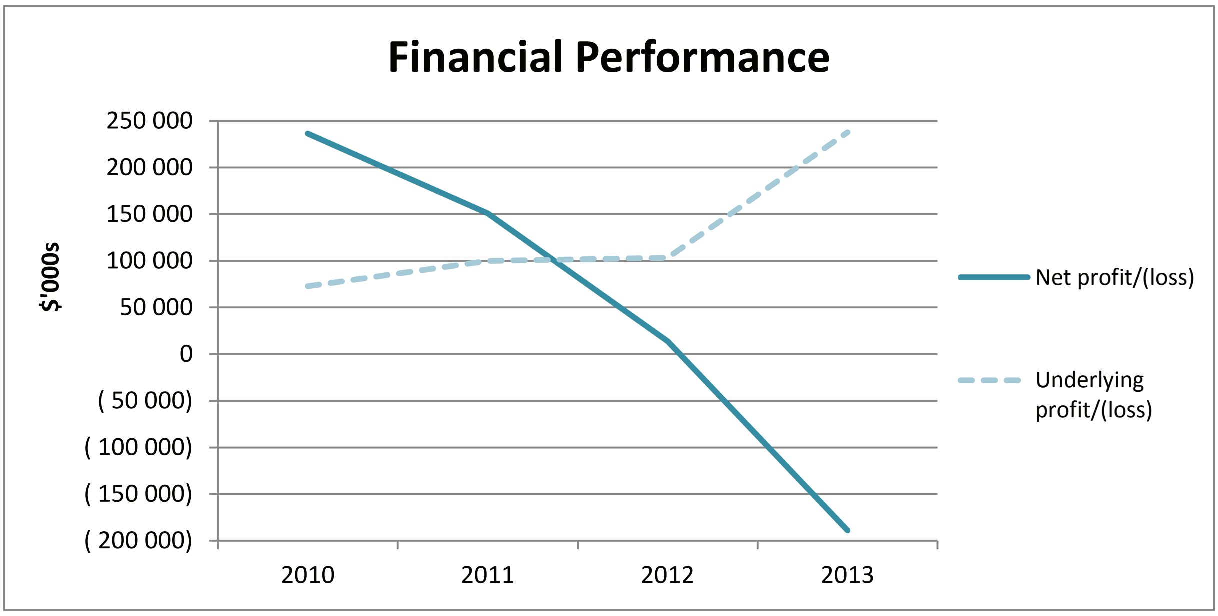
Electricity Reform Costs

Hydro was directed that costs of the Government's project team in the Department of Treasury and Finance would be funded in equal shares by the three State owned electricity businesses. Hydro's share of these costs in 2012–13 was $0.915m. Hydro's total reform costs, including the project team, was $3.862m.

[1] Amended 4 December 2013.

FINANCIAL ANALYSIS

The graph below reports the Corporation's underlying profit (being profit before impairment expenses, fair value movements and tax) and its net profit or loss before taxation over the past four financial years.



Hydro's Underlying Profit was $237.716m for 2012-13, compared with $103.440m in 2011-12. Hydro experienced significant growth in retail sales through Momentum Energy, along with reasonable growth in generation revenue. As a result of lower levels of debt held throughout the financial year, finance costs decreased year on year by $19.186m.

Hydro experienced a significant reduction in Net Profit after tax from $13.872m in 2011-12 to a loss of $188.825m in 2012-13 due to the impairment of assets upon the acquisition of AETV and the impairment of hydro generation assets and related goodwill, as discussed previously. Net profit after tax excludes items of other comprehensive income, including the revaluation decrement of hydro generation assets taken to the asset revaluation reserve and the actuarial gains on the Retirement Benefits Fund (RBF) provision.

Total returns to the State for 2012-13 were consistent with 2011-12, however the dividend proposed subsequent to year-end of $116.481m based on 2012-13 results represents an increase of 129.8% on the 2011-12 dividend.

Underlying Profit before interest and taxation

Hydro's earnings before interest and tax improved by $115.090m, or 60.5%, in 2012-13. Total expenses represented 80.4% of total revenue (81.9% in 2011-12). Total revenue increased by $508.854m, or 48.4%, primarily due to an increase in retail sales generated by Momentum Energy. Direct operating expenses increased by $370.781m, or 62.8% accordingly.

Finance costs

As a result of lower levels of debt held throughout the financial year (the debt acquired with AETV impacted finance costs for one month) and a reduction in the interest cost on the RBF liability, finance costs decreased year on year by $19.186m. A net total of $155.000m of debt was repaid in 2012-13, and $205.000m of debt was acquired with AETV effective 1 June 2013. Prior to 2012-13, debt levels and consequently the finance costs had remained relatively stable.

Fair value movements

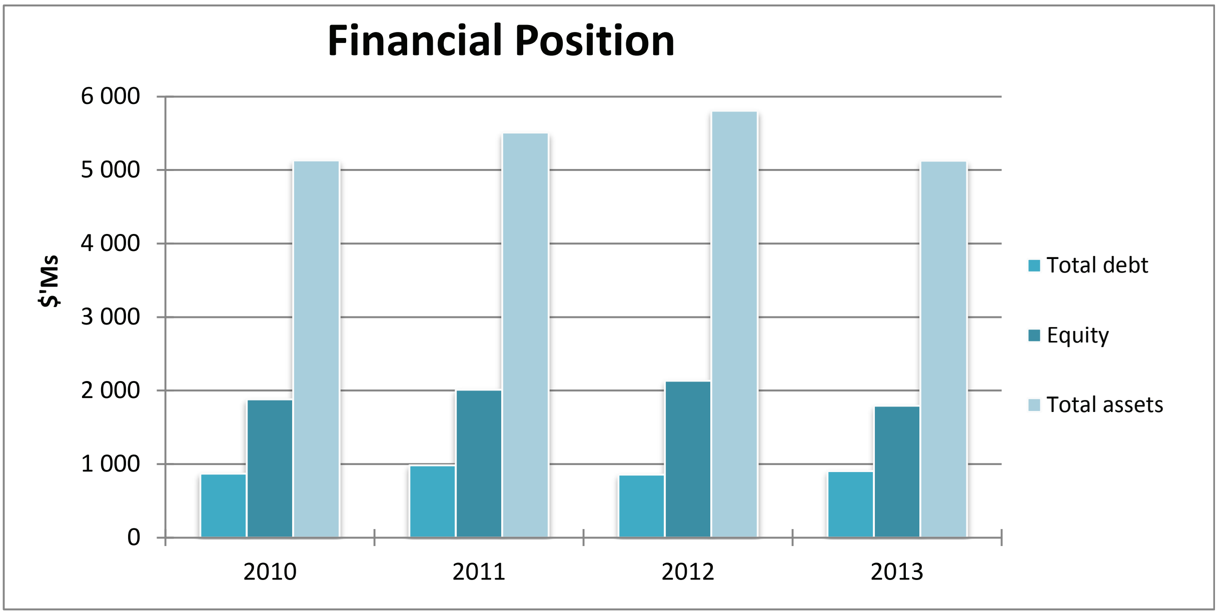
Fair value movements in Hydro's Statement of Comprehensive Income included the following:

- **Electricity derivatives:** Accounted for at fair value in accordance with accounting standards and Hydro policy.
- **Basslink financial asset and liability:** Accounted for as a derivative, and therefore recorded at fair value in accordance with accounting standards and Hydro policy.

Net cash generated by operations

Net cash from operations of $261.549m for 2012-13 represented an increase of $154.213m from 2011-12. This favourable result is a reflection of the increase in sales revenue generated, net of energy purchase and generation costs, and the reduction in finance costs paid. Other cash flows remain relatively consistent with previous financial years.

The following graph reviews Hydro's equity, debt and total assets over the past four financial years.



Debt

Total debt has remained relatively consistent over the past four financial years. The acquisition of $205.000m of debt upon the transfer of AETV was partially offset by the repayment of $155.000m of debt throughout 2012-13.

Equity

Hydro's contributed equity increased due to the State's contribution of AETV to Hydro, effective 1 June 2013. The value of the contribution was $89.139m.

Reserves decreased due to the reversal of the asset revaluation reserve in connection with the revaluation of the hydro generation assets. The reserve previously had a balance of $321.351m.

Hydro's retained profits decreased due primarily to the impact of the loss after tax and the dividend payment to the State of Tasmania.

Hydro's debt to equity ratio increased by 10.3% year on year due to the increase in debt held at year end through the acquisition of AETV, coupled with the reduced asset base of the Corporation as a result of the impairment of the hydro generation assets.

Total Assets

Total assets increased steadily over the period 2009-10 to 2011-12. The impairment of hydro generation assets, reduction in the fair valuation of energy price derivative financial instruments and annual depreciation charges, partially offset by capital additions, were the largest contributors to a $682.802m decrease in Total Assets in 2012-13.

Over the four year period of review, Hydro invested $482.773m in Property, plant and equipment, $136.767m of which was in 2012-13. This excludes Hydro's investment in Musselroe in 2013.

Property, plant and equipment

Total Property, plant and equipment reduced by $296.133m. As discussed previously in this Chapter, Hydro recognised a total impairment of $439.220m in connection with its hydro generation assets during the year. This impact has been partially offset by the acquisition of Property, plant and equipment with the transfer of AETV to Hydro. The value of the AETV Property, plant and equipment, which is primarily represented by the gas fired power plants, was $101.202m, which is net of a $216.271m impairment adjustment.

Assets held for sale

Assets held for sale in 2011-12 related to the divestment of 75% of the Musselroe Wind Farm to the Woolnorth joint venture. As discussed earlier in this Chapter, this divestment was successfully transacted in February 2013.

SUBSIDIARIES

Momentum Energy

STATEMENT OF COMPREHENSIVE INCOME

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Total revenue	800 143	458 997	244 856	113 646
Energy purchases and operating costs	(781 938)	(447 005)	(243 644)	(119 711)
Depreciation and amortisation	(619)	(893)	(452)	(207)
Profit Before Fair Value Movements	**17 586**	**11 099**	**760**	**(6 272)**
Movements in fair value	0	0	0	4 677
Earnings Before Interest and Tax (EBIT)	**17 586**	**11 099**	**760**	**(1 595)**
Interest expense	0	0	0	(232)
Profit (Loss) Before Tax	**17 586**	**11 099**	**760**	**(1 827)**
Income tax benefit (expense)	(5 390)	(3 351)	(298)	534
Net Profit (Loss)	**12 196**	**7 748**	**462**	**(1 293)**

STATEMENT OF FINANCIAL POSITION

	2013	2012	2011	2010
	$'000s	$'000s	$'000s	$'000s
Current assets	122 022	98 659	41 002	20 130
Non-current assets	14 574	9 437	12 148	8 178
Total Assets	**136 596**	**108 096**	**53 150**	**28 308**
Current liabilities	(108 426)	(83 602)	(35 651)	(15 501)
Non-current liabilities	(4 561)	(13 080)	(13 176)	(8 946)
Total Liabilities	**(112 987)**	**(96 682)**	**(48 827)**	**(24 447)**
Equity	**23 609**	**11 414**	**4 323**	**3 861**

Momentum experienced increased operations across all geographical locations in 2012-13, resulting in revenue from the sale of energy increasing to $800.143m (up from $458.997m in 2011-12). This reflects higher sales volumes achieved as a result of improved market share. This had a corresponding increase in direct operating costs, which includes the cost of purchase of energy from the NEM and employee related expenses.

The increase in Momentum's Current assets was primarily attributable to unbilled revenue accrual, which increased from $48.249m in 2011-12 to $72.310m in 2012-13. This was driven by an increase in customer numbers, customer pricing and kilowatt hours sold but not yet invoiced at balance date.

Non-current assets increased following the purchase of $2.665m of plant and equipment during the period, and an increase in customer acquisition costs of $3.087m year on year. Customer acquisition costs are capitalised to the Statement of Financial Position and amortised over the life of the customer contract period.

Similarly, the increase in Current liabilities, being the accrual for network and distribution costs and energy purchases, is as a result of increased supply to a larger customer base, and the timing of the purchase settlement cycle in relation to balance date. These accruals increased from $38.529m in 2011-12 to $62.462m in 2012-13.

Non-current liabilities decreased as Momentum repaid a loan of $5.500m to its parent entity, Hydro.

AETV

STATEMENT OF COMPREHENSIVE INCOME

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Total revenue	131 848	124 799	119 225	89 299
Energy purchases and operating costs	(112 526)	(86 445)	(62 871)	(64 752)
Depreciation and amortisation	(12 157)	(12 679)	(12 636)	(12 422)
Other expenses	(3 270)	(1 259)	(31 809)	(950)
Impairment expenses	(335 045)	0	0	0
Earnings Before Interest and Tax (EBIT)	**(331 150)**	**24 416**	**11 909**	**11 175**
Interest expense	(14 890)	(17 122)	(9 657)	(13 597)
Profit (Loss) Before Tax	**(346 040)**	**7 294**	**2 252**	**(2 422)**
Income tax benefit (expense)	103 811	(2 189)	(676)	724
Net Profit (Loss)	**(242 229)**	**5 105**	**1 576**	**(1 698)**
Other Comprehensive Income				
Cash flow hedge fair value gain taken to equity	(3 996)	0	0	0
Income tax relating to other comprehensive income	1 198	0	0	0
Other Comprehensive Income (Loss)	**(2 798)**	**0**	**0**	**0**
Total Comprehensive Profit (Loss)	**(245 027)**	**5 105**	**1 576**	**(1 698)**

STATEMENT OF FINANCIAL POSITION

	2013	2012	2011*	2010*
	$'000s	$'000s	$'000s	$'000s
Current assets	13 482	35 485	34 794	47 174
Non-current assets	192 030	341 740	564 327	367 722
Total Assets	**205 512**	**377 225**	**599 121**	**414 896**
Current liabilities	(37 322)	(10 912)	(39 912)	(14 793)
Non-current liabilities	(317 849)	(270 945)	(468 945)	(311 416)
Total Liabilities	**(355 171)**	**(281 857)**	**(508 857)**	**(326 209)**
Equity	**(149 659)**	**95 368**	**90 264**	**88 687**

* *2010-11 and 2009-10 audited to Aurora Energy Pty Ltd group materiality.*

Revenue generated by AETV reflected the sale of electricity from the gas-fired power generation units under tolling arrangements to Aurora. The slight increase in revenues was due to increased volumes sold. Energy purchases and operating costs increased disproportionately due to the cost of carbon permits, which totalled $16.481m in 2012-13, which was not applicable to 2011-12.

The net result was impacted by impairment expenses recognised in relation to plant and equipment, particularly the gas-fired power generation units, and the onerous gas transportation contracts. These were discussed previously in this Chapter.

The decrease in AETV's Current assets was primarily attributable to the reduction in the cash balance, which was $16.859m in 2011-12. Cash was transferred to Hydro, which executed cash transactions on AETV's behalf in 2012-13.

Non-current assets decreased with the net impact of the impairment of AETV's plant and equipment and the recognition of deferred tax assets during the period. As previously discussed in this Chapter, the impairment of the gas-fired power generation units in 2012-13 totalled $216.271m. AETV recognised deferred tax assets in connection with provisions and impairment expenses recognised in 2012-13. The net deferred tax asset in 2012-13 was $90.257m compared with a net deferred tax liability in 2011-12 of $7.600m.

Current and Non-current liabilities increased year on year with the recognition of provisions for onerous gas transportation contracts, as previously discussed in this Chapter. The total liability for onerous contracts in 2012-13 was $112.390m.

Also impacting Current liabilities, creditors increased by $14.204m to $21.251m in 2012-13 due primarily to the timing of payments for gas purchases. Non-current liabilities were also impacted by a decrease in the loan from AETV's parent entity, which reduced from $238.659m in 2011-12 to $189.881m in 2012-13. The intercompany loan with Hydro is the net value of the Tascorp loans assumed by Hydro of $205.000m and the cash balance swept to Hydro upon its transfer on 1 June 2013.

SUBMISSIONS AND COMMENTS RECEIVED

A copy of this chapter was provided to Hydro for comment and response. Hydro provided the following commentary. The comments provided were not subject to audit nor the evidentiary standards required in reaching an audit conclusion. Responsibility for the accuracy, fairness and balance of these comments rests solely with Hydro.

Commentary follows:

The Corporation appreciates the opportunity you have afforded us to respond.

Hydro Tasmania would like to highlight three aspects of the Corporation's financial performance in the 2012-13 financial year:

- The variation in the Corporation's debt levels between 2012-13 and 2011-12
- The impairment of the hydro generation assets
- We believe highlighting our record and very high net operating cash position is very important and is the most significant aspect of our financial results.

The Corporation's divestment of the Musselroe Wind Farm resulted in a favourable movement in the debt level prior to the addition of the debt associated with AETV Pty Ltd. It is this favourable impact on the Corporation's debt level which saw the Corporation incur a lower interest expense in 2012-13 by more than $14 million. The table below shows the key debt movements between the two years:

	2012-13 **$million**
30 June 2012 debt level	856.8
February 2013 Musselroe wind farm construction related debt repaid on divestment	(156.0)
June 2013 AETV debt acquired	205.0
Debt level per financial report	905.8

The Corporation impaired its hydro generation assets at 30 June 2013 as a result of the weakening of future energy price expectations. Accounting standards require an annual review of any indication of asset impairment where expectations regarding the assets income earning potential changes.

In 2012–13 the price expectations were significantly different from the previous year in the light of the pending Federal election and the potential impact on the carbon pricing scheme that were likely to follow.

The impairment loss was in part offset against the revaluation reserve recognised in the previous year with the remainder of the loss treated as an expense in the Income Statement.

The following table demonstrates the movement in the hydro generation assets value over the last nine years including the years where impairment losses have been recorded on the basis of lower forecast energy prices:

all figures in millions	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Hydro generated property, plan and equipment value	2,595.7*	3,252.4	3,975.2	3,967.8	4,012.0	4,040.7	4,225.9	4,314.0	3,821.7*

* Impairment losses recognised on basis of lower forward price expectations

Where the Corporation experiences such impairment losses due to unfavourable future price expectations, the same price expectations generally have an opposite effect on the financial derivatives the Corporation trades. The table below demonstrates how over the same nine year period the financial derivatives and impairment losses have a minimal effect:

all figures in millions	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**Total**
Operating result (Result before fair value movements, impairments and tax)	44.0	87.40	19.5	(58.0)	38.1	72.9	100.0	103.4	237.7	**645.0**
Fair value gains/ (losses)	(542.3)	(20.3)	94.0	282.2	379.8	259.2	116.4	(85.6)	(486.2)	**(2.8)**
Profit before tax	(498.3)	67.1	113.5	224.2	417.9	332.1	216.4	17.8	(248.5)	**642.2**
Returns to Government arising from this year, mostly paid the following year	66.1	57.8	8.5	7.3	13.3	51.7	116.0	115.7	263.0	**699.4**

David Crean

Chair, Hydro Tasmania

STATEMENT OF COMPREHENSIVE INCOME

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Sales of goods and services	1 546 369	1 039 693	804 181	717 246
Share of profit of joint venture entities	1 756	0	0	0
Other operating revenue	11 860	11 438	8 591	9 687
Total Revenue	**1 559 985**	**1 051 131**	**812 772**	**726 933**
Direct operating expenses	960 782	590 001	374 930	319 018
Labour	120 539	104 802	104 660	100 763
Depreciation	91 373	82 273	79 873	77 681
Share of loss of joint venture	0	384	3 880	6 044
Other operating expenses	82 074	83 544	68 932	70 204
Total Expenses	**1 254 768**	**861 004**	**632 275**	**573 710**
Underlying Profit (Loss) Before Interest and Taxation	**305 217**	**190 127**	**180 497**	**153 223**
Finance costs	(67 501)	(86 687)	(80 481)	(80 337)
Underlying Profit (Loss) Before Fair Value Movements, Impairment Expenses and Taxation	**237 716**	**103 440**	**100 016**	**72 886**
Impairment expenses	(484 315)	0	0	0
Gain on R40s restructure	0	0	22 645	0
Movements in fair value	(1 923)	(85 571)	93 744	259 194
Profit (Loss) Before Taxation	**(248 522)**	**17 869**	**216 405**	**332 080**
Income tax benefit (expense)	59 697	(3 997)	(65 313)	(95 646)
Net Profit (Loss)	**(188 825)**	**13 872**	**151 092**	**236 434**
Other Comprehensive Income				
Cash flow hedge fair value gain taken to equity	5 122	(18 581)	2 653	1 660
Actuarial gains (losses) on RBF provision	50 889	(91 503)	6 210	(24 302)
Revaluation of property, plant and equipment	(321 351)	321 351	0	0
Other	96	(287)	(264)	95
Income tax relating to these terms	76 574	(63 294)	(2 659)	6 793
Other Comprehensive Income (Expense)	**(188 670)**	**147 686**	**5 940**	**(15 754)**
Total Comprehensive Profit (Loss)	**(377 495)**	**161 558**	**157 032**	**220 680**

STATEMENT OF FINANCIAL POSITION

	2013	2012	2011	2010
	$'000s	$'000s	$'000s	$'000s
Cash	15 669	7 029	7 680	2 791
Receivables	220 828	142 062	114 253	82 657
Investments	24 137	32	5 519	247
Inventories	43 680	54 706	65 461	57 168
Financial assets	73 277	202 368	201 892	117 554
Assets held for sale	0	116 731	0	0
Total Current Assets	**377 591**	**522 928**	**394 805**	**260 417**
Payables	142 732	124 700	81 260	69 935
Borrowings	135 669	211 252	380 283	206 835
Other financial liabilities	173 773	464 891	94 831	148 537
Tax liabilities	61 606	28 938	29 388	11 392
Provisions	58 570	54 114	44 610	36 017
Total Current Liabilities	**572 350**	**883 895**	**630 372**	**472 716**
Working Capital	**(194 759)**	**(360 967)**	**(235 567)**	**(212 299)**
Property, plant and equipment	4 188 436	4 484 569	4 414 220	4 161 631
Investments	66 696	34 557	0	121 790
Other financial assets	473 915	715 986	649 773	537 368
Goodwill	16 396	47 796	47 796	47 796
Total Non-Current Assets	**4 745 443**	**5 282 908**	**5 111 789**	**4 868 585**
Borrowings	770 126	645 554	603 083	666 029
Provisions	492 799	413 133	326 544	327 444
Other financial liabilities	934 355	958 432	1 157 846	1 043 176
Deferred tax liabilities	560 308	772 775	775 296	737 707
Total Non-Current Liabilities	**2 757 588**	**2 789 894**	**2 862 769**	**2 774 356**
Net Assets	**1 793 096**	**2 132 047**	**2 013 453**	**1 881 930**
Reserves	(19 226)	296 907	(5 576)	(7 965)
Contributed equity	360 239	271 100	271 100	271 100
Retained profits	1 452 083	1 564 040	1 747 929	1 618 795
Total Equity	**1 793 096**	**2 132 047**	**2 013 453**	**1 881 930**

STATEMENT OF CASH FLOWS

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	1 488 304	1 007 227	781 480	788 458
Government grants	7 756	8 032	9 467	7 450
Payments to suppliers and employees	(1 129 478)	(784 011)	(552 170)	(555 461)
Interest received	685	873	214	652
Finance costs	(44 354)	(61 289)	(55 290)	(58 103)
Government guarantee fee	(8 595)	(8 697)	(6 646)	(4 954)
Income tax equivalent paid	(52 769)	(54 799)	(16 249)	0
Cash From (used in) Operations	**261 549**	**107 336**	**160 806**	**178 042**
Proceeds from investments	91 576	88 082	0	0
Payments for investments	0	0	0	(4 200)
Proceeds for financial assets	31 679	0	0	0
Payments for financial assets	0	(13 041)	(27 674)	476
Payments for property, plant and equipment	(141 558)	(167 379)	(64 618)	(94 748)
Business Acquisition	(4 326)	0	0	(34 500)
Proceeds from sale of property, plant and equipment	763	509	753	859
Cash From (used in) Investing Activities	**(21 866)**	**(91 829)**	**(91 539)**	**(132 113)**
Proceeds from borrowings	427 000	565 600	262 600	101 300
Repayment of borrowings	(582 600)	(537 601)	(306 300)	(170 000)
Equity Contribution	0	0	0	1 100
Cash balances acquired in business acquisition	0	0	10 639	0
Repayment of finance lease	(652)	(636)	(535)	(521)
Dividend paid	(50 686)	(49 008)	(25 510)	(5 332)
Cash From (used in) Financing Activities	**(206 938)**	**(21 645)**	**(59 106)**	**(73 453)**
Net Increase (Decrease) in Cash	**32 745**	**(6 138)**	**10 161**	**(27 524)**
Cash at the beginning of the year	7 061	13 199	3 038	30 562
Cash at End of the Year	**39 806**	**7 061**	**13 199**	**3 038**

FINANCIAL ANALYSIS

	Bench Mark	2012-13	2011-12	2010-11	2009-10
Financial Performance					
Net profit (loss)		(188 825)	13 872	151 092	236 434
Underlying profit (loss)		237 716	103 440	100 016	72 886
EBIT ($'000s)		305 217	190 127	180 497	153 223
EBITDA ($'000s)		396 590	272 400	260 370	230 904
Operating margin	>1.0	1.34	1.35	1.47	1.47
Return on assets	5.21	5.6%	3.4%	3.4%	3.0%
Return on equity		(9.6%)	0.7%	7.8%	13.3%
Financial Management					
Debt to equity		50.5%	40.2%	48.8%	46.4%
Debt to total assets		17.7%	14.8%	17.9%	17.0%
Interest cover - EBIT	>2	4.52	2.19	2.24	1.91
Interest cover - EBITDA	>2	5.88	3.14	3.24	2.87
Interest cover - operating cash flows		6.90	2.75	3.91	4.06
Current ratio	>1	0.66	0.59	0.63	0.55
Cost of debt	6.9%	6.9%	7.1%	7.2%	7.0%
Debt collection	30 days	52	50	52	42
Creditor turnover	30 days	19	20	24	18
Asset Management					
Investment gap %	100%	154.9%	203.4%	80.9%	122.0%
Returns to and From Government					
Dividends paid ($'000s)		50 686	49 008	25 510	5 332
Income tax paid ($'000s)		52 769	54 799	16 249	0
Government guarantee fees ('$000s)		8 595	8 697	6 646	4 954
Total return to the State ($'000s)		112 050	112 504	48 405	10 286
Dividends recommended ($'000s)		116 481	50 686	49 008	25 510
Dividend payout ratio	70%	(61.7%)	365.4%	32.4%	10.8%
Dividend to equity ratio		5.9%	2.4%	2.5%	1.4%
CSO funding ($'000s)		7 700	8 000	7 500	6 900
Other Information					
Average staff numbers (FTEs)		1 037	916	899	894
Average staff costs ($'000s)		116	114	116	113
Average leave balance per FTE ($'000s)		27	24	23	23

MOTOR ACCIDENTS INSURANCE BOARD (MAIB)

SNAPSHOT

- MAIB recorded its highest profit before taxation on record – $207.792m – this year.
- Included was an Underwriting Profit of $45.313m.
- The strong result was almost entirely due to two factors – strong investment performance and low claims expenses.
- Dividends paid this year, based on MAIB's results over the past five years, totalled $6.140m and the amount recommended by the Board for payment in 2013–14 is $23.219m.
- At 30 June 2013, Total Equity was $382.416m.
- MAIB's solvency ratio was 31.9%, above the Board's target of 20% to 25%.

Key developments this year included a pricing policies review by the Tasmanian Economic Regulator (the Regulator). The Regulator's major recommendation was that from 1 December 2013 the base compulsory third party insurance premium be reduced by 7.4 per cent (excluding duty and GST).

Major variations between the 2012–13 and 2011–12 financial years included:

- claims expense decreased by $113.648m
- investment income increased by $149.391m
- the amount of total investments at 30 June increased by $210.036m
- claims provisions increased by $8.165m.

The audit was completed satisfactorily with no findings.

INTRODUCTION

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 2013, the MAIB's Board of Directors comprised eight 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.

KEY AREAS OF AUDIT ATTENTION

Description of Area	Audit Approach
The valuation and existence of investments are key risks in light of the amounts invested by MAIB in volatile investment markets. The movement in investments can have a significant impact on MAIB's profitability and solvency. MAIB's investments include different products, which combined with the control structure applied over funds under management adds to the complexity of processes. The Board has approved an Investment Policy Statement aimed at ensuring a prudent, orderly and efficient approach to the management of MAIB's investment assets. The majority of investments are held with fund managers who are responsible for achieving agreed performance targets whilst operating within an established framework. An external entity performs a custodial role and provides monthly analytical reports on investments held by the fund managers. MAIB engages an accounting firm to annually perform an agreed upon procedures engagement covering investment existence, rights and obligations and valuation.	Direct property investments are independently valued annually and we agreed this balance to the valuation report. External confirmations were obtained for cash balances. Other procedures included: • review of the Board's investment policies, controls and guidelines to confirm a strong controls environment and process • review of the GS 007 Controls Report prepared over custodian's systems • review of reports provided to the Board detailing compliance with Board policies • comparison of the portfolio position to the approved benchmark asset allocations at various times throughout the audit • review of selected attributes for a number of current fund managers • reconciliation and confirmation of investment balances and revenue to the custodian's reports • analytical review of revenue and investment balances • verification of selected unlisted trusts balances to the most recent audited statements.
The claims liability valuation is undertaken by an independent actuary and is a complex estimate which involves a degree of uncertainty. The estimate is based on a set of assumptions derived from previous years' occurrences and economic forecasts. A material under-valuation of the claims liability represents a major risk in terms of the MAIB's future viability and solvency. Equally, a material over-statement of the claims liability will understate the MAIB's profits and net assets.	Procedures undertaken included: • review of internal audit work testing controls operating over claim payments and the accuracy of information provided for actuarial review • reconciliation of the underlying data provided to the Actuary • confirmation of the reported values and disclosures to the Actuary • material claim payments were tested and agreed to supporting documentation and authorisation by the Claims Committee • review of the Actuary's report focussing on assumptions made • high-level analytical review.
Premium revenue is processed by the Department of Infrastructure, Energy and Resources (DIER) on behalf of MAIB. An inherent risk associated with external revenue collection is that revenue may not be fully remitted.	Premium revenue was reconciled to an external confirmation obtained from DIER and reviewed for reasonableness.

AUDIT OF THE 2012-13 STATEMENTS

The Board signed the MAIB's financial statements on 13 August 2013. The statements were amended to comply with changes in financial reporting guidelines relating to remuneration (Refer Remuneration Guidelines Chapter). Re-signed financial statements were submitted on 15 August 2013 and an unqualified audit report was issued on 19 August 2013.

KEY FINDINGS

The audit was completed satisfactorily without any audit findings.

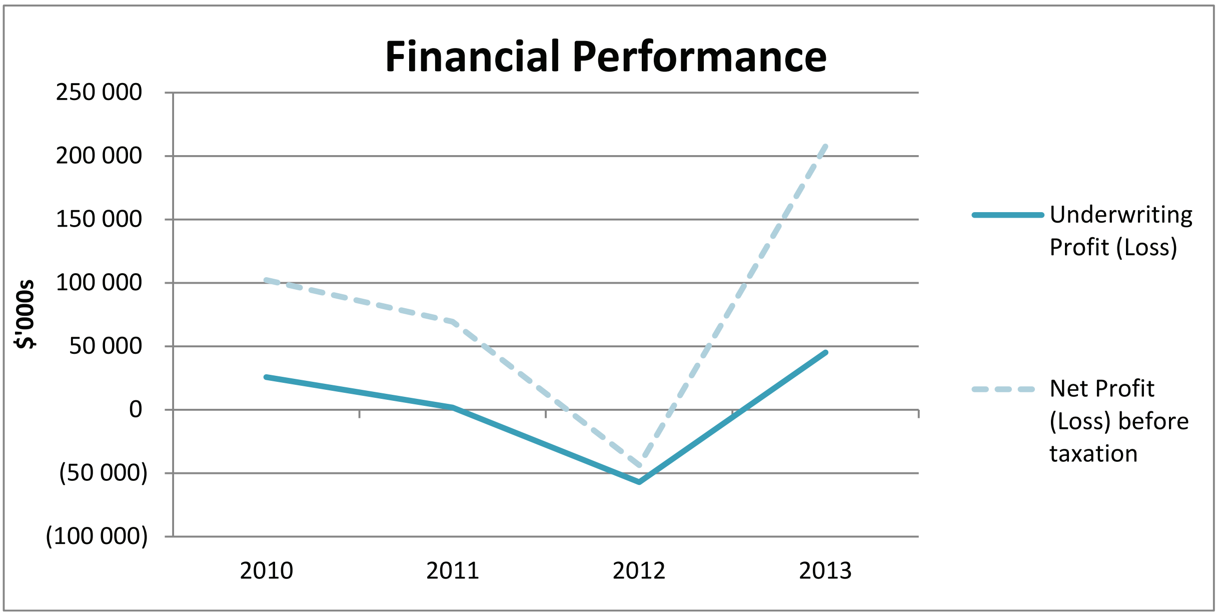
KEY DEVELOPMENTS

Tasmanian Economic Regulator Review

During 2012-13, the MAIB's pricing policies were subject to a review by the Tasmanian Economic Regulator (the Regulator) whose major recommendation was that from 1 December 2013 the base compulsory third party insurance premium be reduced by 7.4 per cent (excluding duty and GST).

It is pleasing that the Regulator believed that, in general, the assumptions adopted by MAIB were reflective of historical trends and present realistic expectations of future developments. The review did not reveal any issues or concerns that would impact on the current financial audit.

FINANCIAL ANALYSIS



MAIB recorded its highest profit before taxation on record in the 2012-13 financial year. Favourable investment market conditions significantly improved investment returns and contributed to lower than expected claims expense.

For the year ended 30 June 2013, MAIB generated a Net profit before taxation of $207.792m, a $251.352m improvement compared to the 2011-12 loss of $43.560m. The more than $250.000m improvement was due to:

- investment income increased by $149.391m
- the Underwriting Profit improved by $102.291m, almost entirely because claims expenses decreased by $113.648m.

The following table details claim expense totals for the past four years.

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Claims paid	78 836	72 984	74 146	72 657
Movement in the outstanding claims liability	8 165	127 682	59 414	27 436
Other claims expenses	445	428	418	494
Total Claims Expenses	**87 446**	**201 094**	**133 978**	**100 587**

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. The Outstanding claims liability movement expense for 2012-13 was determined as $8.165m, in comparison to the 2011-12 expense of $127.682m.

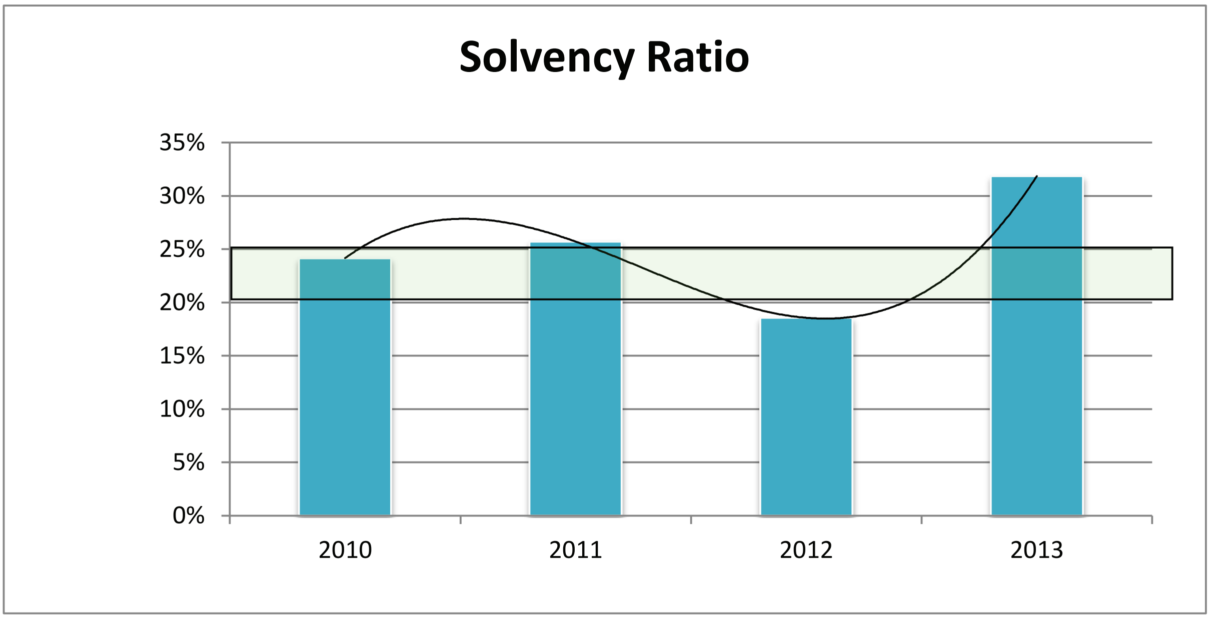
The movement of $127.682m at 30 June 2012 was attributable to a rise in all categories of claims, primarily resulting from lower discount rates resulting from weakened investment markets and interest rates at that time. This impact partially reversed in 2012-13, resulting in a movement of only $8.165m.

The table below shows the make-up of MAIB's investment revenue over the last four years.

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Investment income	52 216	47 799	74 307	39 973
Changes in Fair Value of Investments				
Realised	(1 252)	9 637	1 808	10 042
Unrealised	123 149	(32 811)	2 730	38 345
Less investment related expenses	(1 430)	(1 333)	(1 697)	(1 912)
Total investment revenue	172 683	23 292	77 148	86 448
Return on Investments	**15.5%**	**2.2%**	**8.%**	**10.0%**

In 2012-13, MAIB achieved a return on investments of 15.5%, compared to 2.2% in the prior year. The higher return was primarily the result of improved market conditions. Equity markets, both domestic and international, were the primary contributors to the higher returns.

In summary, the Financial Performance graph and tables highlight 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. MAIB's focus on the longer term introduces short-term (annual) volatility in operating results, mainly caused by movements in international and local financial markets and the impact of movements in inflation and discount rate assumptions underlying the valuation of the outstanding claims liability. This volatility is further illustrated in the return on assets and return on equity ratios (refer Financial Analysis in Chapter Appendices).

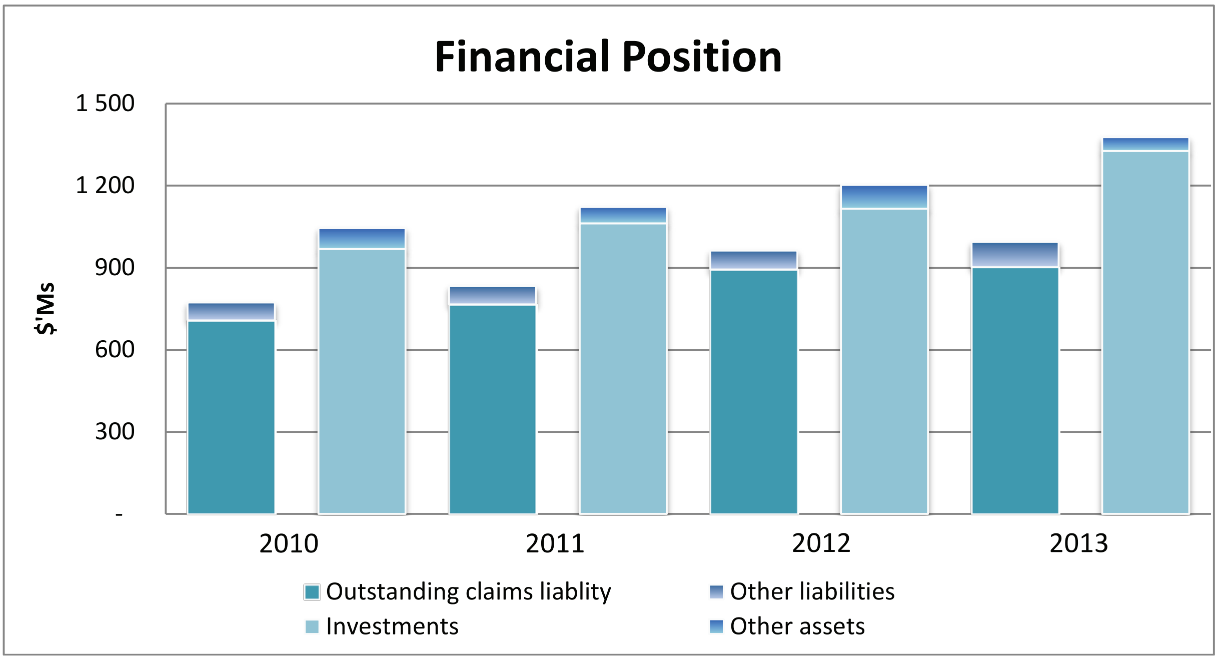


While MAIB is not a regulated insurer, its Board references the relevant APRA guidelines in developing an appropriate capital adequacy policy that takes account of the capital requirements of the MAIB's claims liability profile and investment strategy and balances those with being a monopoly provider and a 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. 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 low number, high dollar value group of future care clients whose liabilities continue to grow.

Given the strong financial result, the scheme's solvency improved from 18.6% at 30 June 2012 to 31.9% at 30 June 2013.



The major component of MAIB's assets is its investment portfolio (including cash), which at 30 June 2013 totalled $1.326bn (2012, $1.116bn) and represented 97.6% of Total Assets (92.8%). Total investments increased by $0.210bn, 18.8%, from 30 June 2012.

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 2013, the Board's actual investment holdings were 65% in the growth category (including Australian and international equities, property and infrastructure) and 35% 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 are identified.

The major component of the MAIB's Total Liabilities is its Outstanding claims liability, which at 30 June 2013 represented 92.4% of Total Liabilities (2012, 92.9%). 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 composition of the claims liability is provided in the following table:

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Future care	638 841	628 166	529 059	503 740
Common law	217 613	210 292	190 847	167 079
Scheduled benefits	45 462	55 293	46 193	35 836
Outstanding Claims Liability	**901 916**	**893 751**	**766 069**	**706 655**
New Claims Received	**2 839**	**2 707**	**2 977**	**3 053**
Total Open Claims at 30 June	**2 749**	**2 676**	**2 800**	**2 634**

Future care - claimants requiring 'daily care' as definied by S27A of the Act.

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.

Returns to Government

Dividends are payable to the State Government under a 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 $84.059m in dividends. At 30 June 2013, the dividend payable was $23.219m.

The Board is also required under the *Government Business Enterprise Act 1995* to make tax equivalent payments to the State Government. Taxation payable for the 2012-13 year was $13.710m, with $6.347m to be paid in 2013-14 and the balance offset against amounts prepaid in 2009-10. 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.

Including tax equivalent payments, MAIB made total cash payments to the State of $106.000m over the four year period under review.

CHAPTER APPENDICES

STATEMENT OF COMPREHENSIVE INCOME

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Premium revenue	139 143	139 167	136 475	130 247
Outwards reinsurance expense	(5 923)	(5 448)	(5 344)	(5 272)
Claims expense	(87 446)	(201 094)	(133 978)	(100 587)
Recovery revenue	3 514	13 490	7 340	(781)
Unexpired risk benefit (expense)	(1 331)	(428)	0	4 527
Underwriting Profit (Loss)	**45 313**	**(56 978)**	**1 813**	**25 641**
Investment income	172 683	23 292	77 148	86 448
General and administration expenses	(6 040)	(5 693)	(5 371)	(4 996)
Road safety strategy funding	(3 484)	(3 483)	(3 408)	(3 952)
Injury Prevention and Management Foundation	(680)	(698)	(687)	(947)
Net Profit (Loss) Before Taxation	**207 792**	**(43 560)**	**69 495**	**102 194**
Income tax benefit (expense)	(60 330)	16 506	(17 829)	(27 616)
Net Profit (Loss)	**147 462**	**(27 054)**	**51 666**	**74 578**
Other Comprehensive Income - Net of Taxation				
Items that will not be classified to profit or loss				
Definied benefits plan actuarial gains (losses)	706	(947)	103	(279)
Other Comprehensive Income (Expense)	**706**	**(947)**	**103**	**(279)**
Total Comprehensive Profit (Loss)	**148 168**	**(28 001)**	**51 769**	**74 299**

STATEMENT OF FINANCIAL POSITION

	2013	2012	2011	2010
	$'000s	$'000s	$'000s	$'000s
Cash and cash equivalents	138 326	150 689	165 334	125 192
Trade and other receivables	2 161	2 144	1 306	1 349
Deferred acquisition costs	0	668	1 119	1 162
Reinsurance recoveries receivable	26 429	23 469	13 432	11 681
Debt securities and other investments	1 605	185	2 156	15 383
Listed instruments	97 274	78 636	114 369	102 116
Unlisted instruments	870 565	671 816	765 374	710 483
Bonds	203 907	200 015	0	0
Investment properties	14 740	14 040	15 300	15 730
Plant and equipment and intangibles	947	1 080	1 143	987
Deferred tax asset	20 952	51 541	34 835	44 957
Other assets	24	7 410	7 195	15 052
Total Assets	**1 379 930**	**1 202 693**	**1 121 563**	**1 044 092**
Trade and other payables	2 117	1 984	2 001	2 529
Provision for tax	6 347	0	0	0
Unearned premium liability	59 951	58 661	58 557	56 722
Injury Prevention and Management Foundation liabilities	781	815	889	1 164
Unexpired risk liability	640	0	0	0
Outstanding claims liability	901 916	893 751	766 069	706 655
Provision for employee benefits – leave	695	653	574	497
Provision for employee benefits – superannuation	4 217	4 924	3 305	3 471
Deferred tax liability	17 850	1 517	1 530	1 618
Total Liabilities	**994 514**	**963 305**	**832 925**	**772 656**
Net Assets	**382 416**	**240 388**	**288 638**	**271 436**
Retaining Earnings	382 416	240 388	288 638	271 436
Total Equity	**382 416**	**240 388**	**288 638**	**271 436**

STATEMENT OF CASH FLOWS

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Receipts from premiums	154 482	152 463	152 004	146 330
Payment for claims	(84 129)	(78 228)	(79 252)	(77 910)
Other payments	(28 718)	(28 073)	(28 874)	(27 922)
Other receipts	3 032	6 323	8 130	3 175
Income tax paid	0	0	0	(21 941)
Dividents received	42 211	34 336	64 065	31 218
Interest received	8 880	8 669	7 927	7 060
Cash From Operations	**95 728**	**95 490**	**124 000**	**60 010**
Net payments for investments	(101 493)	(89 684)	(48 947)	(93 133)
Payments for property, plant and equipment	(552)	(208)	(412)	(688)
Proceeds from sale of property, plant and equipment	94	6	68	22
Cash (used in) Investing Activities	**(101 951)**	**(89 886)**	**(49 291)**	**(93 799)**
Dividents paid	(6 140)	(20 249)	(34 567)	(23 103)
Net Increase (Decrease) in Cash	**(12 363)**	**(14 645)**	**40 142**	**(56 892)**
Cash at the beginning of the year	150 689	165 334	125 192	182 084
Cash at End of the Year	**138 326**	**150 689**	**165 334**	**125 192**

FINANCIAL ANALYSIS

	Bench Mark	2012-13	2011-12	2010-11	2009-10
Financial Performance					
EBIT ($'000s)		207 792	(43 560)	69 495	102 194
Net profit (loss) ($'000s)		147 462	(27 054)	51 666	74 578
Operating margin	>1.0	2.96	0.80	1.46	1.86
Return on assets		16.2%	(3.8%)	6.4%	10.1%
Return on equity*		47.4%	(10.2%)	18.4%	30.3%
Financial Management					
Solvency ratio	20-25%	31.9%	18.6%	25.7%	24.2%
Returns to Government					
Dividends paid ($'000s)		6 140	20 249	34 567	23 103
Income tax paid ($'000s)		0	0	0	21 941
Total return to the State ($'000s)		6 140	20 249	34 567	45 044
Dividends paid or payable ($'000s)		23 219	6 140	20 249	34 567
Dividend payout ratio	50%	15.7%	(22.7%)	39.2%	46.4%
Dividend to equity ratio	6%	7.5%	2.3%	7.2%	14.1%
Other Information					
Average Staff numbers (FTEs)		36	35	36	35
Average staff costs ($'000s)		85	81	78	75
Average leave balance per FTE ($'000s)		20	19	16	14

* *For commentary on these indicators refer to the Financial Analysis section of this Chapter.*

PORT ARTHUR HISTORIC SITE MANAGEMENT AUTHORITY (The Authority)

SNAPSHOT

- The Authority receives annual support to fund conservation works from the State and Commonwealth Governments which in 2012-13 amounted to $2.694m and $0.374m, respectively.
- Tourism activities also contribute to conservation and infrastructure works across the three World Heritage Listed sites under the Authority's control.
- The Authority recorded an Underlying Loss for the year of $0.231m.
- Net Assets increased to $17.827m.

Key audit findings included the need for the Authority to value and recognise its historical assets, monitor controls over manual journals, and improve security settings in its IT systems. These matters, which represent a moderate risk, have been reported to, and will be addressed by management in 2013-14.

The audit was completed satisfactorily and on time with no other items outstanding.

Key developments included the closure of the site during the Tasmanian Bushfire Disaster in January 2013 at the peak of the tourism season. This had a significant negative impact on visitor numbers and revenue. The Authority received $0.133m for reimbursement of evacuation costs.

A major variation between the 2012-13 and 2011-12 was that Defined benefits actuarial gain increased by $3.134m. It was due to a combination of the market performance of plan assets and the changes in actuarial assumptions including an increase in the discount rate.

INTRODUCTION

The Authority is governed by the *Port Arthur Historic Site Management Authority Act 1987* (the Act). It is managed by a Board consisting of seven members. Its main activities are the conservation, maintenance, visitor management and promotion of the Port Arthur, Coal Mines and Cascades Female Factory Historic Sites.

At the request of the State Government, the Authority assumed responsibility for the Cascades Female Factory Historic Site effective from December 2010. The Authority took full control of operations in 2011-12.

The Authority operates two distinct activities: the conservation of the historic sites under its control for the enjoyment of future generations; and the operation of tourism activities and promotion of the sites as tourist destinations.

The Authority is a Government Business Enterprise, is not subject to the tax equivalents regime and contributes to conservation and infrastructure works across all three sites through its Tourism activities and the revenue generated by them.

The Authority remains economically dependent on funding from the State Government.

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

KEY AREAS OF AUDIT ATTENTION

Description of Area	Audit Approach
The Authority holds liquid assets in the form of bank balances and deposits with Tascorp.	We examined cash policies, observed cash receipting procedures, performed analytical review and verified bank reconciliations.
High turnover in attractive inventories at gift shop, museum and café increased the likelihood of misstatements or fraud.	We observed the entity's physical inventory count and audited the inventory cycle process.
The nature of the hospitality industry, with high casual staff turnover, increased the risk of misstatement of employee expenses.	We performed audit procedures to ensure that new starters and terminations were correctly recorded.

AUDIT OF THE 2012-13 STATEMENTS

Signed financial statements were received on 5 August 2013 and an unqualified audit report was issued on 15 August 2013.

KEY FINDINGS

During the audit a number of moderate risk audit findings were identified and reported to management. These related to the need to:

- value and recognise historical assets including collections and heritage buildings and ruins
- monitor controls over manual journals
- improve accounting treatment of GST on travel expenditure
- improve password parameters for all key accounting systems
- reconcile food and merchandising sales in the general ledger.

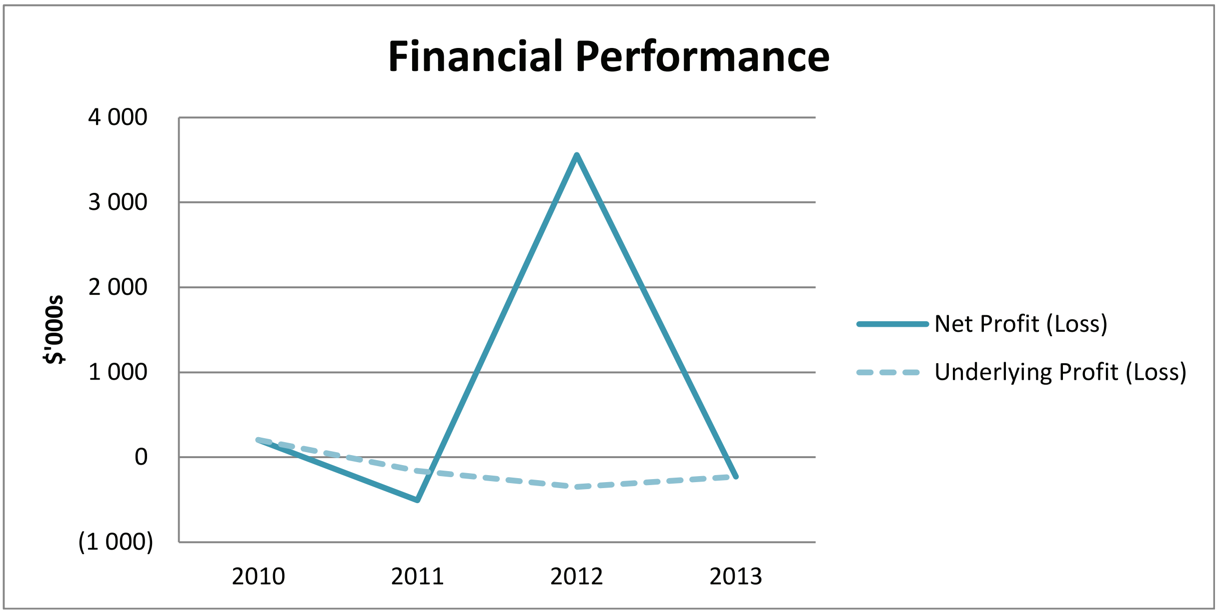
Other lower risk findings related to stocktake practices, review of the Payroll Summary Report, modification of user details in the online banking system, and new debtor set up in the accounting system.

KEY DEVELOPMENTS

Tasmanian Bushfire Disaster

During the fire emergency in January 2013, the Port Arthur Historic Site was closed and operated as an evacuation centre for a period of 10 days. Funding of $0.133m was received from the State Government for reimbursement of evacuation centre costs. The closure of the site at the peak of the tourism season had a significant negative impact on visitor numbers and revenue.

FINANCIAL ANALYSIS



The Authority's underlying losses were relatively consistent over the last three years.

The Underlying Loss improved slightly in 2012-13, by $0.118m, in comparison to the prior year. The improved result was mainly driven by higher earnings derived from site revenue and additional budget saving measures offset to an extent by higher employee costs.

The Authority reported a significant Net Profit in 2011-12 due to the transfer from the Department of Primary Industries, Parks, Water and Environment (DPIPWE) of ownership of land and buildings at Cascades Female Factory site, $0.829m, and other crown land at Port Arthur, $3.100m. Without these contributions, the Net Profit would have been a Net Loss of $0.372m, in line with other years.

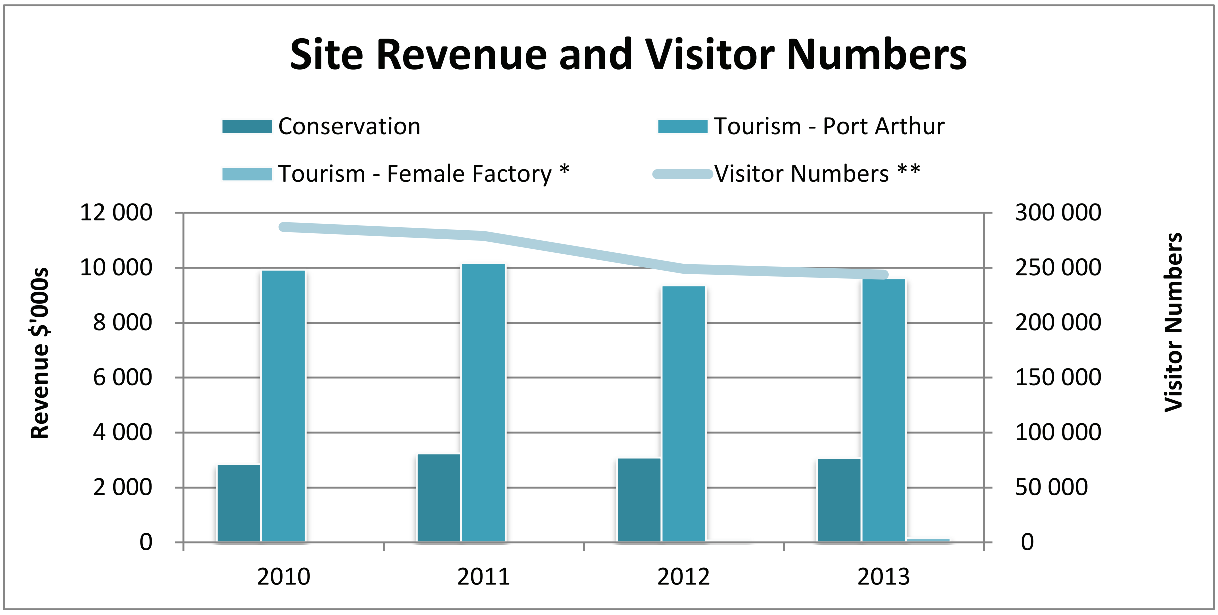
The Authority receives Government support to fund its conservation works. In 2012-13, it received conservation funding of $3.068m, consisted of:

- State Government, $2.694m for conservation works for all three sites
- Commonwealth, $0.374m for extensive conservation works at Cascade Female Factory.

Conservation funding represented 22.85% of Total Revenue.

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 work expensed rather than capitalised.

In 2012-13, the State Government provided operational funding of $0.440m (2011-12, $0.517m) for the Cascades Female Factory Historic site in recognition of the additional resourcing necessary following the transfer.



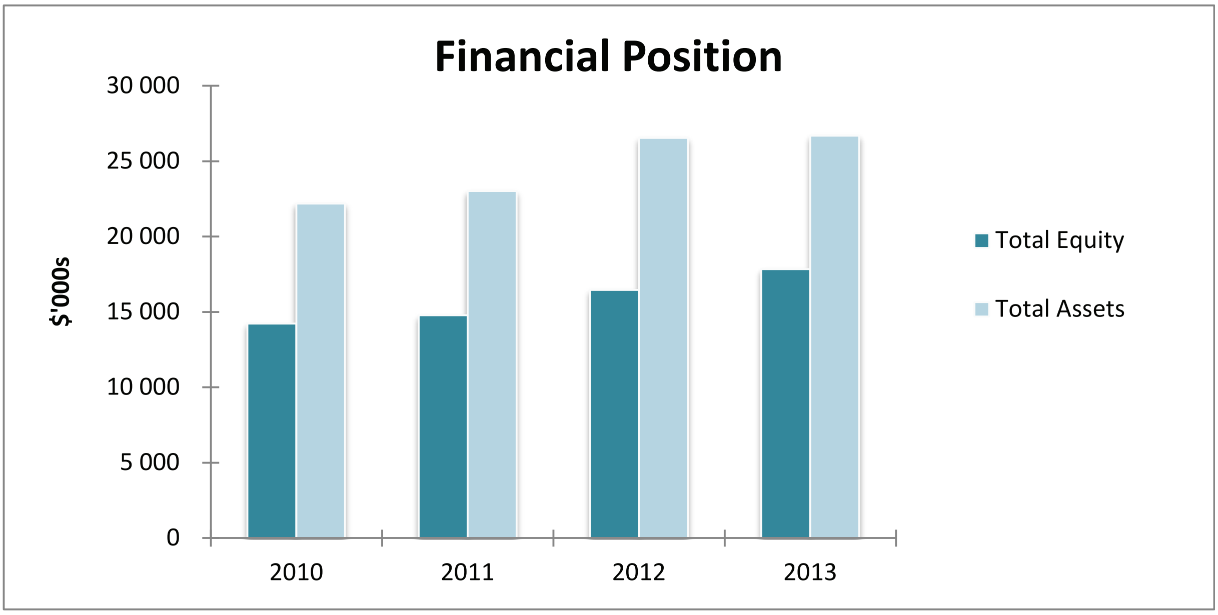
*The Coal Mines Historic Site currently generates no income.

** Visitor numbers include both day and ghost tour visitors.

Visitors numbers to the Port Arthur Site have declined since 2010, as a result of a combination of a high Australian dollar exchange rate, global financial crisis, a sluggish Tasmanian economy and the impact from the closure of the site during the Tasmanian Bushfire Disaster in January 2013. Despite declining visitor numbers, Site revenues increased by $0.258m or 2.76% in comparison to the prior year, principally due to higher entry fees, which increased from $32 per visit in 2012 to $35 in 2013.

The Cascades Female Factory Site generated revenue of $0.156m (2012, $0.062m), mainly due to more activities at the site.

The graph above indicates that Conservation funding from the Government remained fairly stable over the four year period under review.



Both Total Assets and Total Equity increased at consistent rates over the four year period under review.

Total Assets increased in 2012 due predominantly to the transfer from DPIPWE of ownership of Cascades Female Factory Site, $0.829m, and other crown land at Port Arthur, $3.100m.

The Authority recorded Cash and deposits of $4.054m as at 30 June 2013 (2012, $3.790m), being the largest component of Current assets. Cash and deposits increased by $0.264m from the prior year, due to Cash flow generated from operations, $0.729m, partially offset by spending on Property, plant and equipment of $0.488m.

Cash generated from operations mainly resulted from the Net Loss of $0.231m, offset by depreciation expense, $0.719m, and reduction in unearned revenue, $0.174m.

Total Equity increased in 2013, primarily due to a Net actuarial gain relating to the superannuation defined benefits plan, $1.343m, as opposed to a Net actuarial loss in 2012, $1.791m. The movement in the actuarial gain/loss was due to the effect of a combination of the market performance of plan assets and the changes in actuarial assumptions including an increase in the discount rate.

CHAPTER APPENDICES

STATEMENT OF COMPREHENSIVE INCOME

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Site revenue	9 380	8 871	9 647	9 506
Interest and other income	390	547	539	462
Conservation funding	3 068	3 088	3 213	2 808
Grants - other	591	522	0	0
Total Revenue	**13 429**	**13 028**	**13 399**	**12 776**
Site operating expenses	8 227	7 761	8 136	6 623
Conservation expenses	3 424	3 804	3 701	3 055
Other operating expenses	2 009	1 812	1 722	2 893
Total Expenses	**13 660**	**13 377**	**13 559**	**12 571**
Underlying Profit (Loss)	**(231)**	**(349)**	**(160)**	**205**
Contributed non-current assets	0	3 929	0	0
Impairment of non-current assets	0	(23)	(349)	0
Net Profit (Loss)	**(231)**	**3 557**	**(509)**	**205**
Other Comprehensive Income				
Increase (decrease) in asset revaluation reserve	252	(71)	795	125
Defined benefit plan actuarial gain (loss)	1 343	(1 791)	250	(981)
Other Comprehensive Income (Expenses)	**1 595**	**(1 862)**	**1 045**	**(856)**
Total Comprehensive Profit (Loss)	**1 364**	**1 695**	**536**	**(651)**

STATEMENT OF FINANCIAL POSITION

	2013	2012	2011	2010
	$'000s	$'000s	$'000s	$'000s
Cash assets	4 054	3 790	4 047	5 317
Receivables	167	161	156	124
Inventories	457	431	429	444
Other	42	59	64	54
Total Current Assets	**4 720**	**4 441**	**4 696**	**5 939**
Payables	577	614	1 250	824
Provisions	1 691	1 500	1 134	1 122
Unearned revenue	89	264	0	0
Total Current Liabilities	**2 357**	**2 378**	**2 384**	**1 946**
Working Capital	**2 363**	**2 063**	**2 312**	**3 993**
Property, plant and equipment	21 964	22 108	18 324	16 257
Total Non-Current Assets	**21 964**	**22 108**	**18 324**	**16 257**
Provisions	6 500	7 708	5 868	6 018
Total Non-Current Liabilities	**6 500**	**7 708**	**5 868**	**6 018**
Net Assets	**17 827**	**16 463**	**14 768**	**14 232**
Retained earnings	11 434	10 322	8 556	8 815
Reserves	6 393	6 141	6 212	5 417
Total Equity	**17 827**	**16 463**	**14 768**	**14 232**

STATEMENT OF CASH FLOWS

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	9 596	9 419	10 711	10 459
Grants from Government	3 484	3 874	3 213	2 448
Payments to suppliers and employees	(12 523)	(13 091)	(13 159)	(12 353)
Interest received	172	199	237	226
Cash From (used in) Operations	**729**	**401**	**1 002**	**780**
Payments for property, plant and equipment	(488)	(676)	(2 328)	(1 038)
Proceeds from sale of property, plant and equipment	23	18	56	87
Cash From (used in) Investing Activities	**(465)**	**(658)**	**(2 272)**	**(951)**
Net Increase (Decrease) in Cash	**264**	**(257)**	**(1 270)**	**(171)**
Cash at the beginning of the year	3 790	4 047	5 317	5 488
Cash at End of the Year	**4 054**	**3 790**	**4 047**	**5 317**

FINANCIAL ANALYSIS

	Bench Mark	2012-13	2011-12	2010-11	2009-10
Financial Performance					
Profit (Loss) from operations ($'000s)		(231)	(349)	(160)	205
Operating margin	>1.0	0.98	0.97	0.99	1.02
Financial Management					
Current ratio	>1	2.00	1.87	1.97	3.05
Debt collection	30 days	6	6	9	7
Creditor turnover	30 days	15	17	34	24
Other Information					
Average staff numbers (FTEs)		85	87	88	89
Average staff costs ($'000s)		80	69	67	63
Average leave balance ($'000s)		14	11	12	12

PUBLIC TRUSTEE (PT)

SNAPSHOT

- PT's Underlying Profit was $0.804m and Net Profit $1.314m.
- Net profit improved significantly in 2012-13 mainly due to a large increase in the value of its market investments.
- At 30 June 2013, Total Equity was $4.283m, an improvement of $2.436m on the prior year.
- PT held funds in trust on behalf of clients totalling $133.246m at 30 June 2013.

Key developments this year included a funding operating model review conducted by the Department of Treasury and Finance (Treasury) which aimed at identifying options to improve PT's financial sustainability over the long term. Options initially identified included:

- retention of future dividends
- higher Community Service Obligation (CSO) funding over the 2013-14 Forward and Budget Estimates.

A dividend of $0.151m was paid in 2012-13.

The audit was completed with no key findings.

INTRODUCTION

PT is a Government Business Enterprise (GBE) established by the *Public Trustee Act 1930*. Principal commercial activities undertaken include the provision to 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.

PT collects fees and commissions for providing these services. In addition, it receives funding from the State Government to enable it to satisfy its CSOs.

PT's financial report shows the results of its provision of the above services, its management of the Common Fund and two group investment funds. As part of its executor and trustee role, PT holds funds in trust on behalf of clients during the course of estate and trust administrations. Revenues earned on these funds are not treated as PT's income but are credited to relevant trust accounts. Estate and other assets under administration are not included in PT's financial report but details are reported in its annual report and in this Chapter.

KEY AREAS OF AUDIT ATTENTION

Description of Area	Audit Approach
Economic/market conditions cause volatility in investment market values. The movement in investments can have a significant impact on PT's profitability and solvency.	Audit procedures undertaken included: • reconciliation and confirmation of investment balances • analytical review of revenue and investment balances.
Taxation balances are determined at year-end based upon PT's financial transactions and balances. Tax balances are material.	The 2012-13 tax calculations and work-papers were prepared by an independent expert and were tested and assessed against tax legislation.
PT provides its services from decentralised Offices at four locations around the State. This can give rise to internal control risks.	We reviewed internal systems and completed a walkthrough. Controls were tested based on a sample of transactions selected.

AUDIT OF THE 2012-13 STATEMENTS

Signed financial statements were received on 12 August 2013 with an unqualified audit report issued on the same day.

KEY FINDINGS

No findings were made during the audit.

KEY DEVELOPMENTS

Review of Funding and Operational Model

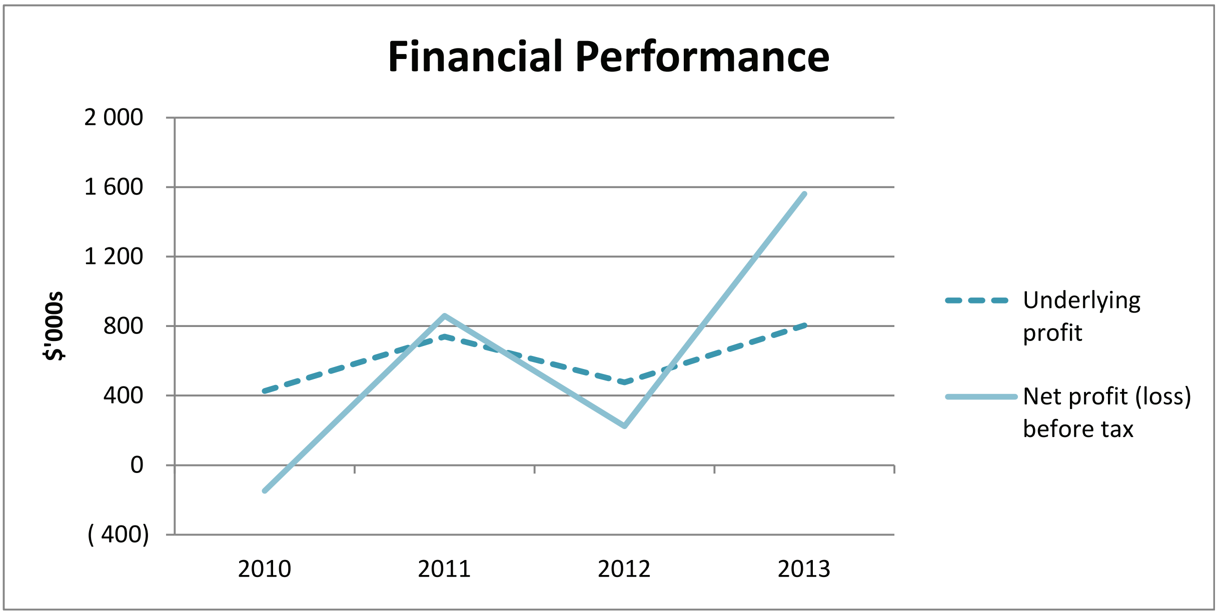
Treasury was requested by the Treasurer and the Attorney-General to undertake a review of PT's funding and operating model to identify options to improve its financial sustainability over the longer term. A draft report issued by Treasury included various findings relating to the major factors impacting on PT's current financial position and Corporate Plan projections. These included:

- the deterioration in financial performance was mainly due to a decline in the number of commercial deceased estates administered, coupled with a significant increase in the number of unprofitable represented persons referred by the Guardianship and Administration Board
- a growing deficit between capped CSO funding provided and the net avoidable cost incurred in providing CSO services
- growing competition from the private sector.

Two options were initially listed for consideration including:

- retention of future dividend payments
- a staged annual increase in CSO funding over the 2013-14 Budget and Forward Estimates.

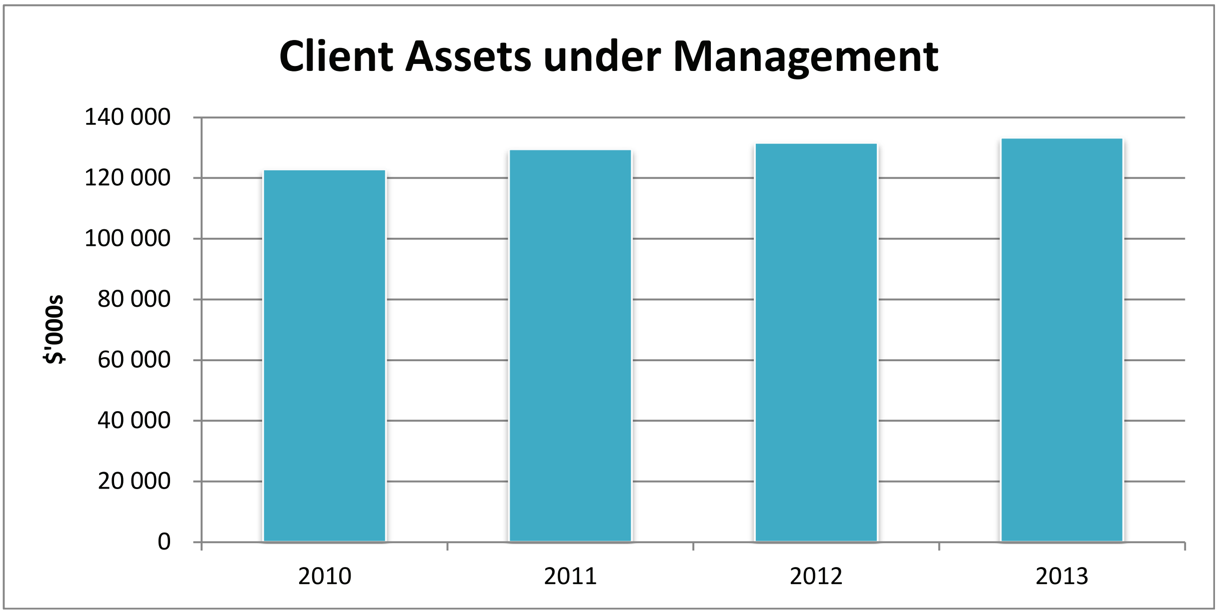
FINANCIAL ANALYSIS

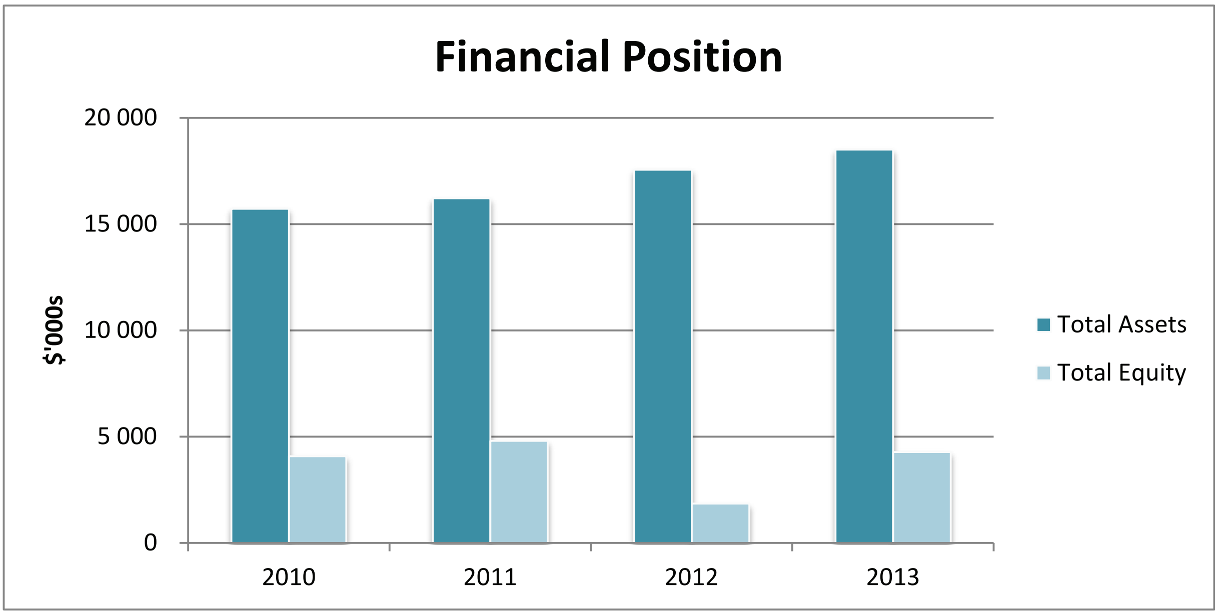


PT's Underlying Profits before tax varied between $0.400m and $0.800m over the past four years with an average of $0.612m. The stronger results in 2011 and 2013 were mainly due to higher income from investments, mainly dividends.

The greater volatility in Net Profit was driven by movements in the unrealised values of PT's investments. The 2012-13 Net Profit before tax of $1.561m was the strongest result over the four years. As expected, unrealised increases or decreases in the value of investments fluctuate in line with market movements each 30 June. In 2012-13 a gain of $0.757m was recognised (2011-12, $0.252m loss).

Commission and fees revenue increased steadily over the period. This was driven by higher client assets under management (as per graph below). The higher revenue was offset by increased Employee costs, which were principally due to wage increases.





Equity movements over the the past two years were principally caused by the fair value movement in superannuation liability and, to a lesser extent, Net profit after tax. In 2012-13, an actuarial gain on superannuation liability of $1.274m was recorded, compared to a $2.854m loss in the prior period. The better result this year was mainly due to an increase in the discount rate from 3.45% at 30 June 2012 to 4.25% at 30 June 2013.

Total assets increased slightly each year since 2010. This was almost entirely in line with higher cash balances, up by $1.610m over the period, and higher investments, up by $0.627m.

PT had no borrowings during this period.

STATEMENT OF COMPREHENSIVE INCOME

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Commission and fees	5 668	5 591	5 170	5 032
Funding of community service obligations	1 360	1 311	1 260	1 215
Income from investments	956	608	1 043	465
Profit (loss) on sale of assets	0	0	0	(3)
Total Revenue	**7 984**	**7 510**	**7 473**	**6 709**
Employee costs	4 394	4 081	3 989	3 667
Accommodation expenses	433	422	435	372
Administration expenses	1 685	1 754	1 558	1 542
Finance expenses	573	679	672	624
Depreciation	95	98	79	77
Total Expenses	**7 180**	**7 034**	**6 733**	**6 282**
Underlying Profit	**804**	**476**	**740**	**427**
Change in value of investments	757	(252)	120	(575)
Net Profit (Loss) Before Tax	**1 561**	**224**	**860**	**(148)**
Income tax expense (benefit)	247	98	327	(49)
Net Profit (Loss)	**1 314**	**126**	**533**	**(99)**
Other Comprehensive Income				
Fair value gains (losses) on super liabilities, net of tax	1 274	(2 854)	0	0
Income tax on other comprehensive income	0	0	(79)	323
Other Comprehensive Income (Expense)	**1 274**	**(2 854)**	**(79)**	**323**
Total Comprehensive Profit (Loss)	**2 588**	**(2 728)**	**454**	**224**

STATEMENT OF FINANCIAL POSITION

	2013	2012	2011	2010
	$'000s	$'000s	$'000s	$'000s
Cash	2 732	2 297	1 234	1 113
Receivables	508	196	934	568
Financial assets	10 802	10 044	10 296	10 175
Assets held for sale	0	0	0	0
Other	37	37	23	0
Total Current Assets	**14 079**	**12 574**	**12 487**	**11 856**
Payables	623	629	491	547
Provisions	1 122	1 008	923	1 075
Income tax liability	68	(19)	(30)	2
Total Current Liabilities	**1 813**	**1 618**	**1 384**	**1 624**
Working Capital	**12 266**	**10 956**	**11 103**	**10 232**
Property, plant and equipment	461	444	436	364
Deferred tax asset	3 963	4 548	3 291	3 503
Total Non-Current Assets	**4 424**	**4 992**	**3 727**	**3 867**
Provisions	12 407	14 101	10 031	10 016
Deferred tax liability and tax payable	0	0	0	0
Total Non-Current Liabilities	**12 407**	**14 101**	**10 031**	**10 016**
Net Assets	**4 283**	**1 847**	**4 799**	**4 083**
Retained profits	4 283	1 847	4 799	4 083
Total Equity	**4 283**	**1 847**	**4 799**	**4 083**

STATEMENT OF CASH FLOWS

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Receipts from clients, Government and Common Fund	7 543	7 731	7 076	6 365
Payments to suppliers and employees	(7 423)	(7 259)	(7 113)	(5 334)
Interest received	75	65	34	321
Taxation paid	(121)	(121)	(226)	(460)
Cash From (used in) Operations	**74**	**416**	**(229)**	**892**
Proceeds from financial assets	623	978	502	0
Redemption of financial assets	0	0	0	6 535
Purchase of financial assets	0	0	0	(10 750)
Payments for property, plant and equipment	(111)	(106)	(152)	(68)
Proceeds from sale of property, plant and equipment	0	0	0	4 500
Cash From Investing Activities	**512**	**872**	**350**	**217**
Dividends paid	(151)	(225)	0	(345)
Cash (used in) Financing Activities	**(151)**	**(225)**	**0**	**(345)**
Net Increase in Cash	**435**	**1 063**	**121**	**764**
Cash at the beginning of the year	2 297	1 234	1 113	349
Cash at End of the Year	**2 732**	**2 297**	**1 234**	**1 113**

FINANCIAL ANALYSIS

	Bench Mark	2012-13	2011-12	2010-11	2009-10
Financial Performance					
Net profit (loss) ($'000s)		1 314	126	533	(99)
EBIT ($'000s)		1 377	1 155	1 412	1 051
EBITDA ($'000s)		1 472	1 253	1 491	1 128
Operating margin	>1.0	1.11	1.07	1.11	1.07
Return on assets	2%	7.6%	6.8%	8.8%	6.6%
Return on equity		42.9%	3.8%	12.0%	(2.2%)
Financial Management					
Current ratio	>1	7.8	7.8	9.0	7.3
Creditor turnover	30 days	48	28	47	45
Returns to Government					
Dividends paid ($'000s)		151	225	0	345
Income tax paid ($'000s)		121	121	226	460
Total return to the State ($'000s)		272	346	226	805
Dividends payable ($'000s)		0	151	225	0
Dividend payout ratio	50%	0.0%	31.7%	50.0%	0.0%
Dividend to equity ratio	6%	0.0%	4.5%	5.1%	0.0%
Other Information					
Average staff numbers (FTEs)		52	52	51	51
Average staff costs ($'000s)		85	78	78	72
Average leave balance per FTE ($'000s)		14	17	12	12

TASMANIAN PUBLIC FINANCE CORPORATION (Tascorp)

SNAPSHOT

- Overall, there has been a reduction in Tascorp's Financial assets and Total Liabilities, with the net impact being lower net assets of $1.438m.
- Tascorp maintained sufficient liquidity to meet funding requirements of public sector entities.
- Its Profit before income tax equivalent decreased by $2.392m in 2012-13.
- Tascorp paid a dividend of $7.629m during the year ended 30 June 2013 (2011-12, $6.445m).
- Tascorp's Total Assets were $5.881bn, comprising mainly of Investments, $2.747bn, and advances, $2.974bn. Total Liabilities of $5.840bn comprised mainly of borrowings, $5.087bn, and deposits, $0.620bn.

The audit was completed on time with no major items outstanding.

INTRODUCTION

Tascorp was established by the *Tasmanian Public Finance Corporation Act 1985*. Its 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.

To enhance understanding in this report it is noted 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 Tascorp yield curve as applied to its borrowings and client loans prior to May 2009 and the semi Government curve for loans post May 2009.

KEY AREAS OF AUDIT ATTENTION

Description of Area	Audit Approach
Tascorp values financial instruments using mark-to-market valuation, which relies on judgement in the absence of quoted market prices.	Financial instrument valuation experts are utilised to audit the valuation of the financial instruments at year end. Valuations impact both asset and liability values carried at year end. Our audit applied external support and valuation techniques to test a sample of valuations.
Tascorp utilises derivative financial instruments to hedge risks associated with its borrowing and lending processes. By nature, these instruments represent an audit risk based on the completeness of the derivative instruments recorded.	Confirmations from external counter parties were used to confirm the derivative positions at year end.

AUDIT OF THE 2012-13 FINANCIAL STATEMENTS

Signed financial statements were received on 8 August 2013. Amended financial statements in response to a change in the Treasurer's Guidelines for Executive Remuneration Disclosures were received on 19 August 2013 and an unqualified audit report was issued the same day.

KEY FINDINGS

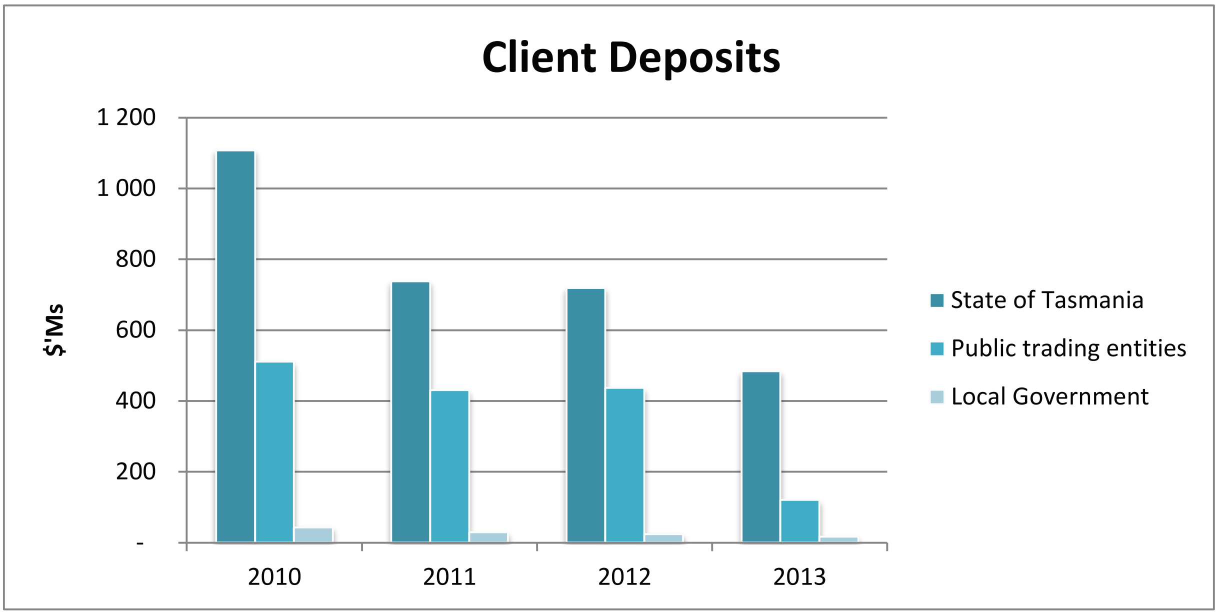
Cost of borrowing decreased from a weighted average cost at 30 June 2012 of 4.61% to 4.18% at 30 June 2013, which is the result of lower interest rates. This decrease was less than the decrease in the interest rate achieved on investments which had a weighted average interest return of 4.17% at 30 June 2012, down to 3.49% at 30 June 2013.

The difference in the return received for investments and the cost of borrowings represents the cost of hedging surplus long term borrowings with bonds issued by other Australian states. The surplus borrowings are invested in this manner to ensure sufficient funds are available to meet funding requirements of State entities. These percentages represent the weighted average effective interest rates received and paid based on the assets and liabilities held at 30 June each year. This cost is worn by Tascorp through a higher cost paid in interest expense compared to the return received through investments.

KEY DEVELOPMENTS

In May 2013, borrowings with a face value of $795.500m matured. To fund this maturing stock, Tascorp issued stock with a face value totalling $900.000m prior to the stock maturing in May.

Client deposits, which represent cash held on deposit with Tascorp, decreased from $1.178m in 2012 to $620.161m in 2013, a reduction of $557.837m. This decline followed the trend seen in previous financial years, whereby cash held on deposit has decreased and contributed to lower investments of $333.518m at 30 June 2013. Over the last four years, there has been a significant decrease in the client deposits held with Tascorp, as seen in the following graph.



The decrease in client deposits from 2009-10 to 2012-13 in aggregate was $1.040bn, representing a decrease of 62.64% over this period and was driven by lower cash available for deposit by public sector entities combined with more attractive rates available in the private sector.

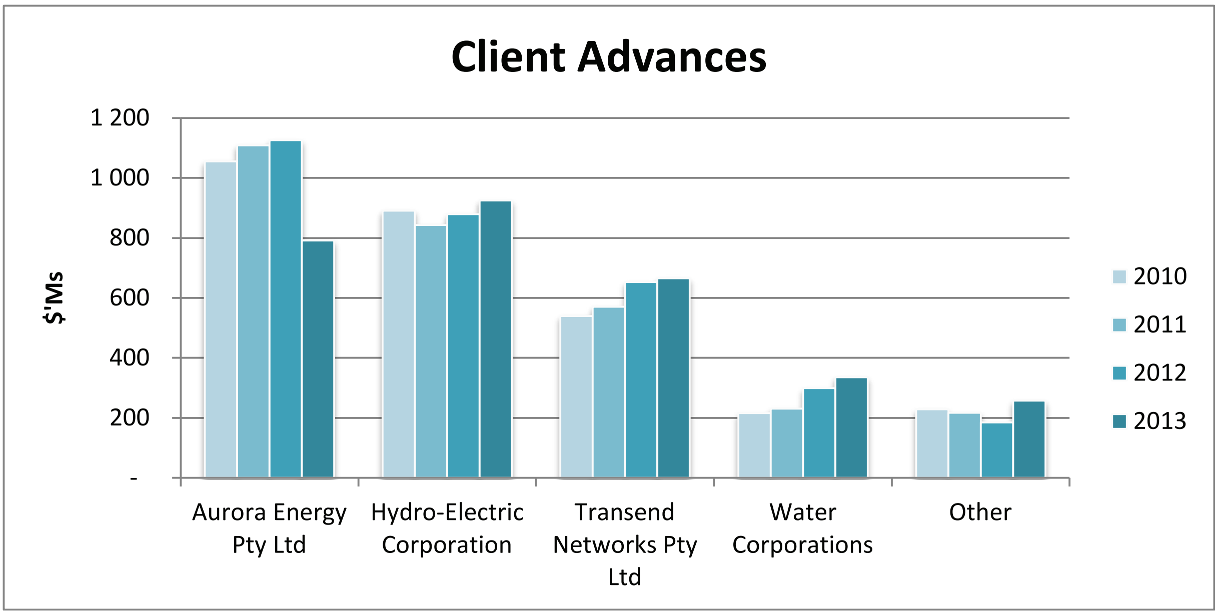
FINANCIAL ANALYSIS

Tascorp achieved a Net Profit before tax for the year of $8.845m (2011-12, $11.237m) and at 30 June 2013 it had Net Assets of $41.458m (2011-12, $42.896m) comprising:

	2013	**2012**
	$'000s	$'000s
Investments	2 747 733	3 081 251
Advances to State entities	2 974 507	3 141 851
Deposits received from State entities	(620 161)	(1 177 998)
Borrowings	(5 087 045)	(5 040 617)
Net derivatives	20 529	9 444
Other assets and liabilities	5 895	28 965
Net Assets	**41 458**	**42 896**

The fall in Tascorp's assets was primarily attributable to the decrease in client deposits of $557.837m, resulting in fewer funds to invest or to advance to State entities. The decline in Advances also arose from net loan repayments to Tascorp this financial year. The reduction in Net Assets was because the dividend paid, $7.629m, was greater than the Net Profit, $6.191m.

Client advances are the primary function of Tascorp. The movement over the past four years is outlined in the following graph.



Impact of Overnight Loan of $900.000m (2011-12, $650.000m)

On 28 June 2013 the Department of Treasury and Finance took a client advance from Tascorp of $900.000m, ($650.000m), and simultaneously entered into an equal and offsetting transaction for a client deposit of the same amount. 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 and interest receivable, 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 $900m 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.

Profitability

The decrease in Net profit before tax of $2.392m for the year was driven by a decrease in net interest income of $2.000m, as illustrated in the table below:

	2012-13	**2011-12**
	$'000s	$'000s
Interest revenue	290 570	365 831
Interest expense	(264 213)	(337 474)
Net interest	**26 357**	**28 357**

This decrease in net interest income was due to an increase in semi Government securities held over the year, along with movement in the margin on financial instruments. The following table outlines Tascorp's assets and liabilities from 2010 through to 2013, showing the weighted average effective interest rate at 30 June each year.

The declining interest rates follow the trend of the declining cash rate, which drives the rates paid, and the rates earned.

	June 13		**June 12**		**June 11**		**June 10**	
	%	$ m	%	$m	%	$m	%	$m
Assets								
Investments	3.49	2 748	4.17	3 081	5.24	4 127	5.01	2 421
Client advances	5.30	2 975	5.59	3 142	6.05	2 971	5.93	2 931
Liabilities								
Client deposits	2.78	620	3.50	1 178	4.87	1 196	5.61	1 600
Borrowings	4.18	5 087	4.61	5 041	5.22	5 790	5.15	3 682

Dividends and Taxes Paid

Dividends paid for the year were $7.629m (2011-12, $6.445m) and tax paid was $3.371m ($2.881m) which provided a total return to Government of $11.000m ($9.326m). The tax expense incurred in 2012-13 was $2.654m ($3.371m).

Alternative Profit Presentation

Tascorp also presents its financial information in an alternative form. This was 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:

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Net margin income	24 080	26 222	19 755	15 686
Credit margin gains (losses)	(5 531)	(2 287)	1 345	5 467
Liability margin gains (losses)	(3 713)	(7 246)	(6 350)	(854)
Fee income	509	535	673	724
Net Revenue*	**15 345**	**17 224**	**15 423**	**21 023**

* *Net revenue is before accounting for other operational expenses of $6.500m (2011-12, $5.987m, 2010-11, $5.819m and 2009-10, $4.804m).*

Net revenue from operations decreased by $1.879m (2011-12, $1.801m increase) reflecting higher costs for financial liabilities, compared to the return on financial assets.

CHAPTER APPENDICES

STATEMENT OF COMPREHENSIVE INCOME

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Interest revenue	290 570	365 831	348 184	290 819
Other operating revenue	509	535	673	759
Net gains (losses) from financial instruments	(11 521)	(11 668)	(6 434)	(5 753)
Total Revenue	**279 558**	**354 698**	**342 423**	**285 825**
Interest expense	264 213	337 474	327 000	264 802
Other operating expenses	6 500	5 987	5 819	4 804
Total Expenses	**270 713**	**343 461**	**332 819**	**269 606**
Profit (Loss) Before Tax:	**8 845**	**11 237**	**9 604**	**16 219**
Income tax expense (benefit)	2 654	3 371	2 881	4 866
Net Profit (Loss)	**6 191**	**7 866**	**6 723**	**11 353**
Total Comprehensive Income	**6 191**	**7 866**	**6 723**	**11 353**

STATEMENT OF FINANCIAL POSITION

	2013	2012	2011	2010
	$'000s	$'000s	$'000s	$'000s
Cash	1 144	1 121	974	866
Investments*	2 747 733	3 081 251	4 126 711	2 421 327
Advances*	2 974 507	3 141 851	2 970 648	2 930 616
Derivative instruments receivable	149 305	153 517	44 956	110 676
Property, plant and equipment	199	147	204	212
Intangibles and other	8 214	119 078	12 068	203
Total Assets	**5 881 102**	**6 496 965**	**7 155 561**	**5 463 900**
Payables	519	87 501	647	7 931
Deposits*	620 161	1 177 998	1 195 980	1 660 065
Borrowings*	5 087 045	5 040 617	5 790 389	3 681 903
Derivative instruments payable	128 776	144 073	123 747	70 219
Current tax liabilities	2 654	3 371	2 881	4 866
Provisions	489	509	442	450
Total Liabilities	**5 839 644**	**6 454 069**	**7 114 086**	**5 425 434**
Net Assets	**41 458**	**42 896**	**41 475**	**38 466**
Reserves	10 000	10 000	10 000	10 000
Retained earnings	31 458	32 896	31 475	28 466
Total Equity	**41 458**	**42 896**	**41 475**	**38 466**

** 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.*

STATEMENT OF CASH FLOWS

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'00s
Interest and other receipts	293 458	373 928	407 721	284 366
Interest payments	(310 463)	(456 815)	(310 390)	(340 723)
Payments to suppliers and employees	(6 472)	(5 852)	(5 749)	(4 707)
Tax paid	(3 371)	(2 881)	(4 866)	(5 386)
Net increase (decrease) in deposits	400	0	(3 609)	(65)
Net increase (decrease) in short term borrowings	(266 640)	(2 221 690)	2 747 944	(820 509)
Net (increase) decrease in advances	(156 848)	126 902	(39 199)	(71 596)
Net (increase) decrease in investments	(163 522)	316 166	(1 192 994)	203 374
Cash From (used in) Operations	**(613 458)**	**(1 870 242)**	**1 598 858**	**(755 246)**
Payments for property, plant and equip.	(88)	0	(51)	(182)
Proceeds from sale of property, plant and equip.	0	0	3	50
Cash From (used in) Investing Activities	**(88)**	**0**	**(48)**	**(132)**
Receipts from new issues of preferred stock	1 202 717	1 375 354	752 202	53 429
Repayment of preferred stock	(816 101)	0	(1 367 043)	0
Dividends paid	(7 629)	(6 445)	(3 714)	(4 000)
Cash From (used in) Financing Activities	**378 987**	**1 368 909**	**(618 555)**	**49 429**
Net Increase (Decrease) in Cash	**(234 559)**	**(501 333)**	**980 255**	**(705 949)**
Cash at the beginning of the year	727 092	1 228 425	248 170	954 119
Cash at End of the Year*	**492 533**	**727 092**	**1 228 425**	**248 170**

* *Cash at End of the Year includes highly liquid short term investments and 'at call' elements of advances, borrowings and client deposits.*

FINANCIAL ANALYSIS

	Bench Mark	2012-13	2011-12	2010-11	2009-10
		$'000s	$'000s	$'000s	$'000s
Financial Performance					
Profit (loss) ($'000s)		8 845	11 237	9 604	16 219
Return on equity		21.3%	26.2%	23.2%	42.2%
Returns to Government					
Dividends paid ($'000s)		7 629	6 445	3 714	4 000
Dividend payout ratio		123.2%	81.9%	55.2%	35.2%
Dividend to equity ratio		18.4%	15.0%	9.0%	10.4%
Income tax expense ($'000s)		2 654	3 371	2 881	4 866
Effective tax rate	30%	30.0%	30.0%	30.0%	30.0%
Total return to the State ($'000s)		10 283	9 816	6 595	8 866
Total return to equity ratio		24.4%	23.3%	16.5%	25.5%
Other Information					
Staff numbers (FTEs)		15	16	16	16
Average staff costs ($'000s)		166	156	149	133
Average leave balance per FTE ($'000s)		18	23	21	18

AUDIT SUMMARY - STATE OWNED COMPANIES

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 shares on behalf of the Tasmanian community. The broad governance framework for SOCs is set out in the legislation for each SOC, the *Corporations Act 2001*, the Constitution of each SOC and in Corporate Governance Guidelines developed by the Department of Treasury and Finance.

The corporatisation of Government Businesses under the *Corporations Act 2001* continues the reform process aimed at improving public sector efficiency and effectiveness. While still serving a public purpose and owned by the State, corporatised entities are autonomous in their day to day decision making with Ministerial direction capable of being provided through the strategic planning process.

Enabling legislation provides for the payment of guarantee fees, taxation equivalents and dividends.

This summary 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).

KEY OUTCOMES FROM AUDITS

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.

FINANCIAL ANALYSIS

Tasmania's SOCs collectively had net assets of $1.977bn (2012, $1.954bn), employed 2 639 (2 810) people, and recorded after tax profits of $54.620m (2012, losses $12.815m).

Summarised Financial Results

	Underlying Profit (Loss)	Net Profit (Loss) Before Tax	Net Profit (Loss) After Tax	Total Comprehensive Profit (Loss)	Net Assets
	$'000s	$'000s	$'000s	$'000s	$'000s
Aurora	84 496	84 496	59 115	58 981	554 918
Metro	(309)	(309)	(217)	2 051	29 684
TIPL	2 761	(12 550)	(12 550)	(12 550)	74 009
Tasports	(1 335)	(1 335)	(1 393)	(1 468)	175 128
Tasracing	(1 973)	(535)	(535)	(535)	40 334
TasRail	(6 301)	(51 534)	(50 294)	(47 402)	110 245
Transend	67 714	68 329	47 810	80 115	721 822
TT-Line	15 209	18 154	12 684	17 405	270 500
Total	**160 262**	**104 716**	**54 620**	**96 597**	**1 976 640**

SOCs recorded Underlying profits of $160.262m and combined Net profits after tax of $54.620m. The two energy businesses recorded the highest profits. In comparison, TIPL and TasRail recorded large losses. These two entities are currently completing significant infrastructure projects, which are predominantly funded by State grants, which have in some cases been treated as equity contributions.

Debt, Working Capital and Relevant Ratios

	Borrowings	Debt to equity	Net working capital	Current ratio
	$'000s		$'000s	
Aurora	749 813	135%	(31 144)	0.90
Metro	0	0%	(164)	0.98
TIPL	20 024	27%	31	1.00
Tasports	20 383	12%	17 051	2.04
Tasracing	12 578	31%	3 617	2.04
TasRail	0	N/A	42 178	4.81
Transend	631 197	87%	(58 136)	0.36
TT-Line	0	N/A	55 090	3.07
Total	**1 433 995**		**28 523**	

SOCs held borrowings of $1.434bn at 30 June 2013, with the two energy companies' loans representing 96% of the total debt. The nature of the energy companies' activities requires a heavy investment in infrastructure. However, the debt to equity ratios of Aurora and Transend of 135% and 87% respectively, are considered high.

In addition, both energy companies recorded net working capital deficits at 30 June 2013.

Returns to Government

	Dividends	Taxation	Guarantee Fees	Total Returns
	$'000s	$'000s	$'000s	$'000s
Aurora	16 000	3 386	12 118	31 504
Metro	0	0	0	0
TIPL	0	0	0	0
Tasports	0	0	0	0
Tasracing	0	0	0	0
TasRail	0	0	0	0
Transend	25 900	32 482	0	58 382
TT-Line	0	0	0	0
Total	**41 900**	**35 868**	**12 118**	**89 886**

SOCs paid $89.886m to the State during 2012-13. All returns were made by the two energy companies, Aurora and Transend. Apart from TT-Line, Aurora and Transend, all other SOCs recorded losses. TT-Line's shareholders have agreed to forego dividend payments to enable it to generate cash to fund against the cost of replacing its current vessels.

RESPONSIBLE MINISTER

The Ministers responsible for the various SOCs at 30 June 2013 were:

Entity	Responsible Minister
Aurora	Minister for Energy and Resources
Metro	Minister for Sustainable Transport and Alternative Energy
TIPL	Minister for Primary Industries and Water
Tasports	Minister for Infrastructure
Tasracing	Minister for Racing
TasRail	Minister for Infrastructure
Transend	Minister for Energy and Resources
TT-Line	Minister for Infrastructure

AURORA ENERGY PTY LTD (Aurora)

SNAPSHOT

- Aurora recorded a Net profit after tax of $59.115m strengthened by the impact of its previous two-year efficiency and restructuring transformation and a significant year on year positive valuation adjustment on both superannuation liabilities, $27.473m, and financial instruments, $7.266m.
- Total Equity declined due to the transfer of the Aurora Energy Tamar Valley (AETV) power station (which was treated as a return of capital at its book value of $89.139m) plus the impact of a dividend of $16.000m paid in the year.
- Total debt reduced due to the transfer of AETV related debt, $205.000m, coupled with a $119.769m net repayment of borrowings during the 2012-13 year.
- Aurora made a return on equity of 10.2% and contributed $31.504m to the State comprising a $16.000m dividend, $3.386m in taxes and $12.118m in Government guarantee fees.

Key developments in the year included:

- the Tasmanian Electricity Supply Industry ('TESI') reforms which included the transfer of AETV to Hydro Tasmania at an equity value of $89.139m on 31 May 2013. Therefore, AETV operated under Aurora's control for eleven months incurring an unaudited after tax loss of $6.228m
- the first year of a new five year regulatory pricing determination for the distribution network which allowed for nominal revenue of $1.417bn over the five year period
- introduction of the Australian Government's carbon pricing mechanism which resulted in an expense of $19.378m (of which $14.751m arose from operating AETV power station until 31 May 2013)
- subsequent to the signing of the financial statements, the planned divestment of the Aurora retail customer base was withdrawn. Instead, Aurora will continue to operate its retail business, with full retail contestability planned for 1 July 2014
- from 1 July 2014 Aurora will merge with Transend's distribution business into Tasmanian Networks Pty Ltd.

Major variations between the 2012-13 and 2011-12 financial years were:

- relatively stable revenue and energy and transmission purchases against a 1.4% decline in consumption
- a saving of $21.292m in functional expenses, primarily as a result of realising the benefit of the previous two-year efficiency and restructuring transformation
- higher depreciation expense of $10.589m or 10%, predominantly as a result of accelerated depreciation on the Customer Care and Billing (CC&B) system coupled with $113.857m of capital expenditure in the period
- reduced finance costs amounting to a saving of $9.970m or 12%, driven by net repayment of $119.769m of borrowings, favourable interest rates and, for 30 June 2013, the transfer of AETV.
- A year on year actuarial gain of $27.473m on the superannuation valuation as a result of valuation inputs that are largely outside the control of Aurora
- a reduction in Working Capital, Property plant and equipment, Borrowings and Provisions as a result of the transfer of AETV power station at book value to Hydro Tasmania

- lower operating cash flows of $16.146m predominantly due to a payment of $17.296m to Hydro Tasmania post transfer of AETV to settle previously incurred intercompany balances between Aurora and AETV.

The audit was completed satisfactorily and on time with no matters outstanding.

INTRODUCTION

Aurora was established on 17 June 1998 under the *Electricity Companies Act 1997* and is subject to the Corporations Act 2001. Government through its two shareholders, the Treasurer and the Minister for Energy and Resources, own Aurora on behalf of the State of Tasmania. Currently, the Board comprises seven directors, including the Chief Executive Officer.

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). In order to provide retail electricity, Aurora pays for energy at the market spot price and enters into hedge contracts with counterparties to manage 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.

The Australian Energy 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 27% (2012, 22% based on consumption) of Aurora's retail business.

Aurora consists of two core operating units:

- **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
  - management of customers' connections, meter reading, distribution capabilities, and the Aurora Training Centre; and, with effect from the 2012-13 year, a wholesale Telecommunications Division.
- **Energy Business:** Responsible for the on-going activities in retail customer service, including electricity and gas sales to business and residential customers as well as generation of electricity through the AETV (until 31 May 2013) and wholesale energy activities, including contracting and risk management of electricity and gas.

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

- **Ezikey Group Pty Ltd (Ezikey)** was responsible for the commercialisation of broken neutral detection technology owned by Aurora. For the year ended 30 June 2013, the company had no significant activity and
- **Auroracom Pty Ltd** holds Aurora's Telecommunications Carrier Licence. To date, this subsidiary has not traded.

KEY AREAS OF AUDIT ATTENTION

Areas Arising Because of TESI Reforms	Audit Approach
Transfer of Aurora Energy Tamar Valley Accounted for appropriately in accordance with Australian Accounting Standards.	We examined the Transfer Notice and resulting accounting entries and concluded that the transfer was accounted for appropriately in accordance with relevant Australian Accounting Standards.
Divestment of retail customers The planned divestment of Aurora's retail customer book may not have been accounted for/disclosed appropriately in the financial statements.	We ensured that relevant disclosure of the expected sale process was included in the financial statements. There were no recognised assets relating to the retail business that were held for sale.
Carrying value of the CC&B system (intangible assets) Given the timeframe of the TESI reforms the carrying amount of the CC&B system at 30 June 2013 may have been overstated and appropriate disclosure requirements may not have been made. The CC&B system was planned to continue to be utilised within the Energy Business ('EB') CGU until 31 December 2013 (planned date of divestment of the retail business). From 1 January 2014, CC&B was to be used by Aurora to meet operational requirements under the Transitional Services Agreement ('TSA'). The TSA was expected to remain effective for at least 12-24 months.	In view of the change in the expected use of the CC&B system, the following implications were considered: • useful life was reassessed from 12 years to 3 years (effective from 1 July 2012) • residual book value at 30 June 2015 was assessed at $Nil (given any as yet to be determined commercial value in alternative use and the documentation requirements of accounting standards should a residual value be nominated). We examined the relevant accounting papers and workings prepared by management, and ensured that the treatment adopted was appropriate. The implications of the withdrawal of the divestment of the retail business will be considered in 2013-14.
Network Integration The classification of the distribution network may not appropriately recorded at 30 June 2013. In accordance with electricity supply industry reforms, the merger of Aurora's distribution and Transend's transmission networks is planned to occur on 1 July 2014. At the time of preparing the financial statements and finalising the audit the form and content of this merger had yet to be agreed.	We examined management's approach to recognition of the distribution network assets.

Areas Arising Because of TESI Reforms	Audit Approach
Redundancy and other provisions It was unknown how many of Distribution Business roles will be redeployed to the merged Tasnetworks business. Hence provisions for restructuring and other provisions may have been inappropriately recognised.	We examined management's position in relation to redundancy provisions disclosed in the financial statements.
Derivative valuations and accounting As a result of the TESI reform and planned sale of the retail business by 31 December 2013, Aurora discontinued cash flow hedge accounting on electricity derivatives. In addition, the electricity derivative portfolio was closed out and replaced with three load following swaps with Hydro Tasmania. As these were not designated in a hedging relationship the full movements on these swaps went through the Income Statement. Aurora maintains one electricity contract and associated derivative in a fair value hedge relationship as well as interest rate swaps hedging exposure to variable interest rates in cash flow hedge relationships.	We engaged valuations specialists to test a sample of management's derivative valuations and examined the associated derivative and hedge accounting entries. We also examined management's presentation of derivative and hedge accounting balances in the financial statements.

Other Key Areas	Impact on Audit Approach
Revenue generation (Tranche 1 – Tranche 5 customers) including collectability of related receivables Revenue generated through sales activity with customers may not have been accurately stated.	We tested revenue, debtors and the doubtful debts provision including undertaking analytical review, tests of key large industrial customers and representative sampling of smaller industrial and residential customers. We also examined Management's disclosure of revenue, debtors and the doubtful debts provision for adequacy.
Retail unbilled revenue accrual valuation Unbilled revenue accrual may have been incorrectly calculated.	We reviewed the methodology for the unbilled energy accrual and discussed the findings with management. We recalculated an estimate of unbilled revenue, based on purchased versus sold electricity (load) for the period.
Carbon accounting Carbon related balances were not correctly stated.	We tested the carbon expense and calculation of the carbon accrual and sighted evidence of the remittance of eligible emission units to the Clean Energy Regulator.
Australian Energy Regulator's ('AER') determination (2013-17) Aurora's network fixed asset balance may have been over-stated as compared to the future expected regulated return.	As part of the AER's determination certain meter assets were prescribed a revised value which resulted in a write down of $19.551m. This primarily offset a previously recognised revaluation increment to the Regulated Asset Base (Aurora's distribution network assets). We examined the AER determination including management's summary of the accounting treatment.
Defined benefit pension scheme The defined benefit pension obligation may have been understated	Consistent with previous years, the valuation of the defined benefit scheme was performed by Mercer based on data provided by RBF. We reviewed the Mercer report (and engaged actuarial experts where relevant).
Debt facilities/Classification Debt may have been incorrectly recorded or classified.	We assessed the appropriateness of the classification of debt between current and non-current at reporting date. We also confirmed the debt balance at 30 June with Tascorp.
Going concern/net current asset deficiency As a result of a current net asset deficiency, Aurora may not have been able to meet its debts as and when they fell due.	We ensured the financial statements included appropriate disclosure on going concern and why the Directors believed that they were able to conclude that all debts would be met as and when they fell due. We examined the rationale provided to see that it was not unreasonable. In doing this, we considered the expected 2013-14 financial results (as articulated in the business plan), the intended objectives of the reform process, the nature of the assets held, the extent of finance facilities already in place and the letters of support received (Treasurer to Tascorp in relation to Aurora facilities).

AUDIT OF THE 2012-13 STATEMENTS

The Directors signed the financial statements on 12 August 2013 and an unqualified audit report was issued on the same day.

KEY FINDINGS

The audit was completed satisfactorily and on time with no matters outstanding.

KEY DEVELOPMENTS

Transfer of AETV

On 31 May 2013, Aurora transferred the AETV power station to Hydro Tasmania in accordance with the Transfer Notice issued by the Tasmanian Treasurer pursuant to section 19 of the *Electricity Reform Act 2012*. The AETV power station was previously considered as part of Aurora's integrated Energy Business. The transfer resulted in $89.139m of equity being returned to Aurora's shareholder (who subsequently contributed the equity in AETV to Hydro Tasmania at the same amount).

At the time of transfer AETV had Total Assets of $354.194m, with $317.372m being property, plant and equipment, and Total Liabilities of $265.055m of which $205.000m related to borrowings from Tascorp and $25.944m related to a provision for decommissioning. Income and expenditure relating to the power station were included in Aurora's consolidated Statement of Comprehensive Income until 31 May 2013 when ownership was transferred.

Other TESI Reform Implications

Retail Divestment and CC&B System

A process was underway during 2012-13 to prepare for and undertake the divestment of Aurora's retail customers by 1 January 2014 in accordance with the TESI reform plans. Under this arrangement Aurora would utilise its CC&B system throughout the Transitional Services Arrangement period which was expected to be 18 to 24 months. As a result management revised their estimate of the useful life of the CC&B system to reflect this period and accelerated depreciation accordingly. It should be noted that the divestment process was withdrawn subsequent to signing the financial statements. Instead, Aurora will continue to operate its retail business, with full retail contestability planned for 1 July 2014.

Electricity trading and hedging

As a result of the planned retail divestment Aurora closed out its electricity derivative portfolio and replaced it with three load following swaps with Hydro Tasmania (National sales, Tasmanian non-contestable and Tasmanian contestable) that were planned to mature upon divestment of the retail customers on 31 December 2013. In addition, Aurora did not elect to continue cash flow hedge accounting for electricity derivatives and as a result all movements in the valuations of these three instruments were recorded in the Statement of Comprehensive Income being a mark to market gain of $7.597m for the 2013 year (2012, $0.330m gain).

Electricity Reform Costs

Aurora was directed that costs of the Government's project team in the Department of Treasury and Finance would be funded in equal shares by the three State owned electricity businesses. Aurora's share of these costs in 2012-13 was $0.792m. Aurora's total operating reform costs, including the project team, was $5.685m and capital costs incurred for distribution business full retail contestability was $9.681m. From 1 July 2014, Aurora's distribution business will merge with Transend into Tasmanian Networks Pty Ltd.

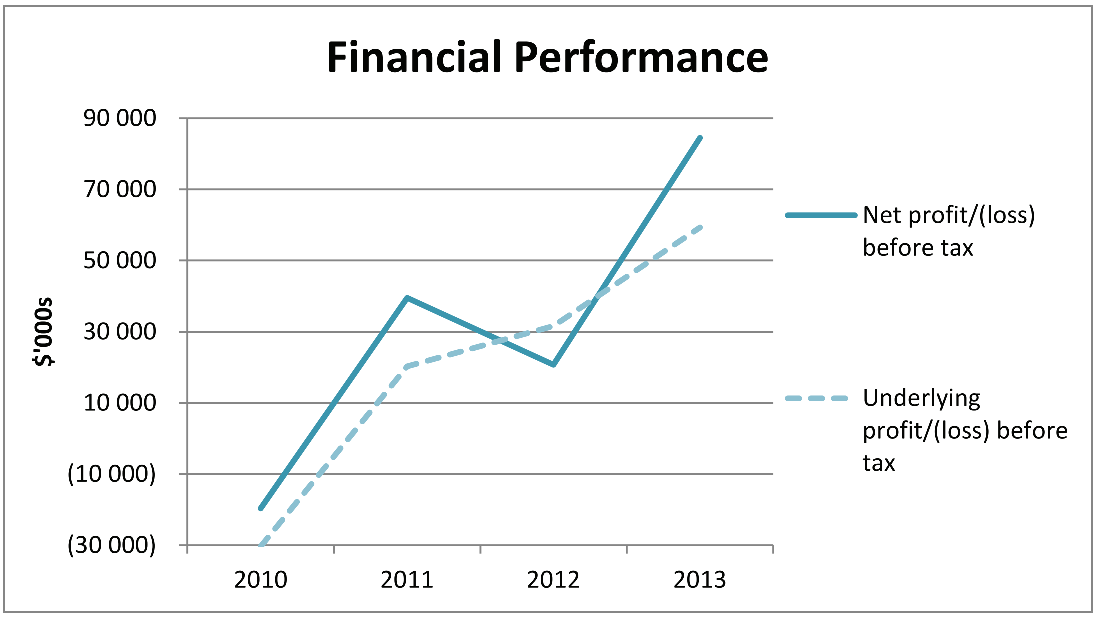
AER Pricing Determination

As previously reported the AER pricing determination for the distribution network for the period 2012-13 to 2016-17 included a total revenue allowance of $1.417bn over the regulatory control period. The first year of operation under this pricing determination was 2012-13. The AER pricing determination included a prescribed value for specific metering assets which resulted in a write down of these assets by $19.551m. Of this amount, $2.283m was recorded in the Statement of Comprehensive Income and $17.268m was recorded against previously recorded revaluation increments in the Asset Revaluation Reserve.

Carbon Pricing Mechanism

Aurora was subject to the Australian Government's Carbon Pricing Mechanism for the first time in 2012-13. This resulted in a total carbon related expense of $19.378m of which $14.751m arose from operating the AETV power station until 31 May 2013.

FINANCIAL ANALYSIS



In 2012-13, Aurora recorded improved results with Underlying Profit before tax increasing by $27.741m to $59.332m and a Net Profit before tax increasing by $63.777m to $84.496m. This calculation of underlying profit differs from that used by Aurora due to different treatment of electricity reform and restructuring costs.

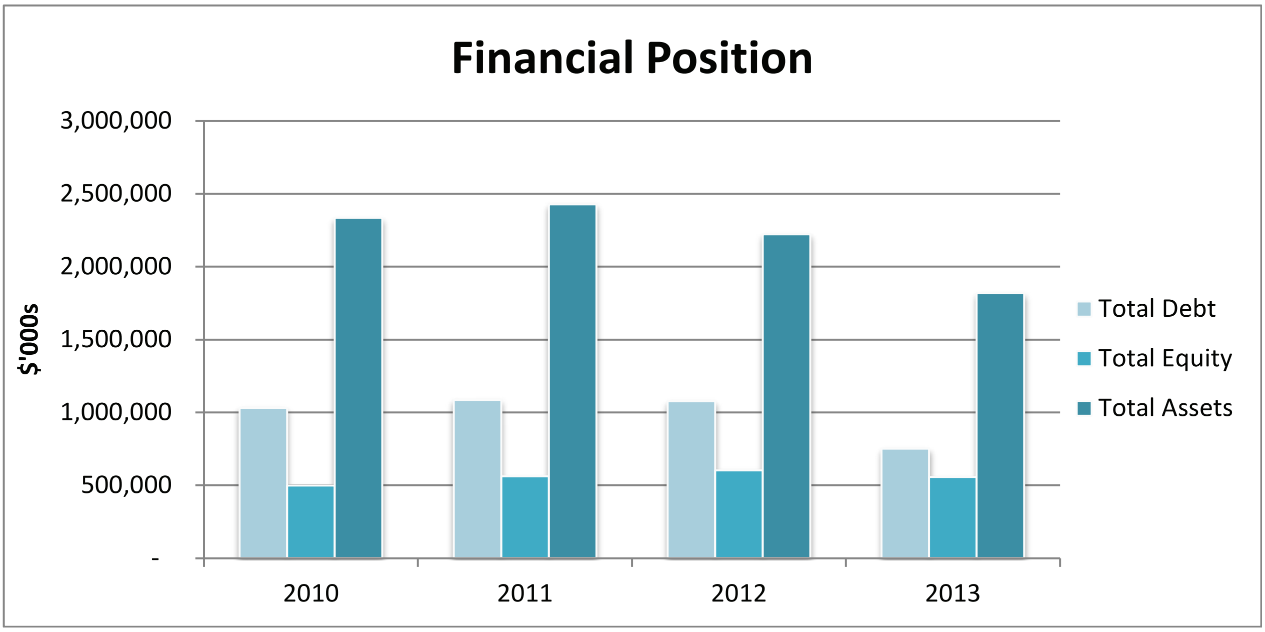
During the year Aurora realised significant benefits of its previous two-year efficiency and restructuring transformation which contributed to the improved financial performance despite consumption showing an overall decline of 1.4% compared with 2011-12. The most significant decline was in employee expenses, $21.111m, mainly due to lower redundancy costs, 2012-13, $5.024m (2011-12, $24.723m). After adjusting for the effects of redundancy costs, employee expenses declined $1.412m, or 1.49%, in 2012-13. This was mainly the result of fewer employees, offset by the full impact of a new Enterprise Agreement implemented in the prior year.

Offsetting the effects of Aurora's internal transformations was the Government's TESI reforms. As previously noted, this resulted in the accelerated depreciation associated with the CC&B system.

Borrowing costs and guarantee fees, which represent the cost of finance from Tascorp, have also, on a net basis, reduced favourably to $66.947m (2012, $75.333m) due to slightly lower interest rates coupled with the net repayment of debt of $119.769m during 2012-13.

Aurora's Net profit before tax improved further due to favourable movements in the valuation of the superannuation liability, $27.473m, (primarily due to changes with the discount rate) and financial instrument fair values, $7.266m. 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.

Aurora returned $85.676m to the State in the form of dividends, tax equivalents and guarantee fees over the prior four years, an average of $21.419m per year. For the 2012-13 year, Aurora is required to calculate its dividend at 60% of adjusted Net profit after tax and as a result declared a dividend for the 2012-13 year of $25.000m.



Prior to 2012-13, Aurora's equity grew each year. In the current year, equity reduced primarily because of the transfer of the AETV power station to Hydro Tasmania at its equity amount of $81.139m (comprising $354.194m Total Assets and $265.055m Total Liabilities, the majority of which related to Property, plant and equipment, $317.372m, and borrowings from Tascorp, $205.000m).

The transfer of AETV and the net repayment of $119.769m of borrowings during the year improved Aurora's debt to equity ratio significantly. Other movements in Equity included a dividend of $16.000m paid to the Shareholder, offset by the net profit of $59.115m and net other comprehensive income of $0.134m.

Aurora had a net working capital deficit of $31.144m at 30 June 2013. We noted that Aurora had access to an 11am cash management facility and a treasury strategy in place to ensure that the business could meet its commitments as and when they fall due. In addition, we reviewed management's budget forecasts and were satisfied that Aurora can meet its obligations throughout the next twelve months.

Overall cash decreased significantly in 2012-13, $85.115m, primarily driven by the net repayment of borrowings of $119.769m and the payment of $17.296m to Hydro Tasmania subsequent to 31 May 2013 in order to settle outstanding intercompany balances that had previously arisen between AETV and Aurora. When adjusting for the $17.296m payment for settlement of AETV related balances, the cash flow from operations was in line with the prior year.

Payments for Property, plant and equipment are in line with the capital expenditure allowances provided under the AER regulatory pricing determination and the additional payments for intangible assets relate to software upgrades to the distribution network that will enable full retail contestability.

CHAPTER APPENDICES

STATEMENT OF COMPREHENSIVE INCOME

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Sales revenue	1 483 343	1 427 235	1 322 689	1 149 050
Other revenue	67 059	59 470	60 352	47 964
Total Revenue	**1 550 402**	**1 486 705**	**1 383 041**	**1 197 014**
Energy and transmission purchases	997 377	935 741	895 557	817 092
Renewable energy credit purchases	65 846	72 935	47 657	27 898
Employee expenses	98 183	119 294	108 493	94 665
Depreciation	119 692	109 103	101 204	90 418
Other expenses	137 447	135 546	117 844	109 789
Billing system direct expensing	0	0	11 654	20 643
Total Expenses	**1 418 545**	**1 372 619**	**1 282 409**	**1 160 505**
Earnings Before Interest and Tax	**131 857**	**114 086**	**100 632**	**36 509**
Borrowing costs	54 759	66 814	67 118	54 150
Guarantee fee	12 188	8 519	6 315	6 756
Nominal interest on superannuation liability	4 199	5 848	5 644	5 013
Unwinding discount on decommissioning	1 379	1 314	1 244	950
Underlying Profit (Loss) Before Tax[1]	**59 332**	**31 591**	**20 311**	**(30 360)**
Income tax (expense) benefit	(17 840)	(10 181)	(2 628)	10 381
Net Profit (Loss) After Tax Before Customer Contributions, Financial Instrument Fair Value Movements and Superannuation	**41 492**	**21 410**	**17 683**	**(19 979)**
Customer contributions	7 471	6 174	9 084	8 923
Superannuation liability movement	10 096	(17 377)	4 660	(11 505)
Financial Instrument fair value movements	7 597	331	5 473	13 321
Income tax (expense) benefit	(7 541)	3 262	(5 765)	(3 222)
Net Profit (Loss) for the Year	**59 115**	**13 800**	**31 135**	**(12 462)**
Other Comprehensive Income Net of Taxation				
Revaluation of property, plant and equipment	(2 352)	28 993	20 116	5 557
Cash flow hedge fair value gains taken to equity	2 218	9 099	8 496	(12 583)
Other Comprehensive Income (Loss)	**(134)**	**38 092**	**28 612**	**(7 026)**
Total Comprehensive Profit (Loss)	**58 981**	**51 892**	**59 747**	**(19 488)**

[1]This calculation of Underlying profit differs from that used by Aurora due to different treatment of electricity reform and restructuring costs.

STATEMENT OF FINANCIAL POSITION

	2013	2012	2011	2010
	$'000s	$'000s	$'000s	$'000s
Cash	4 813	89 928	53 662	37 584
Receivables	231 687	204 774	203 745	175 781
Inventories	27 219	29 853	28 639	27 204
Financial assets	18 741	9 938	40 935	48 598
Current tax asset	0	0	7 610	9 895
Other (including held for sale)	4 911	14 808	20 560	26 618
Total Current Assets	**287 371**	**349 301**	**355 151**	**325 680**
Payables	148 282	155 742	159 075	143 954
Borrowings	75 545	118 325	25 000	39 682
Provisions	21 514	20 137	30 718	28 315
Current tax payable	19 957	1 752	0	0
Financial liabilities	11 669	9 622	70 657	75 548
Other	41 548	40 679	19 908	18 321
Total Current Liabilities	**318 515**	**346 257**	**305 358**	**305 820**
Working Capital	**(31 144)**	**3 044**	**49 793**	**19 860**
Property, plant and equipment	1 420 910	1 747 139	1 697 295	1 609 393
Deferred tax asset	46 053	54 537	115 374	128 779
Intangible assets	52 938	59 331	68 810	54 372
Financial assets	8 924	448	170 678	192 650
Other	0	10 404	19 802	21 882
Total Non-Current Assets	**1 528 825**	**1 871 859**	**2 071 959**	**2 007 076**
Borrowings	674 268	956 257	1 060 246	990 235
Provisions	94 200	104 533	87 967	87 534
Provisions – decommissioning costs	0	24 565	23 251	22 007
Deferred tax liability	159 942	175 915	222 869	220 750
Financial liabilities	14 353	9 778	163 021	206 104
Other	0	2 779	3 335	3 890
Total Non-Current Liabilities	**942 763**	**1 273 827**	**1 560 689**	**1 530 520**
Net Assets	**554 918**	**601 076**	**561 063**	**496 416**
Capital	225 116	314 255	314 255	309 355
Reserves	177 375	177 603	141 095	112 483
Retained earnings	152 427	109 218	105 713	74 578
Total Equity	**554 918**	**601 076**	**561 063**	**496 416**

STATEMENT OF CASH FLOWS

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	1 634 420	1 605 813	1 450 717	1 314 916
Payments to suppliers and employees	(1 371 243)	(1 361 709)	(1 250 713)	(1 204 132)
Payments to Australian Government for carbon	(18 300)	0	0	0
Interest received	1 832	3 784	2 250	1 450
Settlement of AETV	(17 296)	0	0	0
Borrowing costs and guarantee fee paid	(66 488)	(72 201)	(72 980)	(55 162)
Taxation paid	(3 386)	0	(2 846)	(7 733)
Cash From Operations	**159 539**	**175 687**	**126 428**	**49 339**
Payments for intangible assets	(14 840)	(5 510)	(24 001)	(15 420)
Payments for property, plant and equipment	(99 017)	(113 257)	(147 230)	(218 388)
Proceeds from sale of property, plant and equipment	4 972	1 889	652	1 276
Cash (used in) Investing Activities	**(108 885)**	**(116 878)**	**(170 579)**	**(232 532)**
Proceeds from borrowings	801 056	756 486	55 329	464 693
Repayment of borrowings	(920 825)	(767 150)	0	(367 482)
Dividends paid	(16 000)	(11 879)	0	(10 124)
Proceeds from issue of equity	0	0	4 900	4 900
Cash From (used in) Financing Activities	**(135 769)**	**(22 543)**	**60 229**	**91 987**
Net Increase (Decrease) in Cash	**(85 115)**	**36 266**	**16 078**	**(91 206)**
Cash at the beginning of the year	89 928	53 662	37 584	128 790
Cash at End of the Year	**4 813**	**89 928**	**53 662**	**37 584**

FINANCIAL ANALYSIS

	Bench Mark	2012-13	2011-12	2010-11	2009-10
Financial Performance					
Net profit (loss) ($'000s)		59 115	13 800	31 135	(12 462)
EBIT ($'000s)		157 021	103 214	119 849	47 248
EBITDA ($'000s)		276 713	212 317	221 053	137 666
Operating margin[1]	>1.0	1.06%	1.01%	1.03%	0.98%
Return on assets[1]	5.6%*	7.8%	4.4%	5.0%	1.9%
Return on equity[1]	3.7%*	10.2%	2.4%	5.9%	(2.5%)
Financial Management					
Debt to equity		135.1%	178.8%	193.4%	207.5%
Debt to total assets		41.3%	48.4%	44.7%	44.2%
Interest cover - EBIT	>1.4*	2.2	1.3	1.5	0.7
Interest cover - cash from operations	>2	3.2	3.1	2.5	1.6
Current ratio	>1	0.90	1.01	1.16	1.06
Cost of debt	6.9%*	7.8%	7.5%	7.5%	6.7%
Debt collection	30 days	50	48	51	51
Creditor turnover	30 days	23	20	20	73
Asset Management					
Investment gap %		95.1%	108.9%	169.2%	259.6%
Returns to Government					
Dividends paid ($'000s)		16 000	11 879	0	10 124
Income tax paid ($'000s)		3 386	0	2 846	7 733
Government guarantee fees ($'000s)		12 118	8 519	6 315	6 756
Total return to the State ($'000s)		31 504	20 398	9 161	24 613
Dividends payable ($'000s)		25 000	16 000	11 879	0
Dividend payout ratio	50%	42.3%	115.9%	38.2%	0
Dividend to equity ratio		4.3%	2.8%	2.2%	0
Other Information					
Average staff numbers (FTEs)		952	1 113	1 294	1 292
Average staff costs ($'000s)		101	107	84	73
Average leave balance per FTE ($'000s)		15	21	26	25

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

[1] *These values differ from those described by Aurora in its annual report in order to align calculations with other Government entities.*

METRO TASMANIA PTY LTD (Metro)

SNAPSHOT

- On a turnover of $46.652m, Metro incurred a Net loss after tax of $0.217m in 2012-13. The loss was after $3.250m of additional funding from the Department of Infrastructure, Energy and Resources (DIER).
- Positive operating cash flows were achieved despite the loss.
- Equity totalled $29.684m at 30 June 2013. Metro reported negative working capital at 30 June 2012.

Key developments include a review over Metro's funding and operating model to assess financial sustainability is currently being conducted by the Department of Treasury and Finance (Treasury) and DIER as requested by the shareholders. The outcomes of this review are yet to be finalised.

Major variations between the 2012-13 and 2011-12 financial years were:

- Government contributions were $1.947m higher
- employee expense increased $1.643m
- cash increased $2.756m
- Metro had Defined benefit plan actuarial gain of $3.587m (2011-12, $6.113m loss).

The audit was completed satisfactorily and on time with no findings.

INTRODUCTION

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 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.

Metro receives approximately 75% of its revenue from DIER service delivery contracts. As a result of the Government contribution, Metro is economically dependent on the State for its continued operations.

The Metro Board comprises 6 board members appointed by the Shareholding Ministers. The CEO, who is appointed by the Board, is not a Board member.

KEY AREAS OF AUDIT ATTENTION

Description of Area	Audit Approach
Metro is dependent on funding from DIER.	We performed cut-off testing over revenue and expenditure transactions to verify allocation to the correct period.
Property, plant and equipment is a material item and recorded at fair value.	We audited the valuation methodology, which included ensuring values were current and not materially misstated, assessing the independent expert's qualifications as appropriate and agreeing the values to independent valuation reports. We also reconciled the movement in valuations and verified the treatment was correct.
Metro records a superannuation liability related to its RBF members. The liability is determined by an independent actuary. The liability also requires detailed disclosure in the annual financial statements.	During 2012-13 we verified the balance to the Actuarial report and reviewed the checks conducted over the data used by the actuary.

AUDIT OF THE 2012-13 STATEMENTS

Signed financial statements were received on 8 August 2013 and an unqualified audit report was issued on the same day.

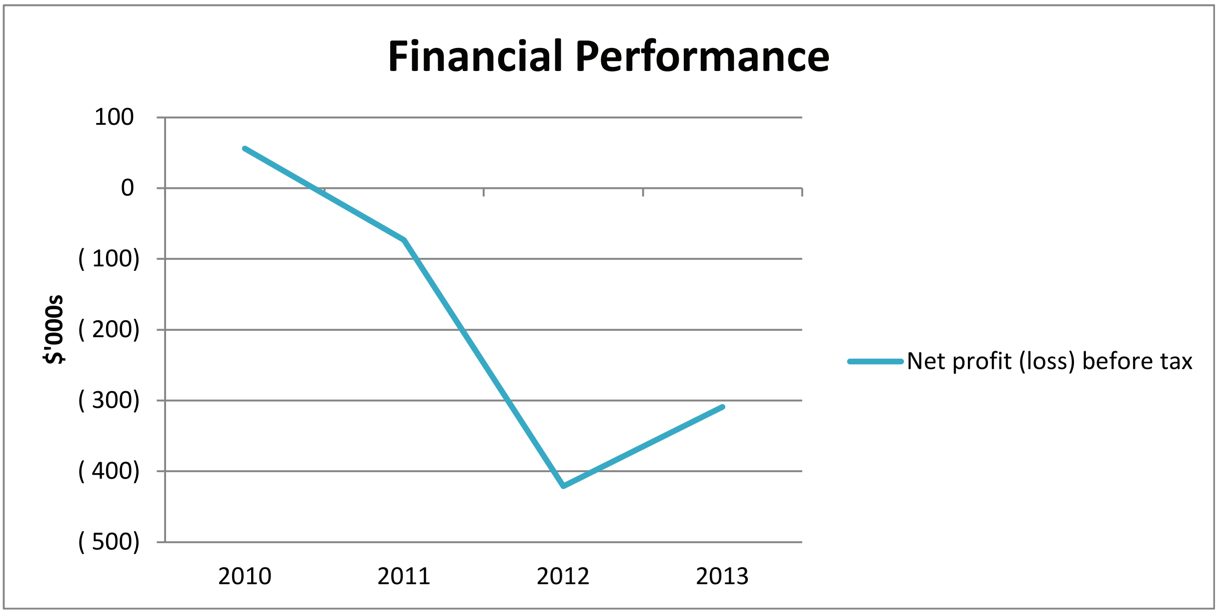
KEY FINDINGS

The audit was completed satisfactorily and on time with no findings.

KEY DEVELOPMENTS

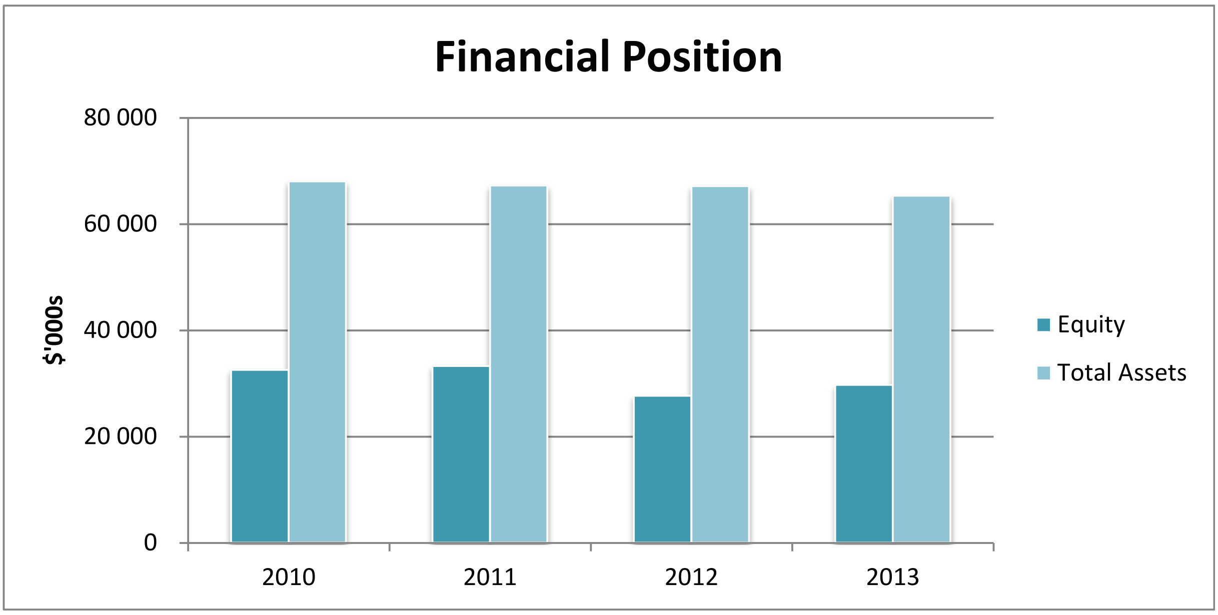
Financial Sustainability Review

A review over Metro's funding and operating model to assess financial sustainability is currently being conducted by Treasury and DIER as requested by its shareholders. A committee was formed during the year that included a member from each of Treasury, DIER and Metro to conduct the review. At the time of writing the final report was in the process of being finalised.



Metro made a Net loss before tax of $0.309m after inclusion of additional funding of $3.250m from DIER. Metro was not able to generate sufficient revenue to cover its increased expenditure, mainly comprised of Employee expenses, Maintenance costs and Depreciation. Net Losses result in negative return on assets, which is not sustainable. Without Government funding the Net loss before tax would have been $3.559m.

Despite lower average staff numbers, Employee expenditure increased $1.643m in 2012-13. Higher wages were a result of enterprise bargaining agreement increases and back payment for superannuation on un-rostered overtime as required under the *Public Sector Superannuation Reform Act 1999.*



Equity was consistent during the first two years, but then fluctuated in 2012 and 2013. The movements were directly driven by movements in the Defined benefit plan superannuation liability.

Total Assets were consistent over the period under review, predominantly due to the major asset class, Property, plant and equipment, remaining stable as capital investment has exceeded depreciation costs.

Metro's Cash increased $2.756m to $6.564m at 30 June 2013 despite the Net Loss. This was mainly due to $1.803m that had been allocated to complete the purchase of four new Buses whose delivery was outstanding at 30 June 2013.

Metro has a negative working capital of $0.164m, and Current ratio of 0.98, lower than the bench mark of 1.0. When adjusted for Cash that is currently committed to the purchase of buses, the negative working capital is $1.985m, and Current ratio is 0.79.

The Superannuation provision decreased $3.416m in total from the prior period. The fluctuations in this provision over the period are caused by the Actuary assumptions used to calculate the provision.

CHAPTER APPENDICES

STATEMENT OF COMPREHENSIVE INCOME

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Government service contract revenue	34 290	32 343	30 659	29 719
Fare revenue	11 011	11 125	10 886	10 289
Additional Government funding	3 250	3 250	3 250	3 250
Other revenue	1 282	1 337	1 595	1 232
Gain on sale of non-financial assets	69	16	64	42
Total Revenue	**49 902**	**48 071**	**46 454**	**44 532**
Depreciation	4 605	4 734	4 260	3 964
Maintenance	4 260	3 810	3 699	2 997
Employee expenses	29 548	27 905	27 122	27 474
Finance costs	1 046	1 329	1 361	1 346
Other expenses	10 752	10 714	10 085	8 695
Total Expenses	**50 211**	**48 492**	**46 527**	**44 476**
Net Profit (Loss) Before Tax	**(309)**	**(421)**	**(73)**	**56**
Income tax benefit	92	125	22	133
Net Profit (Loss)	**(217)**	**(296)**	**(51)**	**189**
Revaluation of property, plant and equipment	(274)	(954)	0	1 503
Net change in fair value of available-for-sale financial assets	(34)	(137)	(18)	(9)
Defined benefit plan actuarial gains (losses)	3 587	(6 113)	1 115	(1 036)
Income tax on other comprehensive income	(1 011)	1 875	(327)	(140)
Other Comprehensive Income	**2 268**	**(5 329)**	**770**	**318**
Total Comprehensive Profit (Loss)	**2 051**	**(5 625)**	**719**	**507**

STATEMENT OF FINANCIAL POSITION

	2013	2012	2011	2010
	$'000s	$'000s	$'000s	$'000s
Cash	6 564	3 808	2 866	5 435
Receivables	448	572	504	341
Inventories	1 518	1 385	1 237	1 046
Assets classified as held for sale	0	99	204	261
Other	686	882	901	854
Total Current Assets	**9 216**	**6 746**	**5 712**	**7 937**
Payables	3 663	4 279	4 092	4 836
Provisions – leave and other	4 576	4 416	4 390	4 201
Provisions – superannuation	1 141	1 254	793	890
Total Current Liabilities	**9 380**	**9 949**	**9 275**	**9 927**
Working Capital	**(164)**	**(3 203)**	**(3 563)**	**(1 990)**
Property, plant and equipment	46 016	49 245	51 147	49 469
Intangible assets	201	151	124	143
Deferred tax assets	9 891	10 950	10 227	10 467
Total Non-Current Assets	**56 108**	**60 346**	**61 498**	**60 079**
Provisions – leave and other	928	735	629	582
Provisions – superannuation	21 302	24 605	18 601	19 586
Deferred tax liabilities	4 030	4 170	5 447	5 382
Total Non-Current Liabilities	**26 260**	**29 510**	**24 677**	**25 550**
Net Assets	**29 684**	**27 633**	**33 258**	**32 539**
Capital	15 503	15 503	15 503	15 503
Retained earnings (accumulated losses)	1 686	(668)	4 178	3 442
Reserves	12 495	12 798	13 577	13 594
Total Equity	**29 684**	**27 633**	**33 258**	**32 539**

STATEMENT OF CASH FLOWS

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Receipts from Government	35 062	32 758	30 659	29 719
Receipts from customers	13 275	13 812	14 501	14 212
Payments to suppliers and employees	(46 973)	(44 519)	(44 803)	(39 780)
Interest received	178	155	386	207
Interest paid	(20)	(26)	(23)	(6)
Cash From Operations	**1 522**	**2 180**	**720**	**4 352**
Bus replacement funding*	2 873	3 107	2 527	2 677
Payments for property, plant and equipment	(1 862)	(4 465)	(5 969)	(6 252)
Proceeds from sale of property, plant and equipment	223	120	153	331
Cash from (used in) investing activities	**1 234**	**(1 238)**	**(3 289)**	**(3 244)**
Net Increase (Decrease) in Cash	**2 756**	**942**	**(2 569)**	**1 108**
Cash at the beginning of the year	3 808	2 866	5 435	4 327
Cash at End of the Year	**6 564**	**3 808**	**2 866**	**5 435**

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

FINANCIAL ANALYSIS

	Bench Mark	2012-13	2011-12	2010-11	2009-10
Financial Performance					
Net profit (loss) ($'000s)		(217)	(296)	(51)	189
EBIT ($'000s)		737	908	1 288	1 402
EBITDA ($'000s)		5 342	5 642	5 548	5 366
Operating margin	>1.0	0.99	0.99	1.00	1.00
Return on assets	5.21	1.1%	1.4%	1.9%	2.1%
Return on equity		(1.1%)	(1.4%)	(0.2%)	0.2%
Financial Management					
Current ratio	>1	0.98	0.68	0.62	0.80
Debt collection	30 days	5	6	6	4
Creditor turnover	30 days	24	29	34	60
Other Information					
Average staff numbers (FTEs)		380	386	390	388
Average staff costs ($'000s)		78	72	70	71
Average leave balance per FTE ($'000s)		14	13	13	12

TASMANIAN IRRIGATION PTY LTD (TIPL)

SNAPSHOT

- TIPL recorded an Underlying profit of $2.761m for the current year.
- However, it continues to be heavily dependent on Government funding, which averaged $36.301m per annum over the past two years. This included support in the form of equity contributions, operating grants and interest subsidies.
- Net Assets totalled $74.009m at 30 June 2013.
- Since July 2009 equity contributions, operating grants and interest subsidies have totalled $160.321m and asset impairments over this period totalled $85.943m.

Audit findings included the need for control improvements around supplier maintenance, journal processing, electronic payment file security and a small number of low risk issues. These matters are being addressed by management as appropriate.

The audit was completed satisfactorily with no matters outstanding.

Key developments this year included commissioning the Lower South Esk Irrigation Scheme. By 30 June TIPL was operating six irrigation schemes and owned the infrastructure for two locally managed irrigation schemes.

Other major financial impacts this year included:

- Impairment losses, relating to irrigation and dam assets, of $15.311m
- payments for Property, plant and equipment, $62.138m.

During 2012-13, TIPL paid no dividends and paid no income tax equivalents.

INTRODUCTION

TIPL operates under the *Irrigation Company Act 2011* (the Act). It 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).

TIPL is a State Owned Company responsible for the management of Government owned irrigation schemes and progressing new water and irrigation developments.

The analysis in this Chapter is based on TIPL for the past two financial years, 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.

TIPL remains instrumental in delivering the 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. Water entitlement revenue and equity injections from the State and Commonwealth Governments are used to fund the construction costs of the various irrigation schemes.

TIPL schemes only progress to construction if they have passed a social, environmental and economic test. The financing model used for a scheme recognises that there will be impairment losses for each scheme due to the direction to operate schemes on a cost recovery basis and construction funding through equity injections from the State and Commonwealth Governments and the selling of water entitlements.

TIPL's shares are owned by the Treasurer and Minister for Primary Industries, Parks, Water and Environment who hold these shares on behalf of the State of Tasmania.

The Board currently comprises the Chairman, Deputy Chairman and three non-executive directors. Directors are appointed by the two shareholder Ministers.

KEY AREAS OF AUDIT ATTENTION

Description of Area	Audit Approach
The volume of revenue transactions can vary from year to year depending upon varying development stages of the various projects. Revenue is derived from: • water rights and entitlements • water rates and charges • hydro electricity generation.	We substantively tested accounts receivable invoices by agreeing to revenue, re-calculating the rates and charges, comparing invoices with the register of clients and the classification. We also performed analytical reviews on all financial statement balances for explanation of movements.
TIPL receives significant Government contributions. Some of these contributions are equity and others are grants for operational purposes.	To test these figures we: • sought and obtained confirmation from the Department of Primary Industries, Parks, Water and Environment (DPIPWE) regarding all equity and grant funding • tested the balance of Deferred grant income for accuracy at year end.
TIPL is a small operation and its administrative capacity is constrained in terms of resources, but has a large workload in delivering irrigation projects. Consequently not all accounting duties and functions are fully segregated or independently reviewed. For similar reasons, TIPL maintains a 'super-user' for its accounting and electronic funds transfer systems.	We undertook a substantive approach by: • examining a sample of material payments (including capital works additions) for accuracy, occurrence and classification • testing accounts payable balances and changes to supplier masterfiles • verifying cash at bank balances and bank reconciliations • testing the existence of employees and comparing monthly expenditure • reviewing year end payroll provisions • scrutinising journals and adjustments during and at the end of the year.

Description of Area	Audit Approach
TIPL is a 'for profit' entity, but operates on a 'cost recovery' basis. As a consequence of this, and on completion of irrigation projects, impairment assessments of irrigation infrastructure are made. Due to constraints in the cash generating capabilities of project, there is usually a resulting impairment expense.	Audit substantively tested Property, plant and equipment balances by: • verifying the Work In Progress end of year balance • examining reconciliation of the asset register and general ledger • verifying impairment and depreciation calculations
Significant capital works continued with a number of irrigation schemes that were in the construction phase, they are: • Lower South Esk • Midlands • Kindred North Motton.	Audit work focussed on verifying the accuracy of the work in progress balances, which impacted upon the resulting asset balances for Dams and Water Infrastructure.
Currently, there are a number of projects in the pre-feasibility or feasibility stage of development, including the Dial Blythe, Scottsdale, Southern Highlands, Circular Head, North Esk and Swan Valley Irrigation Schemes.	Audit tested payments to ensure they are appropriately classified as capital or expenditure.

AUDIT OF THE 2012-13 STATEMENTS

Signed financial statements were received on 14 August 2013 and an unqualified audit report was issued on 19 August 2013.

KEY FINDINGS

There were no high risk findings during the course of this year's audit. However, a number of moderate risk findings were brought to TIPL's attention, as detailed below:

- audit recommended that TIPL maintain copies of new supplier forms and provide a trail of documentation for subsequent changes, to help reduce the risk of potential fraudulent activity. Management indicated they will implement changed procedures in this area
- management agreed to locate its bank's electronic funds transfer file in a location on their network drive which has restricted access. This will help ensure that no unauthorised changes to the file are made prior to it being processed
- audit recommended changes to strengthen controls around journal entries, including authorisation and documentation improvements. Management advised that additional processes have been introduced to strengthen controls in this area.

There were also two low risk issues in relation GST in the cash flow statement and minor financial statement disclosure improvements.

The audit was completed satisfactorily with no other items outstanding.

KEY DEVELOPMENTS

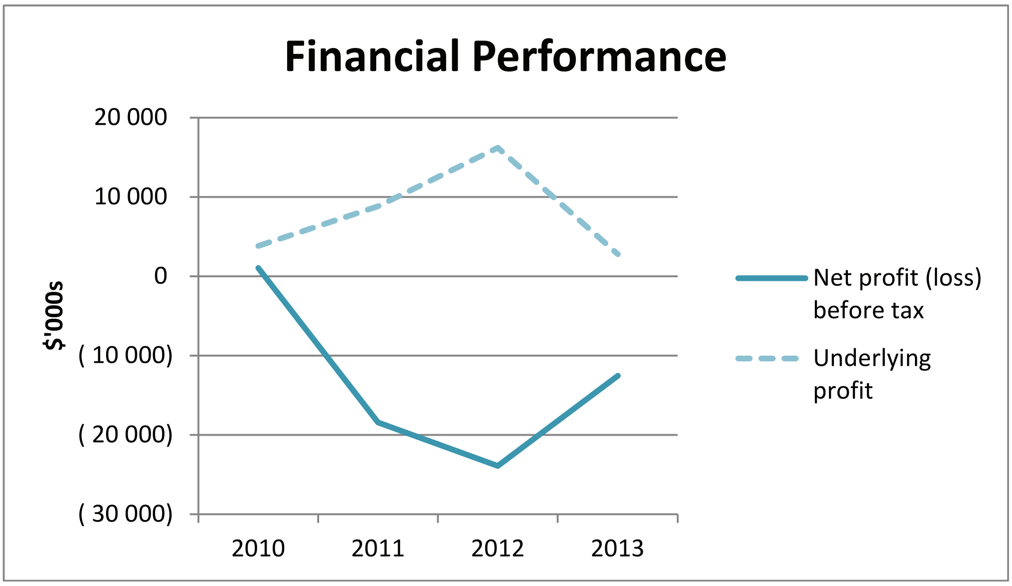
TIPL operated six irrigation schemes and owned infrastructure for two locally managed irrigation schemes during the year, and continues to undertake further activity in this area including:

- commission of an additional irrigation scheme, the Lower South Esk Irrigation Scheme
- the Kindred North Motton Scheme is to be commissioned in November 2013
- the Midlands Water Scheme is scheduled to be commissioned in the last quarter of 2013-14.

TIPL is nearing the end of its Tranche One construction program. The Upper Ringarooma Irrigation Scheme and South East Irrigation Scheme will commence construction in the financial year ending 30 June 2014, with expected commissioning occurring in the following financial year.

In addition, TIPL has submitted an application to Infrastructure Australia for an additional $130.000m in funding to complete Tranche Two, which includes an additional six irrigation schemes around the State.

FINANCIAL ANALYSIS

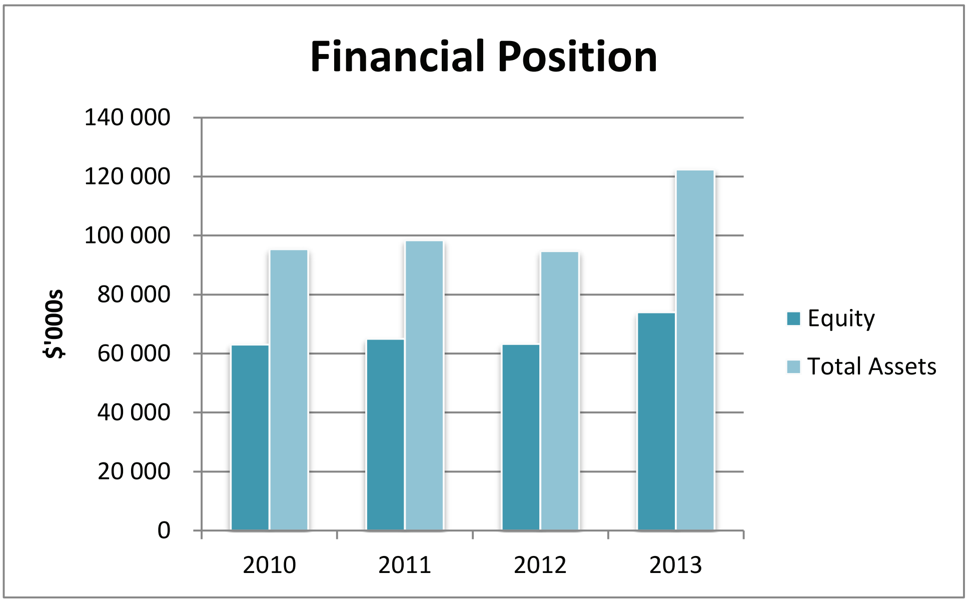


TIPL's Underlying profit for the year, $2.761m (2012, $16.216m), reduced from the prior year principally due to water entitlement revenue decreasing from $15.361m to $0.223m. Water entitlement revenue is only recognised when a project is commissioned and the rights sold. The Lower South Esk Irrigation Scheme was commissioned in 2012-13, however, the revenue recognition relating to the completion of water entitlement contracts did not occur prior to 30 June 2013.

The Net Loss before tax for the current year, $12.550m (2012, $23.908m) was an improvement on the previous year due to the lesser impact of asset impairments. These impairments have had a negative impact upon the Net Profit (Loss) in each of the years of review. Pricing of ongoing annual water charges for completed schemes is based on a cost recovery model. Impairments were made as a result of forecast future cash flows from individual schemes being less than the historic cost of the scheme's assets. This is a result of the capital funding of the scheme being a combination of State and Commonwealth contributions and proceeds from the sales of water entitlements, and the direction in operations to set annual water charges to recover costs only. Therefore, apart from any revenue from the sale of unsold water entitlements, the scheme assets will not generate any surplus revenues upon the commencement of operations.

The larger Net loss, recorded in 2011-12, was due to the commissioning of four irrigation schemes (Headquarters Road Dam, Whitemore Irrigation Scheme, Sassafras Wesley Vale Irrigation Scheme and Winnaleah Irrigation Scheme) that year, whereas only one irrigation scheme, the Lower South Esk Irrigation Scheme, was commissioned in 2012-13.

Although TIPL has recorded an Underlying Profit in each of the years of review, it is heavily dependent on Gvernment funding, which averaged $7.321m per annum over the years of analysis. This support comprises operating grants and interest expense subsidies.



Total Assets were higher at 30 June 2013, $122.399m (2012, $94.789m), due to ongoing construction of irrigation schemes some of which had been completed while other have still to be commissioned.

The majority of capital works undertaken this year related to the Midlands Water Scheme, which recorded additions of $49.436m. This increase in capital activity was offset by a decrease in cash holdings, from $47.494m to $23.443m. Significant amounts of cash were received in advance of construction activity, and as noted in the Statement of Cash Flows, these funds have now been expended, with $62.138m spent on payments for Property, plant and equipment this year.

Total Liabilities increased by $16.866m to $48.390m at 30 June 2013 primarily due to:

- higher Payables of $9.098m to $13.671m as a result of increase capital expenditure activity mentioned previously
- greater Unearned revenue of $9.311m to $13.965m. TIPL received additional State funding of approximately $7.570m to cover the interest costs for borrowings relating to construction working capital and unsold water entitlements. These funds were recorded as a deferred income liability, and will be recognised as revenue as and when future interest expenses are incurred.

Total Equity increased to $74.009m at 30 June 2013, due to equity contributions from Government of $23.292m, offset by the loss for the year of $12.548m. In the period from 2010 to 2012, the equity balance only increased by $0.190m, as capital contributions received from Government were offset by recorded losses, due principally to asset impairments.

The higher equity balance at 30 June 2013 had a positive impact on financial management ratios such as debt to equity and debt to total assets.

The table below details the level of Government funding provided to TIPL (and RWSC).

FUNDING AND ASSET MOVEMENT

	2012-13	2011-12	2010-11	2009-10	2008-09	Total
	$'000	$'000s	$'000s	$'000s	$'000s	$'000s
State equity contribution	0	11 549	16 616	12 127	14 224	40 292
Commonwealth capital contribution	23 292	24 389	4 920	8 663	0	61 265
State and Commonwealth operating grants	5 866	6 219	7 023	6 993	3 116	26 132
State Government interest contribution	680	608	628	1 268	1 314	3 152
Total Government contributions	**29 838**	**42 765**	**29 186**	**29 050**	**18 654**	**130 840**
Equity Return (Meander Valley)	0	0	(6 710)	0	0	(6 710)
Net Government Contributions	**29 838**	**42 765**	**22 476**	**29 050**	**18 654**	**124 130**

Since the establishment of the Water Infrastructure Fund in 2008-2009, State and Commonwealth Governments have made a significant investment to water infrastructure in the State. The table above summarises equity, and grant and interest contributions received by TIPL (RWSC and its subsidiaries in 2010-11 and prior years). Financial information in the table above is presented on an accruals basis.

The significant level of funding received demonstrates TIPL's heavy dependence on such support.

CHAPTER APPENDICES

STATEMENT OF COMPREHENSIVE INCOME

	2012-13	2011-12	2010-11	2009-10
	TI	**TI**	**RWSC**	**RWSC**
	$'000	$'000s	$'000s	$'000s
Revenue	4 021	19 211	12 231	6 754
Government grants	5 897	6 219	7 023	6 993
State Government interest contributions	649	608	628	1 267
Finance income	1 916	802	856	689
Other revenue	1 143	845	363	226
Total Revenue	**13 626**	**27 685**	**21 101**	**15 929**
Employee benefits	3 948	4 121	4 316	3 305
Finance costs	1 568	1 661	1 703	1 770
Depreciation	415	593	905	789
Operational and other	4 934	5 094	5 360	6 221
Total Expenses	**10 865**	**11 469**	**12 284**	**12 085**
Underlying profit	**2 761**	**16 216**	**8 817**	**3 844**
Impairment losses	(15 311)	(40 124)	(27 252)	(3 256)
Assets received at no consideration	0	0	0	450
Net Profit (Loss) Before Tax	**(12 550)**	**(23 908)**	**(18 435)**	**1 038**
Income tax benefit (expense)	0	582	5 530	(301)
Net Profit (Loss)	**(12 550)**	**(23 326)**	**(12 905)**	**737**
Other Comprehensive Income	0	0	0	0
Total Comprehensive Profit (Loss)	**(12 550)**	**(23 326)**	**(12 905)**	**737**

STATEMENT OF FINANCIAL POSITION

	2013	2012	2011	2010
	TI	TI	RWSC	RWSC
	$'000s	$'000s	$'000s	$'000s
Cash and deposits	23 443	47 494	17 635	19 534
Receivables	3 602	4 710	912	1 475
Fixed repayment plans	1 955	1 341	1 278	725
Water stock	261	275	584	511
Other	212	107	0	0
Total Current Assets	**29 473**	**53 927**	**20 409**	**22 245**
Payables	13 671	4 573	3 712	3 066
Unearned revenue	13 965	4 654	6 569	5 929
Borrowings	1 337	3 970	1 196	1 112
Provisions	469	488	355	322
Total Current Liabilities	**29 442**	**13 685**	**11 832**	**10 429**
Working Capital	**31**	**40 242**	**8 577**	**11 816**
Property, plant and equipment	88 226	33 634	55 002	59 168
Deferred tax asset	0	0	13 760	8 231
Fixed repayment plans	4 274	6 802	8 454	4 895
Other	426	426	876	876
Total Non-Current Assets	**92 926**	**40 862**	**78 092**	**73 170**
Borrowings	18 687	17 290	21 260	21 457
Provisions	261	549	413	454
Total Non-Current Liabilities	**18 948**	**17 839**	**21 673**	**21 911**
Net Assets	**74 009**	**63 265**	**64 996**	**63 075**
Reserves	1 004	746	0	0
Accumulated losses	(36 805)	(23 998)	(24 560)	(11 654)
Capital	109 810	86 517	89 556	74 729
Total Equity	**74 009**	**63 265**	**64 996**	**63 075**

STATEMENT OF CASH FLOWS

	2012-13 TI	2011-12 TI	2010-11 RWSC	2009-10 RWSC
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	4 200	3 799	6 950	5 883
Government grants and contributions	14 136	6 126	6 925	11 436
Interest received	2 435	1 694	1 341	934
Payments to suppliers and employees	(8 638)	(7 798)	(8 794)	(9 629)
Finance costs	(1 568)	(1 661)	(1 655)	(1 761)
Other				
Cash From (used in) Operations	**10 565**	**2 160**	**4 767**	**6 863**
Payments for property, plant and equipment	(62 138)	(18 841)	(23 782)	(19 471)
Proceeds from sale of property, plant and equipment	541	4	42	518
Loans	0	0	(261)	0
Proceeds from sale of water entitlements	4 924	11 794	2 621	1 394
Cash From (used in) Investing Activities	**(56 673)**	**(7 043)**	**(21 380)**	**(17 559)**
Capital contribution from Government	23 292	35 939	21 536	20 790
Cash from acquisition of RWSC & TIS	0	1 867	0	0
Return of equity to Government	0	0	(6 710)	0
Proceeds from borrowings	0	0	0	0
Repayment of borrowings	(1 236)	(1 196)	(112)	(2 584)
Cash From (used in) Financing Activities	**22 056**	**36 610**	**14 714**	**18 206**
Net Increase (Decrease) in Cash	**(24 052)**	**31 727**	**(1 899)**	**7 510**
Cash at the beginning of the year	47 494	15 767	19 534	12 024
Cash at End of the Year	**23 442**	**47 494**	**17 635**	**19 534**

FINANCIAL ANALYSIS

	Bench Mark	2012-13 TI	2011-12 TI	2010-11 RWSC	2009-10 RWSC
Financial Performance					
Underlying profit (loss) ($'000s)		2 761	16 216	8 817	3 844
Net Profit (loss) ($'000s)		(12 550)	(23 326)	(12 905)	737
Operating margin	>1.0	1.3	2.4	1.7	1.3
Return on assets		1.1%	15.1%	7.3%	2.5%
Total return to equity ratio		(18.3%)	(36.4%)	(20.2%)	1.4%
Financial Management					
Debt to equity		27.1%	33.6%	34.5%	35.8%
Debt to total assets		16.4%	22.4%	22.8%	23.7%
Interest cover - EBIT	>2	2.8	10.8	6.2	3.2
Current ratio	>1	1.0	3.9	1.7	2.1
Other Information					
Average staff numbers (FTEs)		39	38	36	27
Average staff costs ($'000s)		101	107	111	110
Average leave balance per FTE ($'000s)		19	27	21	29

TASMANIAN PORTS CORPORATION PTY LTD (Tasports)

SNAPSHOT

- While still recording an Underlying Loss before taxation, Tasports' results improved in 2012-13.
- It recorded an Underlying Loss of $1.335m this year and a Net loss after tax of $1.393m.
- Total Revenue increased by $2.971m or 4.96% arresting a decline of 13.3% between 2009-10 and 2011-12.
- Total expenditure decreased by $3.661m.
- Employee expenses decreased by 15.3% since 2009-10 with FTE declining by 34 over this period.
- While financial performance improved, Tasports' average operating margin over the past four years was still under our benchmark.
- Return on assets and Return on equity ratios were well below what would be regarded as commercial returns.
- No tax or dividends were paid.
- At 30 June 2013, Total Equity was $175.128m.

Key developments this year included:

- completion of the redevelopment of Macquarie Wharf No 2
- closure of its Operational Efficiency Program
- receipt of the final Equity contribution of $0.500m from the Department of Infrastructure, Energy and Resources (DIER) to fund the Burnie Port Precinct development.

The audit was completed satisfactorily with no items outstanding.

INTRODUCTION

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*.

It is responsible for the operations and management of all ports in Tasmania and the Devonport Airport. Services provided include port and logistics, shipping and towing and cold storage. In addition Tasports is responsible for the maintenance and management of port infrastructure and property.

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

The Tasports Board consists of six board members appointed by the Shareholding Ministers. The Chief Executive Officer, who was appointed by the Board, is not a Board member.

KEY AREAS OF AUDIT ATTENTION

Description of Area	Audit Approach
Tasmania's economic conditions and other industry factors continued to affect Tasports' profitability.	We performed audit procedures that obtained a sufficient level of assurance that: • revenue and expenses were recorded in the correct period • capital costs were appropriately accounted for • assets held at fair value were not impaired • loans were classified correctly in line with loan covenants • accounting policies were applied consistently and any changes thereto were adequately disclosed.
Tasports is responsible for maintaining and operating major port infrastructure assets across the State. It is also undertaking significant strategic infrastructure investment and maintenance expenditure.	We ensured capital costs were appropriately accounted for including classification of balance sheet items into current and non-current. This was relevant because such classification impacts a number of financial ratios and potentially loan covenants.
Fair value of infrastructure assets (land, buildings, wharves, harbor improvements and land infrastructure) were calculated and recognised by using both projected future income streams and discounted replacement cost valuation methodologies and disclosed in the notes of the financial report. Assets were reviewed by Tasports for impairment on an annual basis.	We reviewed the valuation methodology used to determine fair value, including testing significant assumptions, the valuation model and underlying data. We assessed possible impairment indicators, and verified that Tasports' procedures for impairment assessment were in place and operating as designed.
Tasports had a wide range of revenue streams and raised a high volume of invoices. Shipping revenue, the main source of income, is billed in a separate application and then integrated into the general ledger.	Detailed analytical review procedures were performed over revenue account balances, including comparison with prior year, budget and shipping statistics. We obtained sales and debtor confirmations for a significant portion of large customers in order to verify revenue and debtor accounts were not materially misstated.

AUDIT OF THE 2012-13 STATEMENTS

Signed financial statements were received on 15 August 2013 and an unqualified audit report was issued on the same day.

KEY FINDINGS

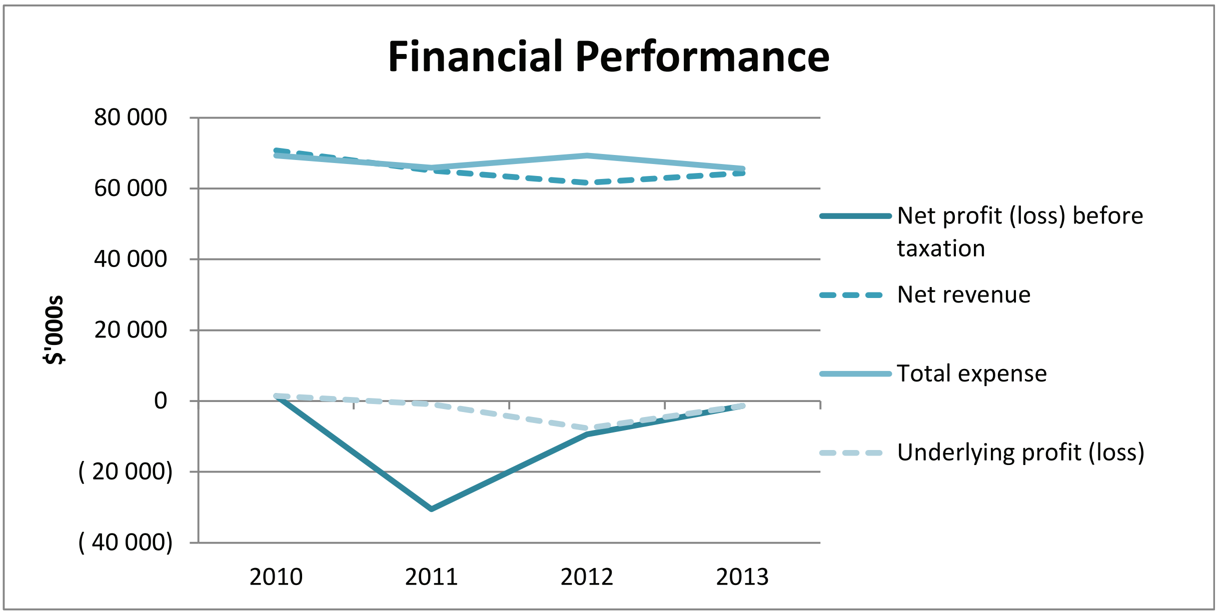
The audit was completed satisfactorily with no items outstanding.

KEY DEVELOPMENTS

During 2012-13 Tasports:

- completed the redevelopment of Macquarie Wharf No 2 as a dedicated Cruise and Antarctic facility
- officially closed out its Operational Efficiency Program, which generated cost savings during 2012-13
- received its final equity contribution from DIER, $0.500m, to fund the Burnie Port Precinct development.

FINANCIAL ANALYSIS



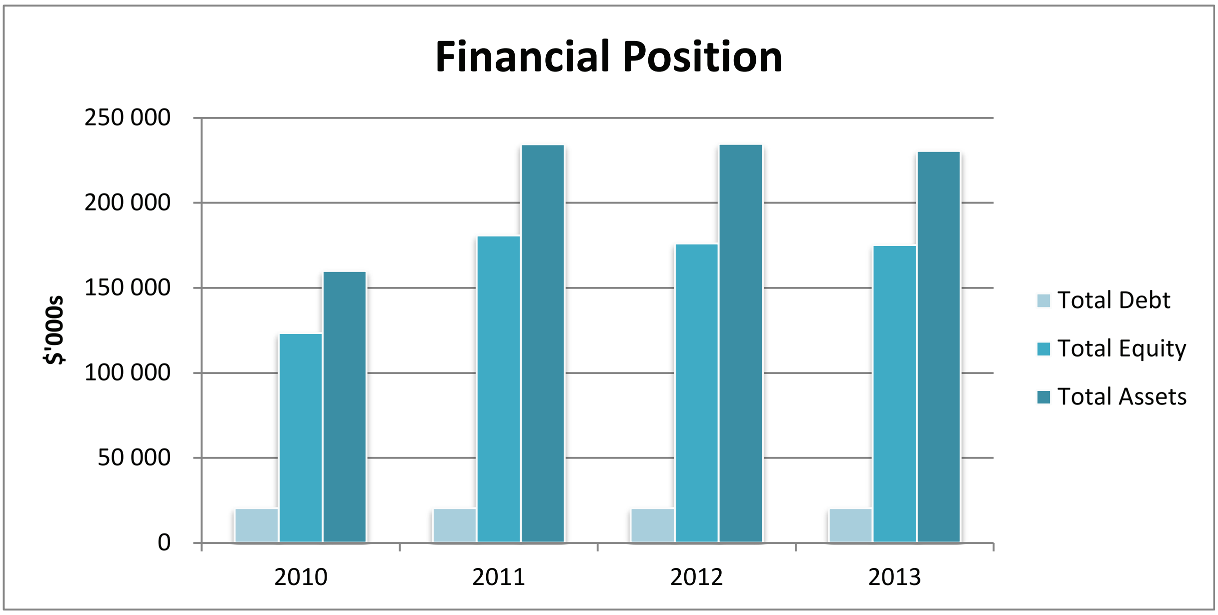
Tasports' results improved in 2012-13 due to a combination of a different trade mix in seaport operations and a price review that increased trade revenue. In addition, efficiency strategies resulted in lower employee costs and operating expenses.

Tasports made a Net Loss before tax of $1.335m in 2012-13. This was a significant improvement on the prior year loss of $9.352m. This was primarily achieved through increasing Revenue by $2.971m, and reducing Expenditure by $3.661m.

The impact of Tasports' restructure program, also referred to as the Operational Efficiency Program, was evidenced by the decline in average staff FTEs over the period, which saw a decrease of 34 average FTEs since 2009-10. The changes that led to the 2012-13 result were a direct response to the steady decline in the Underlying Loss for the first three years of the period under review. Over this period there was a reduction in bulk exports, including woodchip shipments, and further reduction in revenue caused by lower container activity from the Bell Bay Port.

Despite the lower Underlying Loss in 2012-13, Tasports' average operating margin over the four year period was still under our benchmark of one and its Return on assets and Return on equity ratios were well below what would be regarded as commercial returns.

The Net Underlying Loss was consistent with the Net Loss before taxation over the period except for 2010-11. The significant difference that year was due to Tasports introducing fair value reporting for its infrastructure assets resulted in the downward revaluation component, which totalled $29.198m, recognised through the Statement of Comprehensive Income. Without this, the Net Loss before taxation would have been $1.296m that year. Overall, the change to fair value resulted in an increase in the value of the infrastructure assets.



Tasports had Total Equity of $175.128m, and Total Assets of $230.469m at 30 June 2013, both were consistent with the prior year. Tasports' major asset was Property, plant and equipment, $189.945m at 30 June 2013.

The only major change over the four year period occurred during 2010-11 where Tasports changed its reporting of infrastructure assets from cost to fair value, which drove the increase in Total Assets, by $74.484m, and Total Equity, by $57.431m.

Borrowings remained unchanged over the four year period. Borrowings were refinanced during 2012-13 which resulted in current Borrowings being reclassified as non-current. This was principally responsible for the higher Current ratio of 2.04 at 30 June 2013.

STATEMENT OF COMPREHENSIVE INCOME

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Trade revenue	59 459	57 398	61 092	67 139
Airport revenue	2 649	1 696	1 715	1 514
Interest revenue	728	787	612	317
Other revenue	24	8	24	122
Total Revenue	**62 860**	**59 889**	**63 443**	**69 092**
Sale of goods	11 718	13 472	12 496	11 489
Cost of goods sold	(10 275)	(11 776)	(10 923)	(9 815)
Net Revenue	**64 303**	**61 585**	**65 016**	**70 766**
Employee expenses	28 382	29 507	29 549	33 498
Operating expenses	24 118	26 077	26 851	26 480
Depreciation	11 687	12 218	8 049	8 063
Finance costs	1 451	1 497	1 423	1 241
Total Expenditure	**65 638**	**69 299**	**65 872**	**69 282**
Underlying Profit (Loss)	**(1 335)**	**(7 714)**	**(856)**	**1 484**
Stamp duty recovered from sale of HIAPL	0	0	600	0
Gain on sale of shares in associate	0	0	290	0
Provision for restructure	0	(1 008)	(1 330)	0
Revaluation decrement of infrastructure assets	0	(630)	(29 198)	0
Net Profit (Loss) Before Tax	**(1 335)**	**(9 352)**	**(30 494)**	**1 484**
Income tax benefit (expense)	(58)	2 687	6 710	(298)
Net Profit (Loss)	**(1 393)**	**(6 665)**	**(23 784)**	**1 186**
Revaluation of infrastructure assets	0	3 137	102 309	0
Income tax expense on revaluation	(75)	(2 144)	(20 395)	0
Total Comprehensive Profit (Loss)	**(1 468)**	**(5 672)**	**58 130**	**1 186**

STATEMENT OF FINANCIAL POSITION

	2013	2012	2011	2010
	$'000s	$'000s	$'000s	$'000s
Cash	24 244	23 548	16 488	11 674
Receivables	6 917	6 869	7 476	7 283
Inventories	1 221	1 332	1 596	0
Assets classified as held for sale	0	290	205	3 046
Other	1 059	663	865	2 447
Total Current Assets	**33 441**	**32 702**	**26 630**	**24 450**
Payables	11 280	12 786	8 712	9 613
Borrowings	0	13 024	1 555	5 615
Tax payable	243	(289)	(227)	(163)
Employee benefits	4 654	5 491	5 945	4 567
Deferred revenue	213	213	83	83
Liabilities classified as held for sale	0	0	0	1 022
Total Current Liabilities	**16 390**	**31 225**	**16 068**	**20 737**
Working Capital	**17 051**	**1 477**	**10 562**	**3 713**
Property, plant and equipment	189 945	193 755	200 770	132 582
Goodwill	2 800	2 800	2 800	2 801
Deferred tax asset	4 283	5 230	4 117	0
Total Non-Current Assets	**197 028**	**201 785**	**207 687**	**135 383**
Borrowings	20 383	7 359	18 829	14 770
Deferred tax liabilities	16 935	18 281	17 743	117
Employee benefits	937	902	722	601
Deferred revenue	696	624	187	271
Total Non-Current Liabilities	**38 951**	**27 166**	**37 481**	**15 759**
Net Assets	**175 128**	**176 096**	**180 768**	**123 337**
Capital	115 797	115 297	114 297	113 712
Reserves	82 831	82 907	84 058	7 481
Retained earnings (accumulated losses)	(23 500)	(22 108)	(17 587)	2 144
Total Equity	**175 128**	**176 096**	**180 768**	**123 337**

STATEMENT OF CASH FLOWS

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	81 952	81 438	83 088	90 559
Payments to suppliers and employees	(73 350)	(70 849)	(75 785)	(79 999)
Interest received	732	777	593	292
Finance costs	(1 575)	(1 503)	(1 363)	(1 249)
Income tax	0	(94)	(241)	(724)
Cash From (used in) Operations	**7 759**	**9 769**	**6 292**	**8 879**
Payments for assets	(8 317)	(5 395)	(3 436)	(3 972)
Proceeds from sale of assets	754	1 686	257	605
Recovery of investments	0	0	2 400	0
Cash From (used in) Investing Activities	**(7 563)**	**(3 709)**	**(779)**	**(3 367)**
Dividends paid	0	0	(1 284)	(3 617)
Equity contribution received	500	1 000	585	0
Cash From (used in) Financing Activities	**500**	**1 000**	**(699)**	**(3 617)**
Net Increase (Decrease) in Cash	**696**	**7 060**	**4 814**	**1 895**
Cash at the beginning of the year	23 548	16 488	11 674	10 161
'Effect of cash included in assets classified as held for sale'	0	0	0	(382)
Cash at End of the Year	**24 244**	**23 548**	**16 488**	**11 674**

FINANCIAL ANALYSIS

	Bench Mark	2012-13	2011-12	2010-11	2009-10
Financial Performance					
Net profit (loss) ($'000s)		(1 393)	(6 665)	(23 784)	1 186
EBIT ($'000s)		116	(7 855)	(29 071)	2 725
Operating margin	>1.0	0.98	0.90	0.99	1.02
Return on assets	5.21	0.0%	(3.4%)	(14.6%)	1.7%
Return on equity		(0.8%)	(3.7%)	(15.6%)	1.0%
Financial Management					
Debt to equity		11.6%	11.6%	11.3%	16.5%
Debt to total assets		8.8%	8.7%	8.7%	12.5%
Interest cover - EBIT	>2	0.08	(5.25)	(20.43)	2.20
Interest cover - operating cash flows		5.35	6.53	4.42	7.15
Current ratio	>1	2.04	1.05	1.66	1.18
Cost of debt	6.9%	7.1%	7.3%	7.0%	6.1%
Debt collection	30 days	42	44	45	40
Creditor turnover	30 days	55	21	28	50
Asset Management					
Asset investment ratio	>100%	71.2%	44.2%	42.7%	49.3%
Asset renewal ratio	>100%	63.8%	35.6%	30.7%	N/A
Consumption ratio (infrastructure assets)		50.4%	51.2%	53.1%	50.6%
Returns to Government					
Dividends paid ($'000s)		0	0	684	3 617
Special dividends paid ($'000s)		0	0	600	0
Income tax paid ($'000s)		0	94	241	724
Total return to the State ($'000s)		0	94	1 525	4 341
Dividends paid or payable ($'000s)		0	0	0	684
Dividend payout ratio	50%	0.0%	0.0%	0.0%	50.0%
Dividend to equity ratio	6%	0.0%	0.0%	0.0%	0.5%
Other information					
Average staff numbers (FTEs)		223	244	258	257
Average staff costs ($'000s)		124	118	113	111
Average leave balance per FTE ($'000s)		19	21	21	20

TASRACING PTY LTD (Tasracing)

SNAPSHOT

- Tasracing recorded an improved Underlying Loss of $1.973m in 2012-13 and a Net loss after tax of $0.535m.
- Prior year asset impairment was partly reversed in line with adjustments made to Tasracing's Corporate Plan reflecting its improved financial performance in 2012-13.
- Successful implementation of the strategies outlined in Tasracing's Corporate Plan is essential to Tasracing's financial sustainability and, ability to continue as a going concern.
- Net Assets totalled $40.334m at 30 June 2013.

During 2012-13, Tasracing paid no dividends or income tax equivalents.

Key developments this year included:

- assumed responsibility for the race day staff and operation of the Tasmanian Racing Club and the Devonport Racing Club
- Tasracing's updated Corporate Plan incorporated improvements in revenue streams and reduced expenditures achieved in 2012-13, and as a result these changes partially reversed prior year impairments
- Tasracing is heavily dependent on Government funding.

The audit was completed with no matters outstanding.

INTRODUCTION

Tasracing was established by the *Racing (Tasracing Pty Ltd) Act 2009* and is governed by the *Racing Regulation Amendment Act 2008*. The principal Act is the *Racing Regulation Act 2004*. Its principal activity is the governance, administration and provision of financial services for racing in Tasmania.

The Tasracing board consists of one Chair and six Directors. The responsible minister is the Minister for Racing.

Tasracing's shares are owned by the Treasurer and the Minister for Racing, who hold these shares on behalf of the State of Tasmania.

KEY AREAS OF AUDIT ATTENTION

Description of Area	Audit Approach
Recoverable amount of leasehold assets is calculated and recognised using a projected future income streams valuation methodology. Assets are reviewed for impairment on an annual basis.	We audited the valuation methodology used to determine fair value, including testing significant assumptions, the valuation model and underlying data. We verified that procedures for impairment assessment were in place and operating as designed.
Tasracing has $51.064m of assets.	Substantive procedures tested additions, disposals and depreciation calculations. In addition asset register and general ledger balances were reconciled.
Tasracing has a high volume of payment transactions.	We audited selected payment transactions and traced these to originating sources.
Tasracing received $28.316m in grants and $0.907m in interest support during 2012-13 under the funding deed with the Tasmanian Government.	Audit confirmed the receipt of funds.
Tasracing has workers compensation insurance where the cost is based on the number of claims and a cap.	Audit monitored claims and tested the workers compensation provision.

AUDIT OF THE 2012-13 STATEMENTS

Signed financial statements were received on 15 August 2013. An unqualified audit report was issued on 2 September 2013.

KEY FINDINGS

The audit was completed satisfactorily, with no major issues identified.

At the time of writing this Chapter, a final management letter was being drafted.

KEY DEVELOPMENTS

Financial Dependence on the State Government

Government supports Tasracing through a funding deed which commenced on 1 July 2009. The deed provides base funding of $27.000m per annum plus CPI less 1% over a 20 year period. In 2012-13, funding provided was $28.316m.

As part of the same funding deed, Government established a $40.000m loan facility for infrastructure investment, with the Department of Treasury and Finance paying interest and principal repayments, subject to certain conditions. At 30 June 2013, net $9.700m of this facility had been drawn down.

Support received from Government during the year in loan principal repayments was recorded as an equity contribution, and amounted to $0.142m.

Non-Current Assets Impairment Review and Going Concern Considerations

An impairment calculation was updated to determine whether the value in use of non-current assets continued to be less than their carrying amounts. The value in use calculation seeks to determine future net cash flows from those assets. These were based on the Tasracing's Corporate Plan for 2014-18.

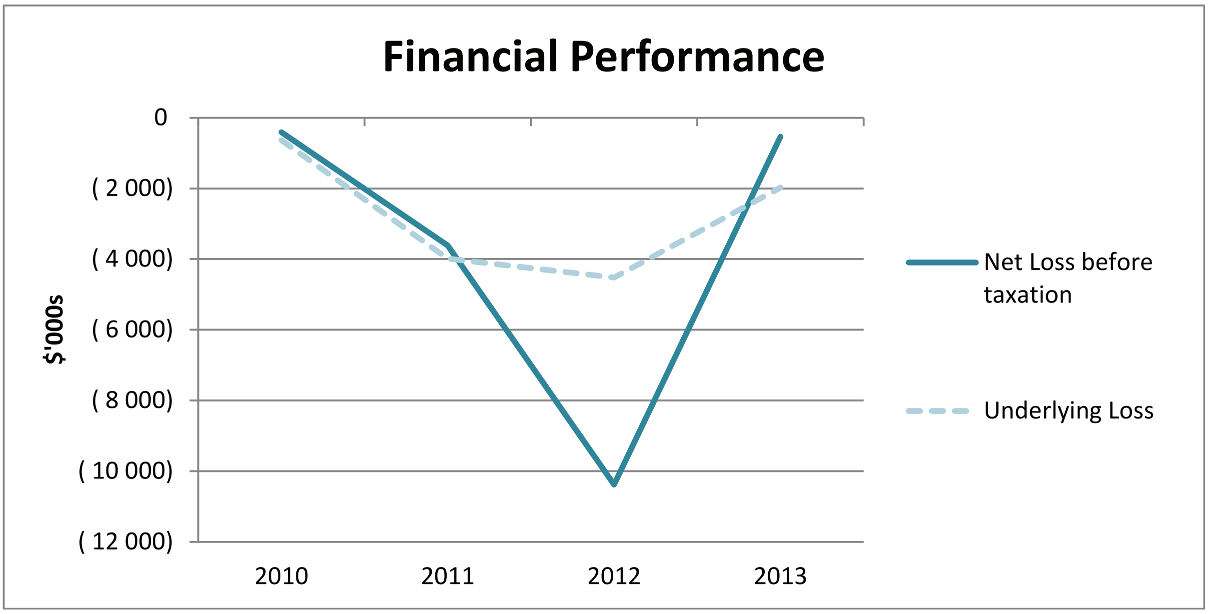
Tasracing's updated Corporate Plan incorporates improvements in revenue streams and reduced expenditures achieved in 2012-13 and as a result impairments recorded in the prior year, $5.706m, were partially reversed by $2.472m in the current year. This adjustment was recorded as revenue in 2012-13.

However, successful implementation of the strategies outlined in Tasracing's Corporate Plan post 30 June 2013 is essential to its financial sustainability and, ultimately, whether it can 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 impact future impairment assessments.

Race Day Staff and Operations

During the year, Tasracing assumed responsibility for the race day staff and operation of the Tasmanian Racing Club and the Devonport Racing Club. This did not significantly impact upon Tasracing's financial performance.

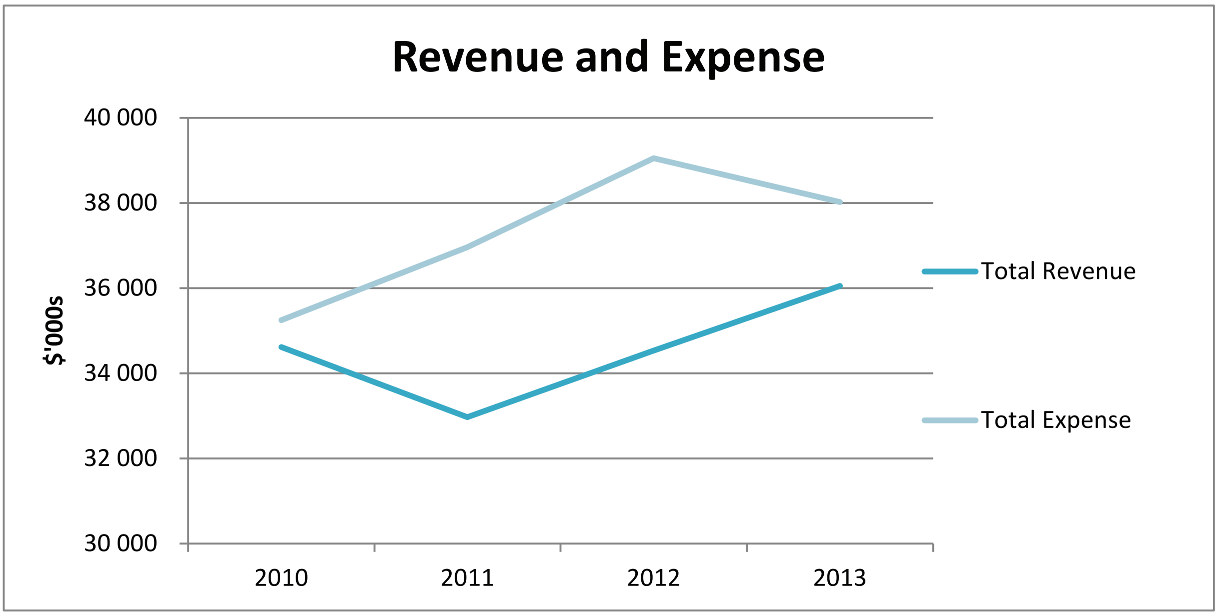
FINANCIAL ANALYSIS



The Underlying Loss reduced in 2012-13 to $1.973m, due principally to a combination of higher revenue and reduced expenses. The following Revenue and Expense graph and comments provide more details.

The Net Loss before tax result was heavily impacted by impairment adjustments over the past two years. The loss in 2011-12 included impairments of $5.706m, whereas there was a reversal of part of that impairment in the current year, amounting to $2.472m.

The impairment reversal in 2012-13 was offset partly by the write off of obsolete property, plant and equipment assets of $0.672m. The implementation of Tasracing's strategic asset management plan included a comprehensive review of all assets resulting in a number of assets identified as no longer being of value.

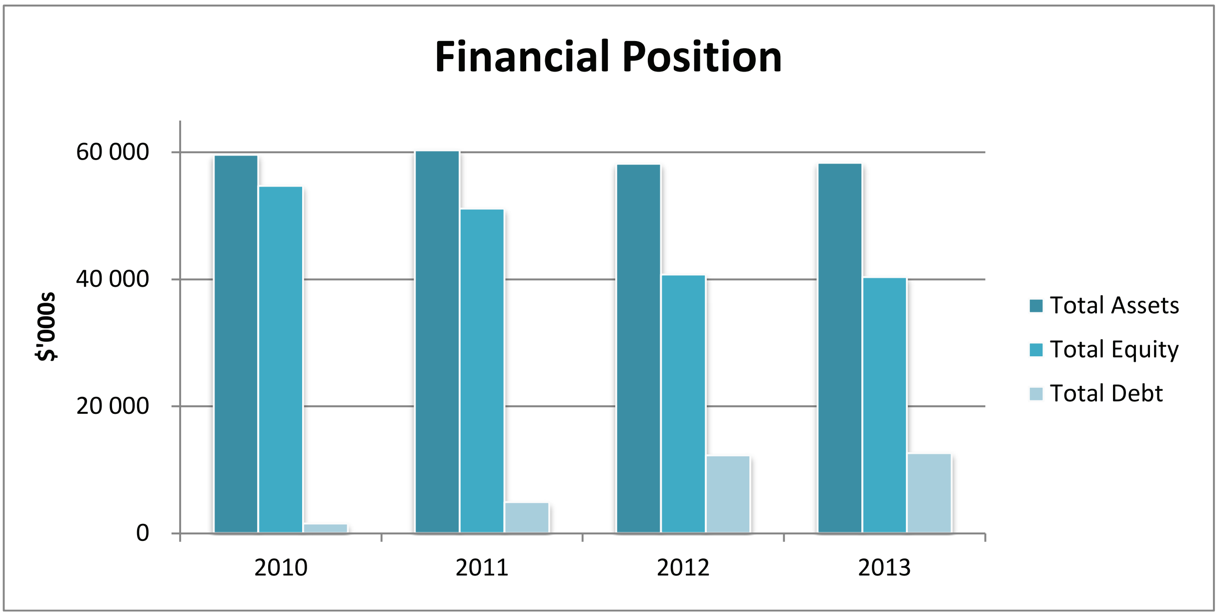


The graph indicates that this is the first year since 2009-10 that the gap between costs and revenues reduced as management took steps to reduce costs.

Also evident from the graph is that in the past two years, Tasracing's revenue increased steadily mainly due to:

- higher revenues from government of $1.713m mainly because of the annual CPI less 1% adjustment
- growing racefield fees revenue of $1.935m. This is an increase of 60% over fees generated in 2010-11, due principally to increased wagering turnover
- improved Other income of $0.574m. Other income growth related to a contribution from Racing Services Tasmania to the costs of Vision and Broadcasting of $0.125m, training income to subsidise the harness racing program of $0.078m and $0.064m from the Devonport racing club relating to Tasracing assuming the administration tasks in the club.

Total Expenses reduced this year because of lower employee expenses of $0.443m and lower prize money benefits and incentives of $0.472m.



Total Assets remained relatively consistent over the period under review. Tasracing's largest asset class Property, plant and equipment, which consisted of mainly leasehold improvements, represented 87.9% of Total Assets at 30 June 2013. Over the first three years of the period under review Tasracing invested $18.912m in leasehold improvements resulting in Investment gap percentages well above the benchmark. Offsetting this were lower current assets in 2011-12 and the impairment loss, also in 2011-12.

In 2012-13 the level of capital investment reduced to $0.620m, with the completion of works at Tapeta Park at Spreyton resulting in an Investment gap percentage of 21%. Total Assets remained steady mainly because the depreciation expense was offset by the reversal of the impairment mentioned earlier. Cash increased by $1.186m and trade and other receivables fell by $0.837m both mainly due to the move from a quarterly to a monthly racefield payments cycle.

Total Equity decreased steadily over the period of review in line with Net Losses incurred.

Debt increased sharply in 2011-12 due to borrowings of $7.518m taken up to finance the upgrade of Tapeta Park at Spreyton. There was a further increase in borrowings of $0.472m in the current year for the final instalment for the Spreyton works, which was partly offset by borrowings repayments of $0.142m.

CHAPTER APPENDICES

STATEMENT OF COMPREHENSIVE INCOME

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Revenue from Government	29 223	28 698	27 510	27 089
Operational funding - TOTE Tasmania	0	0	0	5 146
Race field fees	5 130	4 709	3 195	0
Other income	1 698	1 124	2 264	2 378
Total Revenue	**36 051**	**34 531**	**32 969**	**34 613**
Employee benefits expense	5 070	5 513	4 866	4 756
Prizemoney, benefits and incentives	23 016	23 488	23 346	22 090
Depreciation and amortisation expense	2 896	2 902	2 603	2 285
Raceday and racing expenses	5 242	5 329	3 799	3 586
Other expenses	1 800	1 821	2 344	2 530
Total Expenses	**38 024**	**39 053**	**36 958**	**35 247**
Underlying Profit (Loss)	**(1 973)**	**(4 522)**	**(3 989)**	**(634)**
Impairment	2 472	(5 706)	0	0
Expenses for Obsolete Property plant & equipment	(672)	0	0	0
Interest income	724	925	938	764
Finance and leasing costs	(1 004)	(957)	(461)	(374)
Interest cost on defined benefit superannuation plan	(82)	(119)	(107)	(170)
Net Profit (Loss) Before Tax	**(535)**	**(10 379)**	**(3 619)**	**(414)**
Income tax expense	0	0	0	0
Net Profit (Loss)	**(535)**	**(10 379)**	**(3 619)**	**(414)**
Other comprehensive income	0	0	0	0
Total Comprehensive Profit (Loss)	**(535)**	**(10 379)**	**(3 619)**	**(414)**

STATEMENT OF FINANCIAL POSITION

	2013	2012	2011 As restated	2010 As restated
	$'000s	$'000s	$'000s	$'000s
Cash and cash equivalents	5 421	4 235	4 900	7 886
Trade and other receivables	1 002	1 839	1 940	607
Prepayments	661	397	369	268
Total Current Assets	**7 084**	**6 471**	**7 209**	**8 761**
Trade and other payables	2 144	1 294	1 887	1 154
Employee benefits	680	686	442	423
Other financial liabilities	643	1 053	13	11
Total Current Liabilities	**3 467**	**3 033**	**2 342**	**1 588**
Working Capital	**3 617**	**3 438**	**4 867**	**7 173**
Property, plant and equipment	51 064	51 732	53 117	50 851
Intangibles	189	0	6	11
Total Non-Current Assets	**51 253**	**51 732**	**53 123**	**50 862**
Borrowings	12 578	12 247	4 864	1 500
Employee benefits	1 958	2 194	2 018	1 808
Total Non-Current Liabilities	**14 536**	**14 441**	**6 882**	**3 308**
Net Assets	**40 334**	**40 729**	**51 108**	**54 727**
Contributed equity	55 283	55 142	55 141	55 141
Accumulated losses	(14 949)	(14 413)	(4 033)	(414)
Total Equity	**40 334**	**40 729**	**51 108**	**54 727**

STATEMENT OF CASH FLOWS

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Receipts	39 100	35 866	33 903	36 164
Payments to suppliers and employees	(37 586)	(37 307)	(36 206)	(34 180)
Interest received	727	1 462	930	758
Interest and other costs of finance	(907)	(852)	(130)	(110)
Cash From (used in) From Operations	**1 334**	**(831)**	**(1 503)**	**2 632**
Proceeds from sales of property, plant and equipment	0	0	15	19
Payments for property, plant and equipment	(620)	(7 218)	(4 863)	(6 831)
Cash (used in) Investing Activities	**(620)**	**(7 218)**	**(4 848)**	**(6 812)**
Proceeds transferred from Tasmanian Racing Board	0	0	0	11 206
Equity transfer from Tasmanian Government	0	0	0	861
Repayment of Borrowings	(142)	(134)	0	0
New borrowings raised	472	7 518	3 364	0
Equity Contribution	142	0	0	0
Cash From Financing Activities	**472**	**7 384**	**3 364**	**12 067**
Net Increase (Decrease) in Cash	**1 186**	**(665)**	**(2 987)**	**7 887**
Cash at the beginning of the year	4 235	4 900	7 887	0
Cash at End of the Year	**5 421**	**4 235**	**4 900**	**7 887**

FINANCIAL ANALYSIS

	Bench Mark	2012-13	2011-12	2010-11	2009-10
Financial Performance					
Net profit (loss) ($'000s)		(535)	(10 379)	(3 619)	(414)
EBIT ($'000s)		(1 973)	(4 522)	(3 989)	(634)
EBITDA ($'000s)		923	(1 620)	(1 386)	1 651
Operating margin	>1.0	0.95	0.88	0.89	0.98
Financial Management					
Current ratio	>1	2.04	2.13	3.08	5.52
Debt collection	30 days	35	16	18	12
Creditor turnover	30 days	8	8	6	7
Asset Mangement					
Investment gap %	100%	21%	249%	187%	299%
Other Information					
Average staff numbers (FTEs)		66	67	63	61
Average staff costs ($'000s)		77	83	82	82
Average leave balance per FTE ($'000s)		12	11	7	7

TASMANIAN RAILWAY PTY LTD (TasRail)

SNAPSHOT

- TasRail continued to record Underlying losses and to be reliant on State and Commonwealth Government funding.
- It incurred an Underlying Loss of $6.301m before asset impairments expenses in 2012-13.
- After accounting for asset impairments, $45.233m, TasRail recorded a Net loss after taxation of $50.294m.
- It operates two reportable segments, above rail and below rail, which recorded segment loss before tax of $3.096m and $48.438m respectively.
- At 30 June 2013, TasRail's Total Equity was $110.245m, it had no borrowings and net working capital of $42.178m.

Key developments in the year included:

- a Deed of Variation to the Rail Corridor lease with the Department of Infrastructure, Energy and Resources (DIER) was signed
- signing a sub-lease for the Brighton Transport Hub Warehouse site with a third party. The third party is not expected to relocate to the Brighton Transport Hub until early 2014 subject to the third party completing the construction of warehouse and freight handling facilities
- corresponding long-term haulage agreement with the Brighton Transport Hub tenant
- modernised haulage agreements implemented with existing TasRail mining customers. Much of TasRail's haulage task is now under long-term agreements
- TasRail entered into three forward foreign exchange purchase contracts for the acquisition of new wagons, train control system and tamper
- the imposition of a carbon surcharge from 1 July 2012 to recover costs under the carbon pricing regime
- TasRail generated operating losses before tax totalling $10.616m in the past two years and is heavily reliant on State Government support.

Major variations between the 2012-13 and 2011-12 financial years were:

- higher revenue from freight services of $2.066m
- lower other and finance revenue of $2.131m
- lower maintenance and consumable expenses of $3.950m
- increase in the net cash flow hedge position by $4.132m
- Property, plant and equipment increased by $9.805m. This was net of asset impairments.

Since TasRail commenced operating in December 2009, the State and Commonwealth Governments have contributed the following to TasRail:

- equity contributions - $232.354m
- grants - $49.653m.

The equity contributions have been invested in above and below rail assets as part of a capital asset replacement program. The grants have been applied to assist with meeting operating expenditure, primarily for maintenance of the below rail infrastructure.

The audit was completed on time with no items outstanding.

INTRODUCTION

TasRail was established under the *Rail Company Act 2009* for the purpose of acquiring, owning and operating the public rail business in Tasmania. It commenced operations on 1 December 2009 and 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' functions
- 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.

TasRail's joint shareholders are the Treasurer and the Minister for Infrastructure, Energy and Resources, who hold their shares on behalf of the State of Tasmania.

The Board consists of five non-executive directors.

KEY AREAS OF AUDIT ATTENTION

Description of Area	Audit Approach
TasRail is economically dependent on the State Government to fund a shortfall in operating revenue.	We ensured the State would continue to support TasRail, which provided assurance that it could continue as a going concern.
TasRail continued to receive equity and grant funding from the State.	Where funds were provided as grants, we tested compliance with AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*.
TasRail is subject to the National Tax Equivalent Regime.	We tested tax effect accounting calculations, balances and disclosure within the financial statements.
TasRail has a small number of major customers, who provide the majority of its sales revenue. Complex calculations are performed and some reliance is placed on customer data for processing transactions.	We obtained external debtor confirmations from the major customers at balance date. We also tested a sample of invoices to ensure revenue calculations were correct.
Impairment of capital works assets.	We audited asset impairment calculations including the assumptions and data used by management within the context of our understanding of TasRail.
Complex financing arrangements and structures used to support above-rail equipment and infrastructure projects.	We audited and tested foreign exchange hedging calculations, balances and disclosure within the financial statements.

AUDIT OF THE 2012-13 STATEMENTS

The Board signed the financial statements on 5 August 2013 and an unqualified audit report was issued on 9 August 2013.

KEY FINDINGS

The audit was completed satisfactorily with no items raised with management.

KEY DEVELOPMENTS

Rail Corridor Lease and Environmental Obligations

On 30 June 2010, TasRail commenced negotiations with DIER to finalise a rail corridor lease which is a DIER asset. The lease agreement was signed on 2 December 2010.

Under 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 Government to fund any remediation.

The lease also requires TasRail to insure and maintain non-operational lines in the same condition as existed at the lease commencement date.

In 2012-13, a deed of variation to the lease was signed which amended the original lease to allow TasRail to self-insure and undertake minimal maintenance of non-operational lines.

Brighton Transport Hub

During 2010-11, Government advised TasRail that it was successful in being appointed as the operator of the Brighton Transport Hub which is owned by DIER. Two leases with DIER were signed on 22 May 2012; a terminal lease covering the hardstand area where trains will operate and interface with operations and a warehouse lease for land designated for warehouse buildings.

The terminal lease was effective from the date of signing, however the warehouse lease was not activated until a sub-lease was finalised. This occurred in 2012-13, with TasRail signing a sub-lease with Toll Group (Toll) in December 2012. Toll is expected to relocate to the Brighton Transport Hub from the Macquarie Point terminal in early 2014 subject to construction of warehouse and freight handling facilities. The construction will be undertaken and funded by Toll.

Macquarie Point Terminal Site

A lease with DIER relating to the Macquarie Point terminal site expires on 30 June 2016. TasRail has relocated a number of its staff and some operations to the Brighton Transport Hub. Redevelopment of the Macquarie Point site is being managed by the Macquarie Point Development Corporation. However, the Corporation is unable to commence site rehabilitation before TasRail vacates the site.

Capital Purchase Contracts

During 2011-12, in order to reduce foreign exchange risk over TasRail's largest cash flow capital commitments, it entered into forward foreign exchange purchase contracts for the acquisition of locomotives and concrete sleepers. The aim was to manage risk and limit the volatility of financial results.

In 2012-13, a further three forward foreign exchange purchase contracts were entered into. These related to the purchase of new wagons, train control system and tamper.

All hedged contract commitments are in US dollars, apart from the purchase of concrete sleepers which is in NZ dollars. At 30 June 2013, TasRail recorded hedge assets for all five contracts totaling $3.366m. Outstanding hedge commitments amounted to $61.809m at 30 June 2013.

Segment Reporting

TasRail has determined that it operates two reportable segments:

- above rail – provision of rail freight services, predominantly funded by freight service customers, recorded a segment loss before tax of $3.096m
- below rail – management and operation of the rail network and related infrastructure, funded by grant revenue, recorded a segment loss before tax of $48.438m after impairment.

These results are after including a management fee (inter-entity pricing) of $2.598m 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:

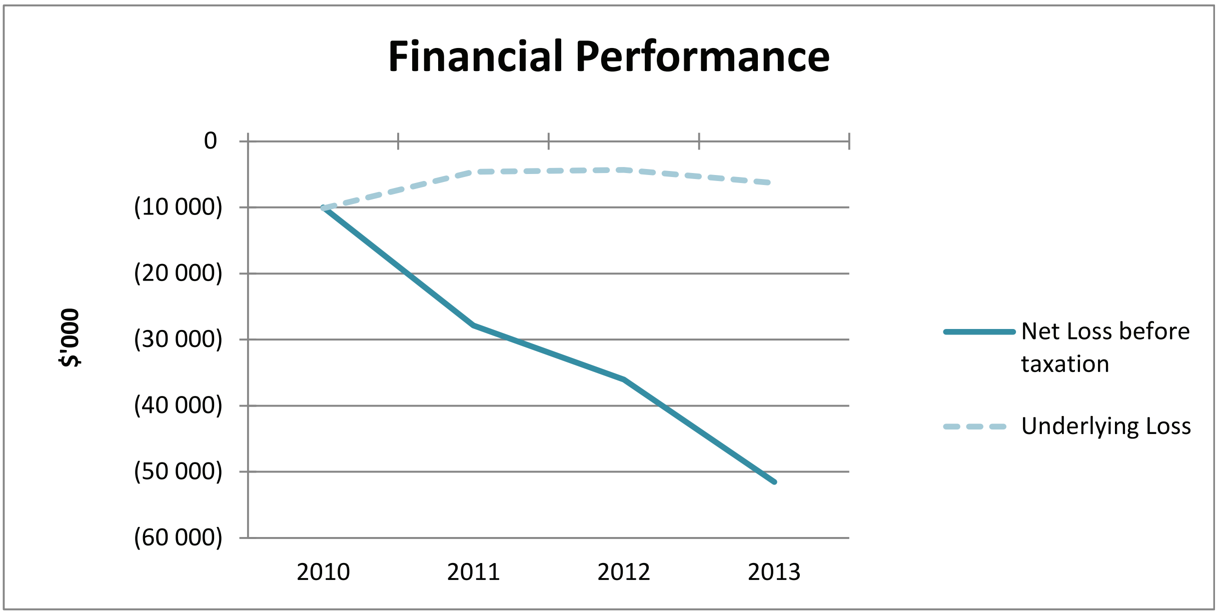
	Above Rail	**Below Rail**	**Total**
	$'000s	$'000s	$'000s
Segment result before tax, impairment and management fee	(498)	(5 803)	(6 301)
Impairment expense	0	(45 233)	(45 233)
Management fee	(2 598)	2 598	0
	(3 096)	**(48 438)**	**(51 534)**

In relation to above rail operations, TasRail is forecasting to break even and commence recording surplus results from 2015-16 onwards. Its asset replacement program includes above rail assets such as new locomotives and wagons. At 30 June 2013, this program was incomplete and costs to date were recorded as work in progress. Once the projects are completed and the above rail assets capitalised, TasRail will need to ensure this segment generates sufficient cash flows to support asset values.

Financially Dependent on Government

TasRail generated operating losses before tax totalling $10.615m in the past two years of its activities. Operating grants of $35.063m were received over the same period. On-going operating losses are not sustainable. In recognition of this, the State Government has committed to spend $45.395m over the next three years to assist TasRail to meet rail network maintenance and administrative costs. TasRail is heavily reliant on this support. Its 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.

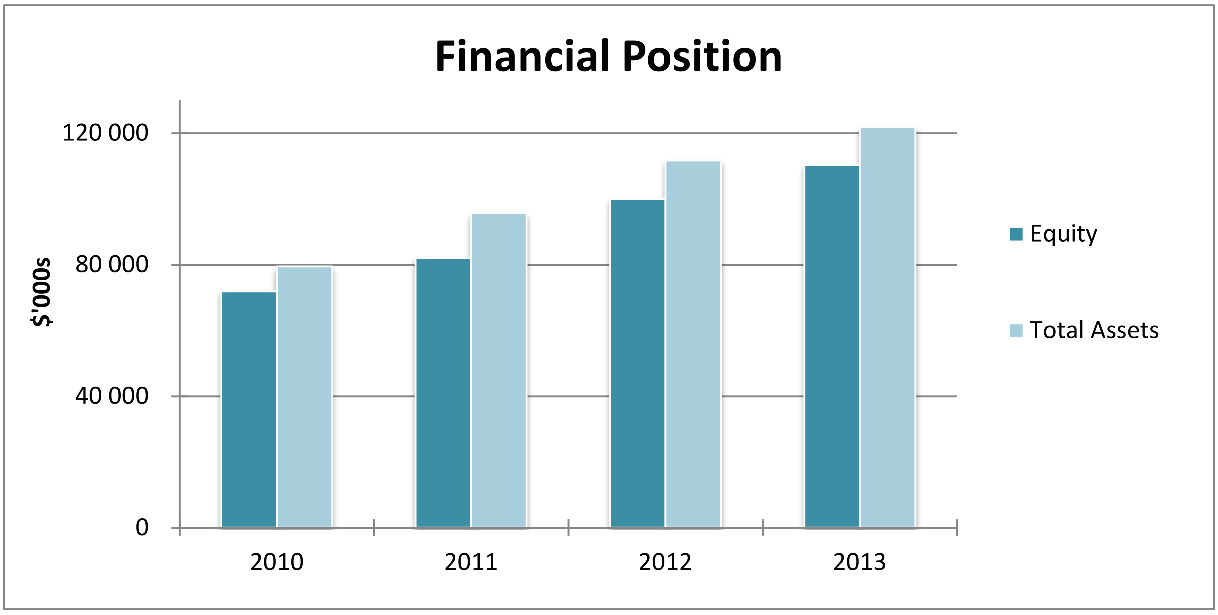
FINANCIAL ANALYSIS



TasRail recorded Underlying losses each year. The significantly higher Net losses after tax all resulted from impairment of below rail assets.

In 2012-13, TasRail incurred an Underlying Loss of $6.301m (2011-12, $4.315m). The loss includes $16.288m in grant funds, which represents 31.2% of total revenue. Without this government support TasRail would not be able to operate.

While the Underlying Loss was consistent with the prior year, the Net Loss after taxation, $50.294m, (2011-12 $36.294m) continued to worsen in line with higher below rail asset impairments. TasRail considers below rail assets will generate insignificant cash flows and consequently capital works were impaired to nil. These capital works are funded by the Commonwealth Government, and are provided as equity contributions.



Movement in Equity over the period predominantly represents funding received, less after tax losses and movements in the cash flow hedging reserve. Equity increased by $10.278m during the year to $110.245m as at 30 June 2013 due to:

- funding of $57.680m, offset by
- loss after tax of $50.294m
- an increase in its Cash flow hedge reserve, $2.892m, represented by the movement in fair value of hedging instruments of $4.132m less tax of $1.240m.

Equity funding of $57.680m consisted of the following:

- Above rail operations – the State Government, through equity retirements from Transend, provided $20.000m as an equity contribution to TasRail in 2012-13 (2011-12, $20.000m). An additional $60.000m over the next three years for upgrade of above rail network infrastructure, rolling stock and equipment is anticipated (providing a total of $100.000m in equity funding over a five year period).
- Below rail operations – TasRail received $37.680m (2011-12, $34.745m) in funding from the Australian Government to undertake capital works on upgrading the below rail network and associated equipment. TasRail will continue to record significant below rail losses into the future arising from annual impairment of this capital expenditure. Impairments arise because the below rail operations do not generate sufficient cash flows.

TasRail has indicated that at the end of the current Government-funded capital programs for both above and below rail segments, 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.

TasRail has not made any returns to its shareholders due to the losses incurred since it commenced operating.

STATEMENT OF COMPREHENSIVE INCOME

	2012-13	2011-12	2010-11	1 Dec 2009 to 30 June 2010
	$'000s	$'000s	$'000s	$'000s
Revenue from freight services	32 575	30 509	28 916	15 843
Grant income	16 288	18 775	14 590	0
Other revenue	3 248	5 379	5 171	1 696
Total Revenue	**52 111**	**54 663**	**48 677**	**17 539**
Finance costs	0	0	0	49
Depreciation and amortisation expense	5 676	5 063	5 556	3 562
Salary and wages	25 037	23 492	20 960	9 991
Maintenance and consumables	9 454	13 404	12 495	5 718
Fuel and oil	6 219	5 446	4 945	2 622
Administration	5 465	5 665	5 188	3 753
Other expenses	6 561	5 908	4 165	1 979
Total Expenses	**58 412**	**58 978**	**53 309**	**27 674**
Underlying Loss Before Taxation	**(6 301)**	**(4 315)**	**(4 632)**	**(10 135)**
Other Accounting Adjustments:				
Transfer of land for nil consideration	0	0	0	(1 725)
Gain on acquisition of business	0	0	0	1 852
Recognition of inventory	0	0	7 154	0
Impairment expense	(45 233)	(31 750)	(30 391)	0
Net Loss Before Taxation	**(51 534)**	**(36 065)**	**(27 869)**	**(10 008)**
Taxation equivalent benefit (expense)*	1 240	(229)	0	0
Net Loss	**(50 294)**	**(36 294)**	**(27 869)**	**(10 008)**
Other Comprehensive Income				
Cash flow hedge reserve	4 132	(765)	0	0
Tax on other comprehensive income*	(1 240)	229	0	0
Total comprehensive loss	(47 402)	(36 830)	(27 869)	(10 008)
Total Comprehensive Profit (Loss)	**(47 402)**	**(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.*

STATEMENT OF FINANCIAL POSITION

	2013	2012	2011	2010
	$'000s	$'000s	$'000s	$'000s
Cash	40 237	41 852	37 768	32 705
Receivables	4 773	4 503	6 351	3 624
Inventories	5 074	6 515	9 682	1 527
Other Assets	3 177	95	0	0
Total Current Assets	**53 261**	**52 965**	**53 801**	**37 856**
Payables	6 787	6 266	9 237	4 641
Employee benefits	4 296	4 012	4 111	2 816
Other Liabilities	0	212	0	0
Total Current Liabilities	**11 083**	**10 490**	**13 348**	**7 457**
Working Capital	**42 178**	**42 475**	**40 453**	**30 399**
Other Assets	189	42	0	0
Property, plant and equipment	68 419	58 614	41 716	41 523
Total Non-Current Assets	**68 608**	**58 656**	**41 716**	**41 523**
Employee benefits	541	473	117	65
Other liabilities	0	691	0	0
Total Non-Current Liabilities	**541**	**1 164**	**117**	**65**
Net Assets	**110 245**	**99 967**	**82 052**	**71 857**
Capital	232 354	174 674	119 929	81 865
Accumulated losses	(124 465)	(74 171)	(37 877)	(10 008)
Other Reserves	2 356	(536)	0	0
Total Equity	**110 245**	**99 967**	**82 052**	**71 857**

STATEMENT OF CASH FLOWS

	2012-13	2011-12	2010-11	1 Dec 2009 to 30 June 2010
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	37 464	39 157	29 898	15 481
Grants from operating activities	16 288	18 775	14 590	0
Payments to suppliers and employees	(53 685)	(57 277)	(44 930)	(21 477)
Finance costs	0	0	0	(49)
Interest received	1 274	2 349	2 909	683
Cash Fom (used in) Operations	**1 341**	**3 004**	**2 467**	**(5 362)**
Consideration acquisition rail assets	0	0	0	(30 449)
Proceeds from sale of plant and equipment	78	46	229	0
Payments for property, plant and equipment	(60 714)	(53 711)	(35 697)	(13 349)
Cash (used in) Investing Activities	**(60 636)**	**(53 665)**	**(35 468)**	**(43 798)**
Proceeds from equity contributions	57 680	54 745	38 064	81 865
Cash From Financing Activities	**57 680**	**54 745**	**38 064**	**81 865**
Net Increase in Cash	**(1 615)**	**4 084**	**5 063**	**32 705**
Cash at the beginning of the year	41 852	37 768	32 705	0
Cash at End of the Year	**40 237**	**41 852**	**37 768**	**32 705**

FINANCIAL ANALYSIS

	Bench Mark	2012-13	2011-12	2010-11	1 Dec 2009 to 30 June 2010
Financial Performance					
Net loss ($'000s)		(50 294)	(36 294)	(27 869)	(10 008)
Underlying loss ($000's)		(6 301)	(4 315)	(4 632)	(10 135)
EBIT ($'000s)		(6 301)	(4 315)	(4 632)	(10 184)
Operating margin	>1.0	0.89	0.93	0.91	0.63
Return on assets		(5.7%)	(4.3%)	(5.3%)	(12.8%)
Return on equity		(47.9%)	(39.9%)	(36.2%)	(13.9%)
Financial Management					
Current ratio	>1	4.81	5.05	4.03	5.08
Debt collection	30 days	44	40	28	66
Creditor turnover	30 days	21	20	45	48
Returns to Government*					
Asset Management					
Total capital expenditure/depreciation		1070%	1061%	642%	375%
Other Information					
Average staff numbers (FTEs)		257	229	190	170
Average staff costs ($'000s)**		96	101	100	91
Average employee benefits ($'000s)		19	20	22	17

** No dividends or tax equivalent payments have been made.*

*** 2010 adjusted for part year of operations.*

TRANSEND NETWORKS PTY LTD (Transend)

SNAPSHOT

- Profit after income tax was $47.810m this year and averaged $46.480m over the past three years.
- Net Assets totalled $721.822m and borrowings were $631.197m.
- Transend transmitted 12 959 Gigawatt hours (GWh) of energy in 2012-13 compared to 11 601 GWh in 2011-12. The increase was due primarily to higher energy exports over Basslink.

During 2012-13 Transend paid dividends of $25.900m and income tax equivalents of $32.482m and returned capital to the State of $20.000m which was financed by borrowings.

Three low-risk audit findings were raised during the audit: two related to password controls and the other identified an incorrect index applied to network assets.

The audit was completed satisfactorily with no other issues outstanding.

Key developments this year included:

- Transend will merge with Aurora's distribution business into Tasmanian Networks Pty Ltd from 1 July 2014
- the full impact of the Board's decision in March 2012 to limit future increases in prescribed transmission revenue to less than the increase in the consumer price index (CPI). This reduced revenue by $11.190m in 2012-13
- an expected material reduction in prescribed transmission revenue over the next five-year regulatory period, beginning 1 July 2014, due mainly to forecast changes in the cost of capital.

Other major financial impacts this year included:

- superannuation actuarial gains of $10.385m (2011-12, $18.749m loss)
- new assets commissioned costing $91.067m.

INTRODUCTION

Transend 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 which transmits electricity from power stations to customers around the State. Transend currently has four generation, ten major industrial 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 on 30 June 2014.

Transend also provides negotiated and non-regulated transmission services which are outside 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 consists of five non-executive directors. The Board appoints the Chief Executive Officer. Directors are appointed by the two shareholder Ministers.

KEY AREAS OF AUDIT ATTENTION

Description of Area	Audit Approach
Transend's regulated revenue allows for an adequate investment in network assets, aimed at minimising risk of outages and injuries to staff or the public and damage to property. Due to Transend's extensive works program, there is a risk that not all programs may be adequately planned and delivered, potentially resulting in poor systems performance and inefficient deployment of resources. Transend is expected to demonstrate prudence of its capital expenditure to the AER for revenue determination purposes.	The Internal Audit Program included an examination of Transend's project management. We reviewed the internal audit report to ensure that business risk in this area was managed appropriately and we used the internal audit work to supplement our testing of expenditure on fixed assets.
Transend is responsible for maintaining infrastructure assets across the State and undertakes significant strategic infrastructure investment and maintenance expenditure.	We ensured that maintenance and capital expenditure was appropriately accounted for and disclosed in the financial report and verified significant additions and disposals to supporting documentation.
Network assets are measured at fair value based on depreciated optimised replacement cost. Each year, Transend also estimates the recoverable amount for its assets based on value in use.	We reviewed cash flow forecasts and other variables including the Weighted Average Cost of Capital (WACC) used to estimate the recoverable amount to ensure that assets were not carried at values materially greater than their value in use.

AUDIT OF THE 2012-13 STATEMENTS

Signed financial statements were received on 13 August 2013. Amended financial statements were received on 22 August 2013 and an unqualified audit report was issued on 28 August 2013. Amendments to the statements followed revised guidance provided, on disclosure of key management personnel remuneration.

KEY FINDINGS

Three low risk audit findings were raised during the audit: two related to password controls and the other identified an incorrect index applied to network assets which was subsequently corrected. These were reported to management who are addressing the matters raised.

The audit was completed satisfactorily with no other issues outstanding.

KEY DEVELOPMENTS

Reform of the Electricity Suppy Industry

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. The *Electricity Reform Act 2012* (TAS) was enacted in December 2012. From 1 July 2014, Transend will merge with Aurora Energy's distribution business into Tasmanian Networks Pty Ltd. Transend was directed that costs of the Government's project team in the Department of Treasury and Finance would be funded in equal shares by the three state-owned electricity businesses. Transend's share of these costs in 2012-13 was $0.949m.

Board's Decision to Limit Future Increases in Prescribed Transmission Revenue

In March 2012, the Board decided to limit future increases in prescribed transmission revenue to less than the increase in the CPI, for the final two years of the current regulatory period. This took effect on 1 July 2012 reducing revenue by $11.190m in the year.

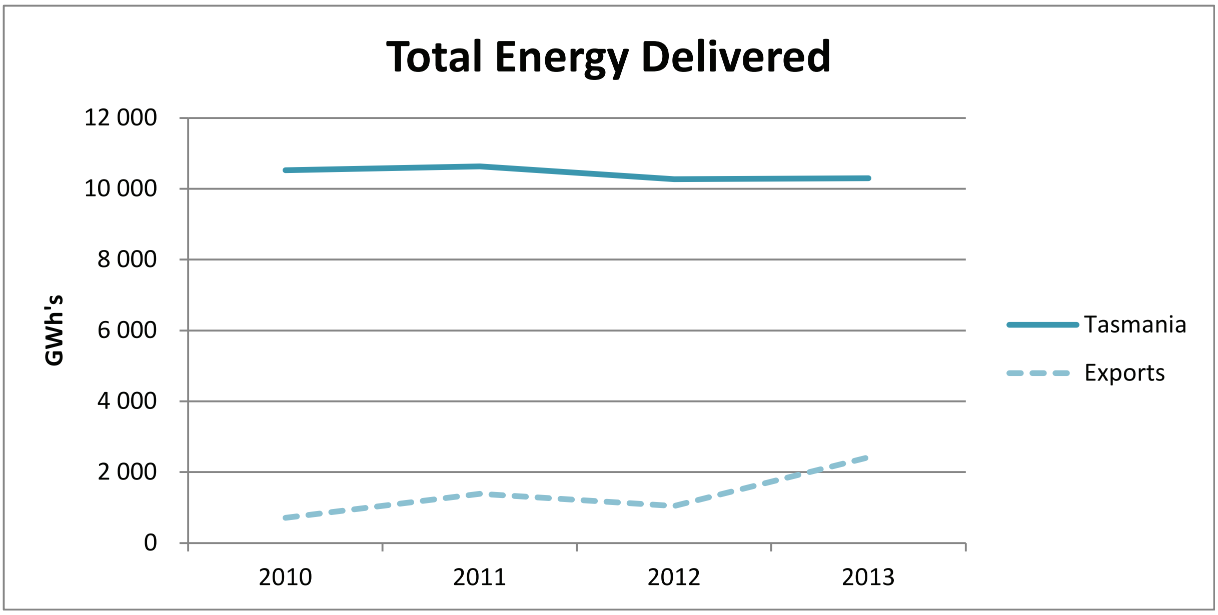
AER's Revenue Determination for the Five Year Period 2014-15 to 2018-19

During 2012-13 the Australian Energy Market Commission (AEMC) changed the rules on the rate of return on capital, capital expenditure incentives, capital expenditure allowances and operating expenditure allowances. The AER is now preparing guidelines on these amended rules, due to be published on 29 November 2013. In the next five-year regulatory period, which starts on 1 July 2014, Transend expects a material reduction in prescribed transmission revenue (from that currently allowed under its present revenue determination) due mainly to forecast changes in the allowed cost of capital.

Decline in Demand for Consumption of Electricity

The local market for electricity is flat, energy consumption in Tasmania has reached a plateau and state-wide peak demand is falling. The outlook for electricity consumption in Tasmania is deteriorating; consumption has been in decline since 2008 and the trend is forecast to continue. In the Australian Energy Market Operator's (AEMO) National Electricity Forecasting Report 2013, the annual energy consumption in Tasmania over the ten year period to 2022-23 is expected to decrease by an annual average of 0.2%. This is primarily due to both lower population and economic growth compared with other NEM States. As a result, Transend's future capital program will be focused on replacement, renewal and network security rather than augmentation and development.

The following graph illustrates the energy consumption trend in Tasmania over the last four years declined slightly, whilst energy exported to the mainland increased significantly.



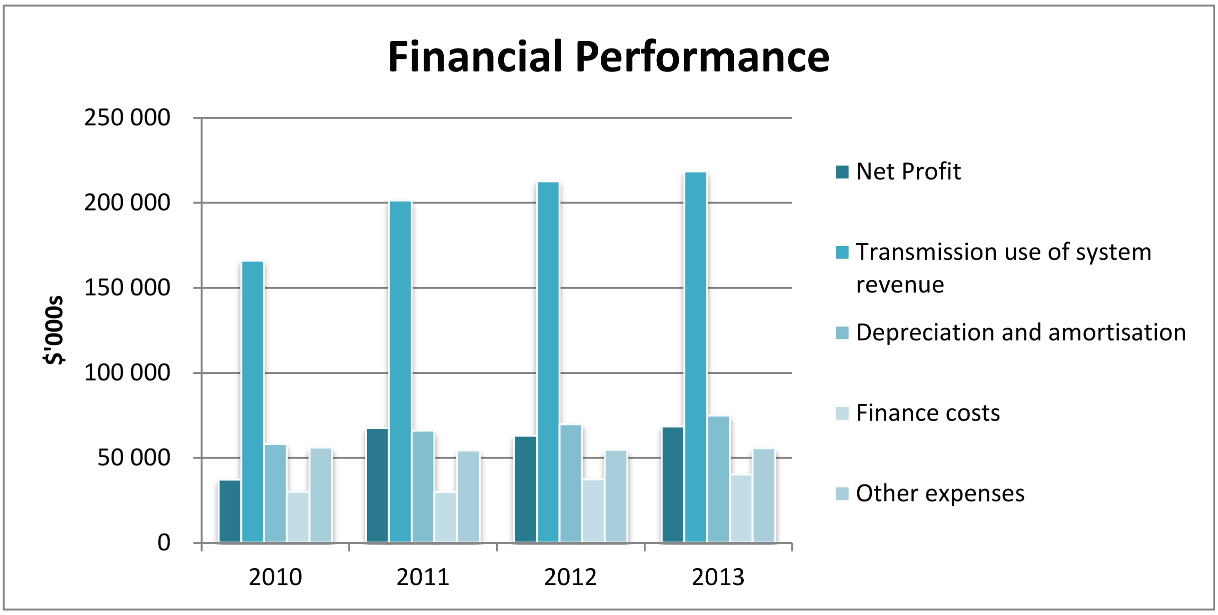
Four of Transend's industrial customers use more than 50% of the total electricity consumed in Tasmania. Each customer is vulnerable to external circumstances, in particular the relatively strong Australian dollar.

Other Developments

During 2013 Transend:

- changed its accounting policy for recognising revenues from prescribed services. Transend now recognises prescribed services revenue on the basis of amounts received or receivable with no amounts accrued or deferred for future receipts from (or credits to) customers. Previously Transend accrued or deferred allowed revenue by recognising the entire amount of revenue allowed under its revenue determination and recognising any under (or over) recovery as an asset (or liability) to be adjusted in future revenues to be received from customers. The effect of this change in policy was an increase of $1.148m in revenue in the comparative figures for 2011–12
- completed a number of capital projects, including an upgrade of the 200 kilovolt (kV) switchyard at George Town Substation and redevelopments at Newton and Palmerston substations. In addition, redevelopments at Creek Road, Burnie and Tungatinah substations are in progress, as is the installation of optical ground wire (OPGW) on two transmission circuits in Northern Tasmania.

FINANCIAL ANALYSIS



The graph highlights that, over the four year period:

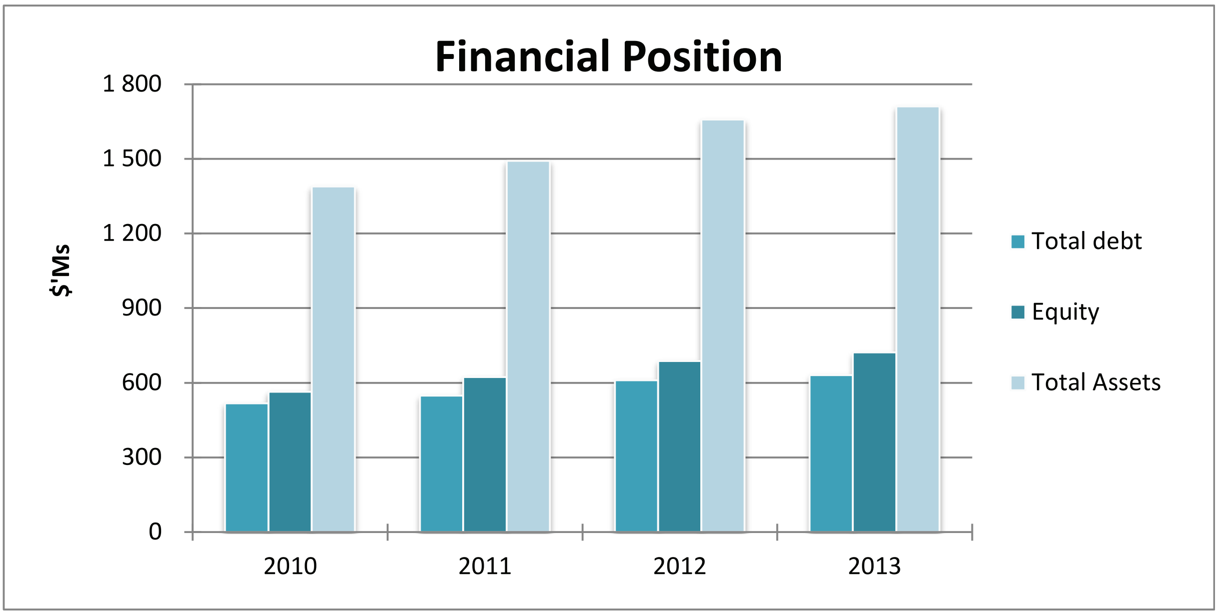
- revenue increases slowed in line with the Board's decision to cap price increases to less than CPI
- the sharp increase in profitability between 2009-10 and 2010-11 was mainly due to the revenue increase that year and no change in interest costs
- depreciation costs increased each year in line with Transend's infrastructure investment program and asset revaluations
- interest costs increased from 2011-12 in line with the Government's decision to increase debt through equity withdrawals
- in real terms recurrent costs declined over the four-year period.

Not evident from the graph but relevant to a discussion about Transend's financial performance is that over 90% of its 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 (MAR) was set to increase by 7.8% each year from $164.700m in 2009-10 to $246.300m in 2013-14, totalling $1 058.3bn 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 CPI. This resulted in transmission service billing of $209.639m in 2012-13 (2011-12, $207.352m), an increase of only 1.1%. This decision means that for the final two years of the current regulatory period, Transend will not recover the MAR allowed under the existing determination.

Transend reduced its operating expenditure between 2010-11 and 2012-13, including reducing its staffing. Average full-time equivalents (FTEs) fell from 284 at 250 (and to 241 at 30 June 2013 mainly due to redundancy programs and not replacing employees by restructuring positions.

Net profit before taxation was $5.491m lower in 2011-12 due to a $4.215m revaluation decrement related to a revaluation of land and buildings in that financial year.

Other Comprehensive income in each of the four years includes the financial impact of regular infrastructure asset revaluations and movements in defined benefit superannuation liabilities.



Equity increased over the period under review by 28.0% or $157.911m as a result of net profits, $139.439m, and asset revaluation increments, $196.379m, less dividends, $67.700m, Equity returns of $40.000m and other Comprehensive losses, $64.368m. Return on assets in 2013 was 6.6% which was consistent over the period.

Over the past four years, Transend incurred $113.197m in added borrowings to fund its capital programs and return of equity. At each balance date, Transend had negative working capital. Transend's working capital is funded through a facility with Tascorp which is in line with its Treasury policy. Transend operated well within the borrowing limit of this facility. In the current year total debt reached $631.197m or 36.9% of total assets and at 30 June net working capital was negative $58.136m. However, cash generated from operations averaged $106.521m over the four year period.

Over the same period, the net value of network assets increased by $315.175m as Transend invested extensively in upgrading its transmission lines and substations. In this time, $482.191m was invested resulting in the Asset investment ratio exceeding our 100% benchmark each year.

STATEMENT OF COMPREHENSIVE INCOME

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Transmission use of system (TUOS)	218 371	212 493	201 181	165 848
Other revenue	22 485	19 337	18 949	17 747
Total Revenue	**240 856**	**231 830**	**220 130**	**183 595**
Depreciation and amortisation	(74 793)	(69 664)	(65 959)	(58 031)
Other expenses	(55 550)	(54 558)	(54 176)	(55 953)
Total Expenses	**(130 343)**	**(124 222)**	**(120 135)**	**(113 984)**
Net Profit (Loss) Before Finance Cost and Tax	**110 513**	**107 608**	**99 995**	**69 611**
Finance costs	(40 045)	(37 315)	(29 698)	(29 982)
Interest cost on defined benefit superannuation plan	(2 754)	(3 240)	(2 997)	(2 607)
Underlying Profit (Loss) Before Tax and Other Items)	**67 714**	**67 053**	**67 300**	**37 022**
Fair value movements	615	(4 215)	170	0
Net Profit (Loss) Before Tax	**68 329**	**62 838**	**67 470**	**37 022**
Income tax expense	(20 519)	(18 874)	(19 805)	(10 664)
Net Profit (Loss)	**47 810**	**43 964**	**47 665**	**26 358**
Gain on revaluation of property, plant and equipment	35 634	125 045	35 700	29 641
Superannuation actuarial gains (losses)	10 385	(18 749)	(307)	(6 250)
Income tax equivalent on items of other comprehensive income	(13 714)	(31 452)	(10 531)	(7 018)
Total Other Comprehensive Income	**32 305**	**74 844**	**24 862**	**16 373**
Comprehensive Profit (Loss)	**80 115**	**118 808**	**72 527**	**42 731**

STATEMENT OF FINANCIAL POSITION

	2013	2012	2011	2010
	$'000s	$'000s	$'000s	$'000s
Cash	1 544	3 818	2 213	4 632
Receivables	25 985	21 680	20 449	17 575
Inventories	4 485	4 546	4 651	3 567
Other	1 057	1 122	9 453	4 463
Total Current Assets	**33 071**	**31 166**	**36 766**	**30 237**
Payables	40 550	41 123	42 000	44 256
Borrowings	3 197	1 707	0	0
Employee benefits	6 947	6 575	6 141	6 874
Superannuation	1 781	1 219	1 332	1 009
Current tax liability	8 974	10 456	12 621	1 178
Income received in advance	29 262	22 516	23 248	23 318
Customer deposits and other	496	3 198	423	2 839
Total Current Liabilities	**91 207**	**86 794**	**85 765**	**79 474**
Working Capital	**(58 136)**	**(55 628)**	**(48 999)**	**(49 237)**
Property, plant and equipment	1 670 651	1 620 591	1 452 017	1 355 479
Other	6 724	5 274	3 023	2 525
Total Non-Current Assets	**1 677 375**	**1 625 865**	**1 455 040**	**1 358 001**
Borrowings	628 000	608 000	548 000	518 000
Employee benefits	1 844	1 869	1 880	1 761
Superannuation	57 586	66 005	45 314	43 157
Deferred tax liability	209 987	206 756	187 609	181 935
Total Non-Current Liabilities	**897 417**	**882 630**	**782 803**	**744 853**
Net Assets	**721 822**	**687 607**	**623 238**	**563 911**
Capital	26 549	46 549	66 549	66 549
Retained earnings	152 940	123 761	127 360	91 677
Reserves	542 333	517 297	429 329	405 685
Total Equity	**721 822**	**687 607**	**623 238**	**563 911**

STATEMENT OF CASH FLOWS

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	265 076	255 248	230 962	200 789
Payments to suppliers and employees	(77 735)	(77 737)	(76 742)	(74 426)
Interest received	0	6	22	456
Finance costs	(32 406)	(28 881)	(21 878)	(22 577)
Guarantee fees paid	(7 299)	(7 066)	(6 860)	(5 998)
Taxation paid	(32 482)	(30 843)	(13 218)	(10 326)
Cash From (used in) Operations	**115 154**	**110 727**	**112 286**	**87 917**
Proceeds from sale of property and plant	190	283	1 100	422
Payments for property, plant and equipment	(93 208)	(122 512)	(132 605)	(133 866)
Cash From (used in) Investing Activities	**(93 018)**	**(122 229)**	**(131 505)**	**(133 444)**
Proceeds from borrowings	21 490	61 707	30 000	30 000
Return of shareholder's capital	(20 000)	(20 000)	0	0
Dividends paid	(25 900)	(28 600)	(13 200)	(3 616)
Cash From (used in) Financing Activities	**(24 410)**	**13 107**	**16 800**	**26 384**
Net Increase (Decrease) in Cash	**(2 274)**	**1 605**	**(2 419)**	**(19 143)**
Cash at the beginning of the year	3 818	2 213	4 632	23 775
Cash at End of the Year	**1 544**	**3 818**	**2 213**	**4 632**

FINANCIAL ANALYSIS

	Bench Mark	2012-13	2011-12	2010-11	2009-10
Financial performance					
Net profit (loss) ($'000s)	≥$46m* **	47 810	43 964	47 665	26 358
EBIT ($'000s)	≥$107m*	110 513	107 608	99 995	69 611
EBITDA ($'000s)		185 306	177 272	165 954	127 642
Operating margin	>1.0	1.85	1.87	1.83	1.61
Return on assets	≥6.4*	6.6%	6.8%	6.9%	5.2%
Return on equity		6.8%	6.7%	8.0%	4.8%
Financial Management					
Debt to equity		87.4%	88.7%	87.9%	91.9%
Gearing	60%	46.7%	47.0%	46.8%	47.9%
Debt to total assets		36.9%	36.8%	36.7%	37.3%
Interest cover - EBIT	>2	2.4	2.4	2.4	1.8
Interest cover - Funds from operations	>2	3.5	3.5	3.7	3.3
Current ratio	>1	0.36	0.36	0.43	0.38
Cost of debt		7.4%	7.7%	7.8%	7.6%
Debt collection	30 days	10	4	4	7
Creditor turnover	30 days	12	8	0	10
Asset Management					
Asset investment ratio	100%	125%	176%	201%	231%
Returns to Government					
Dividents paid ($'000s)		25 900	28 600	13 200	3 616
Income tax paid ($'000s)		32 482	30 843	13 218	10 326
Total return to the State ($'000s)		58 382	59 443	26 418	13 942
Dividends paid or payable ($'000s)	**	28 686	25 900	28 600	13 200
Dividend payout ratio	60%	59.8%	58.9%	60.0%	50.1%
Dividend to equity ratio	6%	4.0%	3.8%	4.6%	2.3%
Other Information					
Average Staff numbers (FTEs)		250	271	284	274
Average staff costs ($'000s)		137	126	116	116
Average leave balance per FTE ($'000s)		35	31	28	32

* *Internal benchmark set by the Company.*
** *The net profit in 2011-12 was $43.161m prior to the change in accounting policy.*

TT-LINE COMPANY PTY LTD (TT-Line)

SNAPSHOT

- TT-Line recorded an Underlying profit of $15.209m for 2012-13.
- Its Net profit after tax was $12.684m. Net Profit is somewhat variable because of ship valuation adjustments.
- Cash and deposits totalled $59.021m, an increase of $15.330m and at 30 June 2013 it was debt free. At 30 June 2013, Total Equity was $270.500m.

The audit was completed satisfactorily and on time with no key items outstanding.

Key developments in the year included:

- TT-Line worked on a number of options in relation to vessel replacement with a decision expected in 2014
- the new annual Port of Melbourne licence fee resulted in additional expenses of approximately $2.700m in 2012-13
- verification was received from the Australian Navy that the dry dock booking for 2014 is confirmed. However, there is doubt over the future use of the Garden Island dry dock facility.

Other main financial impacts this year included:

- lower Underlying profit of $15.209m in 2012-13 was mainly due to increased Cost of sales, $6.321m, and Other operating costs, $6.472m, compared to prior year
- the value of each vessel increased from $90.121m (€74.000m) to $91.113m (€65.000m). The lower value provided in Euros, was more than offset by the lower exchange rate of the Australian dollar
- the revaluation of the Edgewater Hotel, previously recorded at cost, which dropped in value by $1.511m
- the net fuel hedge position moved from a net liability of $2.134m to a net asset of $3.241m, an improvement of $5.375m.

INTRODUCTION

TT-Line was established under the *TT Line Arrangements Act 1993*. Its core business is the provision of passenger, vehicle and freight services between Devonport and Melbourne.

These services are operated with two ships, Spirit of Tasmania I and Spirit of Tasmania II (Spirits I and II).

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

The board consists of seven non-executive directors, appointed by Government, and the Chief Executive Officer.

KEY AREAS OF AUDIT ATTENTION

Description of Area	Audit Approach
Spirits I and 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.	We tested the ship revaluation including verification to supporting documentation and assessment of key assumptions and related disclosure.
The calculation of depreciation of the ships includes an estimation of useful lives and depreciation rates involving a degree of subjectivity. TT-Line currently adopts a useful life of 30 years and residual value based on 20% of the original purchase price of the vessels.	We tested the depreciation policy in light of AASB 116 *Property, Plant and Equipment*. In addition, we examined the ships' residual values including verification to supporting documentation and assessment of key assumptions.
TT-Line entered into bunker fuel hedge agreements to address the financial impact of volatility in the prevailing market price of bunker fuel. As financial instruments, the agreements have a market valuation, which needs to be determined for financial reporting purposes.	We assessed compliance with AASB 139 *Financial Instruments: Recognition and Measurements* and AASB 7 *Financial Instruments: Disclosure*. In addition, we verified contract valuations at 30 June and reviewed financial report disclosure.
TT-Line has significant cash and investment balances held in bank accounts and term deposits.	We documented and assessed controls over cash transactions. All material bank accounts and investments were verified to external bank confirmations.
Employees are employed under four enterprise bargaining agreements and one other award. TT-Line holds material leave entitlement balances (annual and long service leave), which are calculated using accounting estimates and assumptions. TT-Line also records a superannuation liability relating to Retirement Benefit Fund (RBF) members. The liability is determined by an independent actuary.	We: • tested key controls over payroll and the accuracy of payroll calculations • tested the calculation of leave entitlement balances to supporting evidence and reviewed the accounting estimates and assumptions applied • agreed the superannuation balances and disclosure to the State's Actuarial report which estimates the liability at 30 June 2013. It is noted that an independent expert was engaged by us in 2011-12 to review the assumptions made by the State Actuary in valuing the State's superannuation liabilities managed by the RBF Board.

AUDIT OF THE 2012-13 STATEMENTS

The Board signed the financial statements on 13 August 2013 and an unqualified audit report was issued on the same day.

KEY FINDINGS

The audit was completed on time with no key items outstanding.

KEY DEVELOPMENTS

Future Vessel Replacement/Refurbishment

Vessel replacement/refurbishment deliberations continued in 2012-13. The Board Committee established to review options regarding the future of the vessels is expected to report back to the Board by the end of the 2013 calendar year.

Port of Melbourne Corporation Licence Fee

The Port of Melbourne introduced an annual port licence fee payable from 1 July 2012. The fee, which amounted in total to $75.000m for 2012-13, is payable by all users, including TT-Line. The impact of the annual fee to TT-Line in 2012-13 was estimated at $2.700m.

Dry Dock

Each vessel goes into dry dock on a two year rotational basis. The only suitable Australian dry-dock facility is at Garden Island in Sydney, which is owned by the Federal Government and used by the Australian Navy.

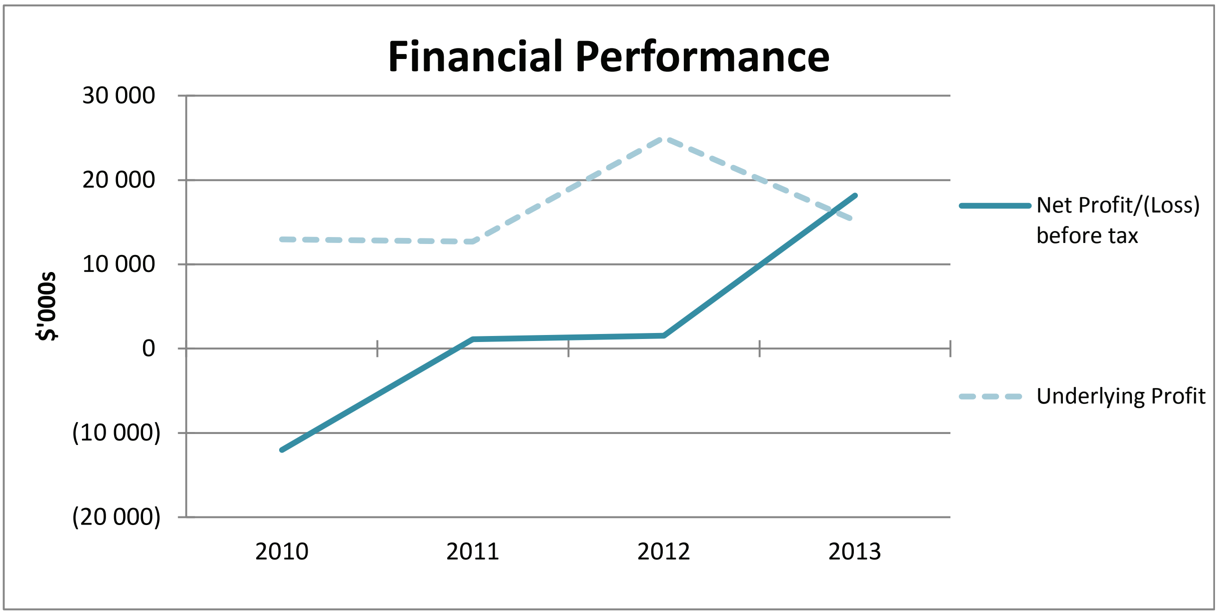
In October 2012, TT-Line received confirmation from the Australian Navy that there would be a 'soft transition' for a period of two years commencing 1 July 2013 prior to closure of facility to commercial shipping. Dry dock bookings post 2014 have not been confirmed. TT-Line, in conjunction with the Minister for Infrastructure, intends to lobby the Federal Government over the next two years to keep Garden Island dry dock open to commercial shipping.

Carbon Price

The *Clean Energy Act 2011* came into effect on 1 July 2012 and introduced a carbon price. The impact on TT-Line was fuel tax credit reductions for fuel acquired after 1 July 2012.

The cost to TT-Line for 2012-13 was approximately 6.2 cents per litre or $2.977m per year. To recover the increased costs of fuel under the carbon pricing, TT-Line imposed a carbon surcharge on its fares and freight from 1 July 2012 which resulted in additional revenue of $2.951m.

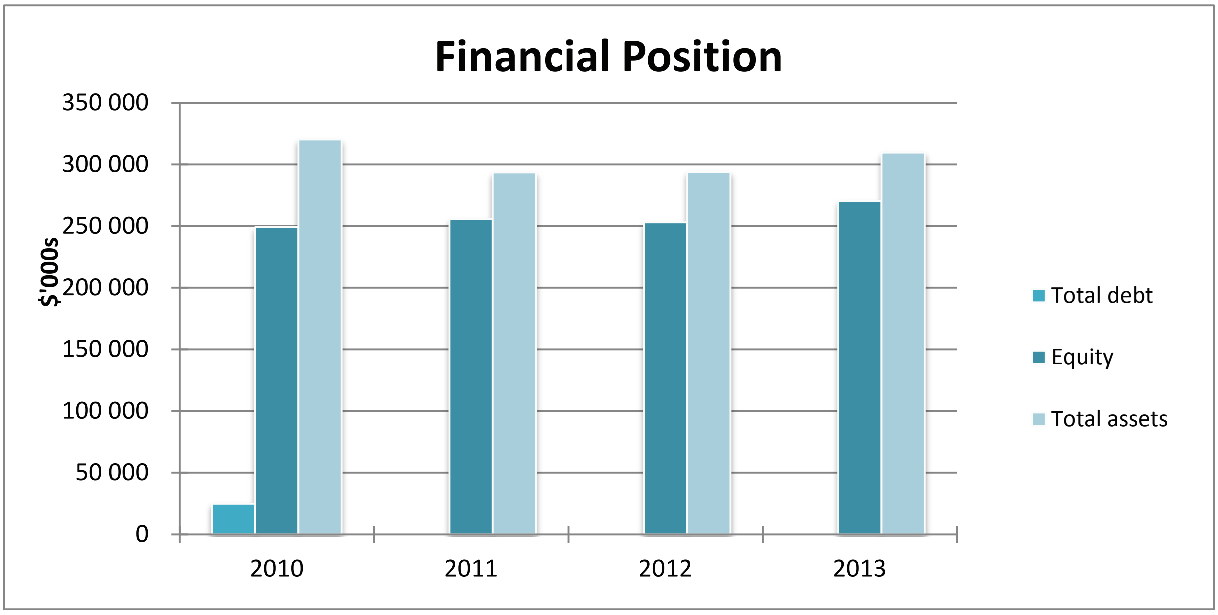
FINANCIAL ANALYSIS



TT-Line continued to record consistent Underlying profits, with the Net profit varying due to valuation adjustments related mainly to the annual valuation of its ships.

Over the four year period, TT-Line generated $65.931m through its underlying business operations. Underlying Profit peaked in 2011-12 at $25.037m. The reduced Underlying Profit of $15.209m in 2012-13 was mainly due to increased Cost of sales driven by higher employee benefits, $3.202m, and bunker fuel costs, $2.834m, as well as higher Other operating costs related to a new Port of Melbourne licence fee, approximately $2.700m, and greater customer acquisition costs, $2.296m.

In comparison, TT-Line's Net profit before tax for the four years totalled $8.798m. The loss in 2009-10 and small profits in 2010-11 and 2011-12 were affected by vessel revaluation decrements of $24.995m and $23.483m in 2009-10 and 2011-12, respectively. In 2012-13, the vessels were revalued upwards by $4.456m.



Total Assets and Equity have been relatively consistent over the period under review. TT-Line repaid its last remaining debt of $25.000m in 2010-11 and has been debt-free since.

TT-Line's Equity increased by $17.405m to $270.500m as at 30 June 2013 due to the Net Profit after tax of $12.684m, an increase in its Hedging reserve of $3.761m and an after tax actuarial gain on its superannuation liability of $0.960m.

The movement in Total Assets over the period under review was mainly impacted by the decrease in the valuation of the vessels of $41.410m, as summarised in the table below, offset by higher cash and deposit balances held of $34.140m. The increase in cash reflects the repayment of borrowings in 2010-11 and the subsequent build-up of cash reserves to fund the refurbishment and/or replacement of the current vessels.

Summary of Vessels' Valuation

	2013	2012	2011	2010
	$'000s	$'000s	$'000s	$'000s
Net value at beginning of year	180 243	207 817	223 636	274 278
Additions	1 353	1 207	1 671	3 297
Major cyclical maintenance	5 295	4 862	4 671	5 031
Depreciation	(9 121)	(10 160)	(10 561)	(12 929)
Net revaluation increment (decrement)	4 456	(23 483)	(11 600)	(46 041)
Net value at End of Year	**182 226**	**180 243**	**207 817**	**223 636**
Value of vessels in Euros	130 000	148 000	156 000	156 000
Exchange rate	0.7027	0.8088	0.7394	0.6971
Vessel valuation (less selling costs of 1.5%)	**182 226**	**180 243**	**207 817**	**223 636**

The value of each vessel increased from $90.121m (€74.000m) to $91.113m (€65.000m). The decrease in the value provided in Euros, was more than offset by the lower exchange rate of the Australian dollar.

TT-Line does not make any returns to its Shareholders. Dividends have been foregone by the Shareholders to allow TT-Line to generate cash reserves to assist in financing future vessel replacement.

CHAPTER APPENDICES

STATEMENT OF COMPREHENSIVE INCOME

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Total Sales Revenue	**186 769**	**185 392**	**181 233**	**182 677**
Total Cost of Sales	**(110 566)**	**(104 245)**	**(111 541)**	**(112 627)**
Gross Profit	**76 203**	**81 147**	**69 692**	**70 050**
Investment revenue	2 120	1 385	1 450	886
Other gains and (losses)	4	9	66	(13)
Total Other Revenue	**2 124**	**1 394**	**1 516**	**873**
Depreciation and amortisation	(11 167)	(11 999)	(12 458)	(14 690)
Other operating costs	(51 669)	(45 197)	(43 939)	(40 577)
Finance costs	(282)	(308)	(2 098)	(2 684)
Total Other Expenses	**(63 118)**	**(57 504)**	**(58 495)**	**(57 951)**
Total Costs	**(173 684)**	**(161 749)**	**(170 036)**	**(170 578)**
Underlying Profit	**15 209**	**25 037**	**12 713**	**12 972**
Other Accounting Adjustments:				
Ship valuation adjustment	4 456	(23 483)	(11 600)	(24 995)
Edgewater valuation adjustment	(1 511)	0	0	0
Net Profit (Loss) Before Taxation	**18 154**	**1 554**	**1 113**	**(12 023)**
Income tax benefit (expense)	(5 470)	(451)	(147)	32 057
Net Profit	**12 684**	**1 103**	**966**	**20 034**
Other Comprehensive Income - Net of Taxation				
Superannuation actuarial gain (loss)	960	(1 529)	(460)	166
Asset revaluation reserve	0	0	0	(14 733)
Hedging reserve	3 761	(2 353)	6 056	7 010
Total Comprehensive Profit (Loss)	**17 405**	**(2 779)**	**6 562**	**12 477**

STATEMENT OF FINANCIAL POSITION

	2013	2012	2011	2010
	$'000s	$'000s	$'000s	$'000s
Cash and deposits	59 021	43 691	16 184	24 881
Receivables	16 864	15 520	13 124	13 063
Inventories	3 208	2 151	1 957	1 670
Fuel hedges - derivative asset	1 435	70	1 162	68
Prepaid expenses	1 211	1 336	623	1 018
Total Current Assets	**81 739**	**62 768**	**33 050**	**40 700**
Payables	8 920	10 864	11 710	11 346
Borrowings	0	0	0	25 000
Provisions	6 980	7 131	7 892	7 411
Revenue received in advance	10 709	9 833	9 046	9 365
Fuel hedges - derivative liability	40	1 239	471	7 913
Total Current Liabilities	**26 649**	**29 067**	**29 119**	**61 035**
Working Capital	**55 090**	**33 701**	**3 931**	**(20 335)**
Property, plant and equipment	15 124	16 675	16 906	16 744
Ships at fair value	182 226	180 243	207 817	223 636
Deferred tax asset	28 898	34 440	35 191	38 329
Fuel hedges - derivative asset	1 861	45	731	983
Total Non-Current Assets	**228 109**	**231 403**	**260 645**	**279 692**
Provisions	10 130	10 397	5 943	6 523
Deferred tax liability	2 554	602	2 567	2 962
Fuel hedges - derivative liability	15	1 010	192	560
Total Non-Current Liabilities	**12 699**	**12 009**	**8 702**	**10 045**
Net Assets	**270 500**	**253 095**	**255 874**	**249 312**
Capital	328 981	328 981	328 981	328 981
Hedging reserve	2 268	(1 493)	860	(5 196)
Accumulated losses	(60 749)	(74 393)	(73 967)	(74 473)
Total Equity	**270 500**	**253 095**	**255 874**	**249 312**

STATEMENT OF CASH FLOWS

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	220 109	214 075	219 018	220 161
Payments to suppliers and employees	(198 347)	(180 250)	(193 963)	(193 420)
Interest received	2 217	1 351	1 423	919
Finance costs	0	0	(1 840)	(2 599)
Cash From Operations	**23 979**	**35 176**	**24 638**	**25 061**
Payments for property, plant and equipment	(8 807)	(7 792)	(8 520)	(14 041)
Proceeds from sale of property, plant and equipment	158	123	185	137
Cash From (used in) Investing Activities	**(8 649)**	**(7 669)**	**(8 335)**	**(13 904)**
Repayment of borrowings	0	0	(25 000)	(25 000)
Cash From (used in) Financing Activities	**0**	**0**	**(25 000)**	**(25 000)**
Net Increase (Decrease) in Cash	**15 330**	**27 507**	**(8 697)**	**(13 843)**
Cash at the beginning of the year	43 691	16 184	24 881	38 724
Cash at End of the Year	**59 021**	**43 691**	**16 184**	**24 881**

FINANCIAL ANALYSIS

	Bench Mark	2012-13	2011-12	2010-11	2009-10
Financial Performance					
Net profit		12 684	1 103	966	20 034
Underlying profit		15 209	25 038	12 713	12 972
EBIT		13 371	23 961	13 361	14 770
Operating margin	>1.0	1.09	1.15	1.07	1.08
Return on assets		4.4%	8.2%	4.4%	4.5%
Return on equity		4.8%	0.4%	0.4%	8.2%
Financial Management					
Debt to equity		0	0	0	10.0%
Debt to total assets		0	0	0	7.8%
Interest cover - EBIT	>2	0	0	8	6
Current ratio	>1	3.07	2.16	1.13	0.67
Debt collection	30 days	29	27	23	24
Creditor turnover	30 days	21	25	20	15
Other Information					
Average Staff numbers (FTEs)		436	422	456	469
Average staff costs ($'000s)		104	99	92	84
Average leave balance per FTE ('$000)		23	23	19	17

AUDIT SUMMARY - OTHER PUBLIC NON-FINANCIAL CORPORATIONS (PNFC)

BACKGROUND

Both Macquarie Point Development Corporation (Corporation) and Private Forests Tasmania (PFT) are defined as PNFCs, but unlike other Government Businesses and State Owned Companies included in this Report, are not subject to the provisions of the *Government Business Enterprises Act 1995*, or the *Corporations Act 2001*.

Both entities are funded predominately by grants and are reliant on Government for their on-going viability.

KEY OUTCOMES FROM AUDITS

Audits of the financial statements of the two PNFCs were completed with unqualified audit opinions issued in each case.

Both audits were completed satisfactorily with no major items outstanding.

Financial statements were submitted within the statutory deadline being 45 days following the end of the financial year.

FINANCIAL ANALYSIS

The Corporation commenced operating in March 2013, receiving grants of $50.130m in the period to 30 June 2013. As the Corporation is in a planning phase, the majority of the grant funds were unspent at balance date, with Cash and deposits of $50.581m. The grants will be used to remediate and redevelop the Macquarie Point site.

PFT recorded a Net Deficit of $0.237m in 2012-13, in line with loss results in the previous three years. Steps have been taken to find cost savings to improve its performance, but the downturn in the forestry industry has affected the collection of service levy fees. It had Total Equity of $0.448m, which has declined over the last four years.

MACQUARIE POINT DEVELOPMENT CORPORATION (The Corporation)

SNAPSHOT

- The Corporation commenced operating in March 2013.
- The Australian Government provided a $50.000m grant to support the remediation of the Macquarie Point rail yards site and the redevelopment of the Brooke Street Pier in Hobart.
- Of the grant, $5.000m was allocated to the redevelopment of public infrastructure at Brooke Street Pier.
- It is not anticipated that remediation of the Macquarie Point site will start until 2015. However, steps were taken to renovate a building on the site to be used for administration purposes. At 30 June an amount of $0.137m had been spent with a further $0.483m committed.
- An additional $0.110m grant was received from the Australian Government under its Liveable cities program to undertake a series of independent studies related to the Macquarie Point site.

The audit was completed satisfactorily with no findings outstanding.

THE CORPORATION'S RESPONSIBILITIES

The Corporation is responsible for overseeing the remediation and redevelopment works on the Macquarie Point site and providing funding assistance to re-develop Brooke Street Pier. While the Macquarie Point site currently continues to support rail and transport operations, when these operations relocate to the Brighton Transport Hub in approximately January 2015, ownership of the site will be transferred to the Corporation.

In the interim period, the Corporation will seek to liaise and engage with the community to develop a framework for development of a site with the potential to significantly shape Hobart's future landscape.

The Board of the Corporation has overall responsibility for the establishment and oversight of the Corporation's risk management framework. Risk management policies will be established to identify and analyse risks faced by the Corporation, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

The Board has identified a range of issues related to the anticipated contamination of the Macquarie Point site as a result of the considerable industrial activity that has occurred over many years. Appropriate risk management policies and remediation procedures will be developed once the extent and potential impact of contamination is confirmed within the context of the proposed eventual use of the site.

INTRODUCTION

The Corporation was established under the *Macquarie Point Development Corporation Act 2012* (Act), which received Royal Assent on 11 December 2012.

The Corporation's Board was appointed by the Governor of Tasmania in March 2013. The Act established the Corporation which focuses on the remediation and redevelopment of the Macquarie Point site as well as assisting with the redevelopment of the Brooke Street Pier.

The financial statements cover slightly more than the three month period from March 2013 to 30 June 2013.

The Responsible Minister is the Minister for Economic Development.

AUDIT OF THE 2012-13 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2013. Following amendments to the statements, a re-signed version was received on 5 September 2013. An unqualified audit report was issued on 10 September 2013.

KEY FINDINGS, DEVELOPMENTS AND AREAS OF AUDIT ATTENTION

There were no key findings or areas of audit attention.

The Corporation is unable to commence site remediation until TasRail vacates the Macquarie Point site. TasRail's lease with the Department of Infrastructure Energy and Resources of the Macquarie Point terminal site expires on 30 June 2016.

The audit was completed satisfactorily with no major items outstanding.

SUMMARY OF FINANCIAL RESULTS

STATEMENT OF COMPREHENSIVE INCOME

	4 March to 30 June 2013
	$'000s
Grants	50 130
Interest	1 611
Total Revenue	**51 741**
Employee benefits	605
Supplies and consumables	330
Grants and subsidies	178
Other expenses	8
Total Expenses	**1 121**
Underlying Surplus	**50 620**
Comprehensive Surplus	**50 620**

STATEMENT OF FINANCIAL POSITION

	30 June 2013
	$'000s
Cash and deposits	50 581
Receivables	19
Leasehold improvements	137
Other Assets	19
Total Assets	**50 756**
Payables	10
Employee benefits	125
Other liabilities	1
Total Liabilities	**136**
Net Assets	**50 620**
Accumulated funds	50 620
Total Equity	**50 620**

Employee benefits consists of annual leave and long service leave entitlements for the three employees of the Corporation.

PRIVATE FORESTS TASMANIA (PFT)

SNAPSHOT

- PFT is funded primarily by Tasmanian Government appropriations and aims to operate on a break even basis. However, it recorded Net deficits in each of the last four years.
- This was primarily due to decreasing private forest service levy fees as a result of the downturn in the forest industry.
- A Net Deficit of $0.257m was reported this year.
- Net Assets totalled $0.448m at 30 June.

Steps have been taken by PFT to find cost savings aimed at addressing its viability.

The audit was completed satisfactorily and there were no findings.

INTRODUCTION

PFT was established as a statutory authority on 1 July 1994 under the *Private Forests Act 1994* (the Act). Its primary functions are to develop and advocate strategic and policy advice to the Minister and forestry partners, to work in partnership with growers, managers, investors and industry to sustainably develop and manage Tasmania's private forests and to initiate extended or new market opportunities.

Its Board of Directors consists of three members appointed by the Responsible Minister, and the Chief Executive Officer. Currently there are two board vacancies.

The Responsible Minister is the Minister for Energy and Resources.

AUDIT OF THE 2012-13 STATEMENTS

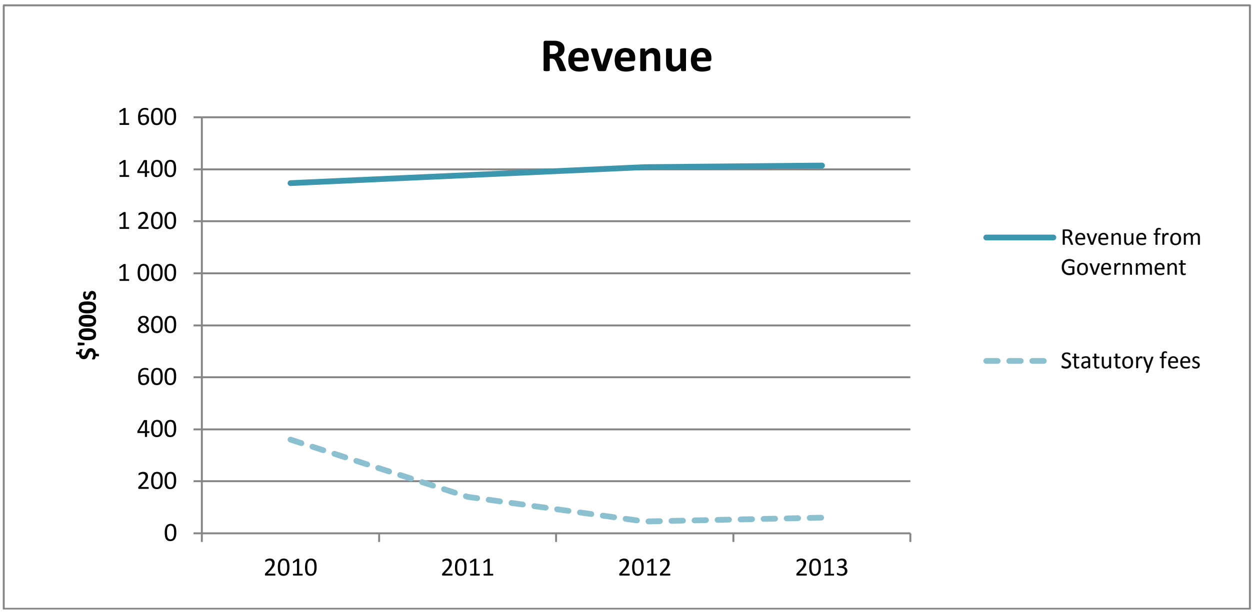
Signed financial statements were received on 15 August 2013 and an unqualified audit opinion was issued on 30 September 2013.

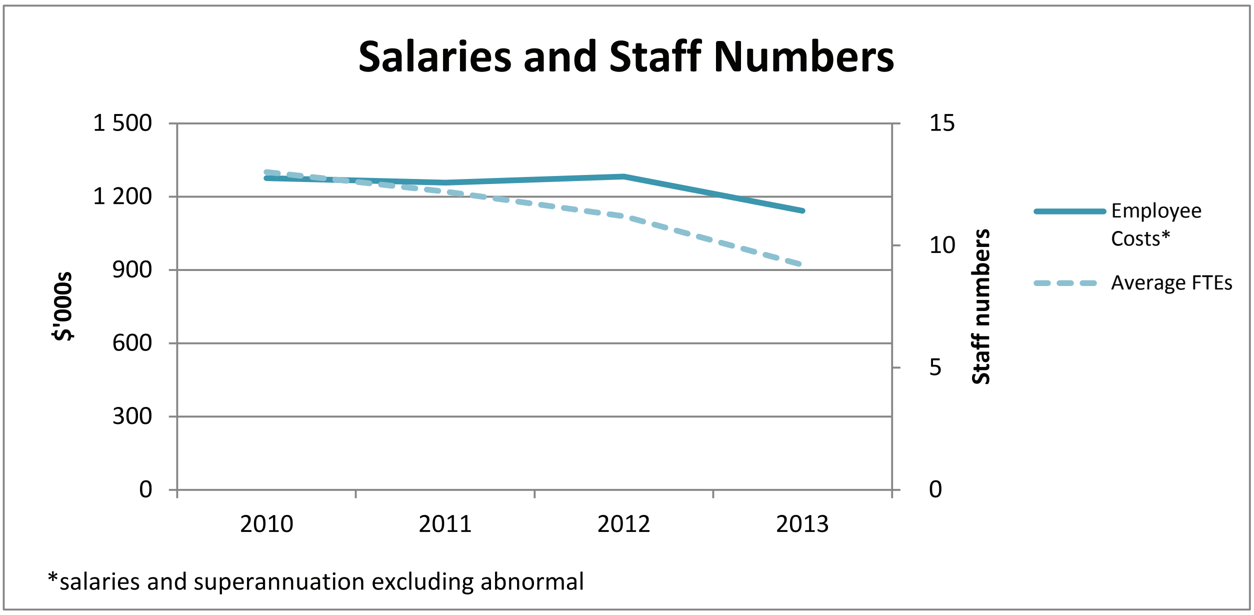
KEY FINDINGS AND DEVELOPMENTS

PFT has been implementing cost-saving measures to address its viability. During the year, staff numbers were reduced, Board vacancies not filled, accommodation, vehicle and support agreements were reviewed, reduced and renegotiated where possible.

SUMMARY OF FINANCIAL RESULTS

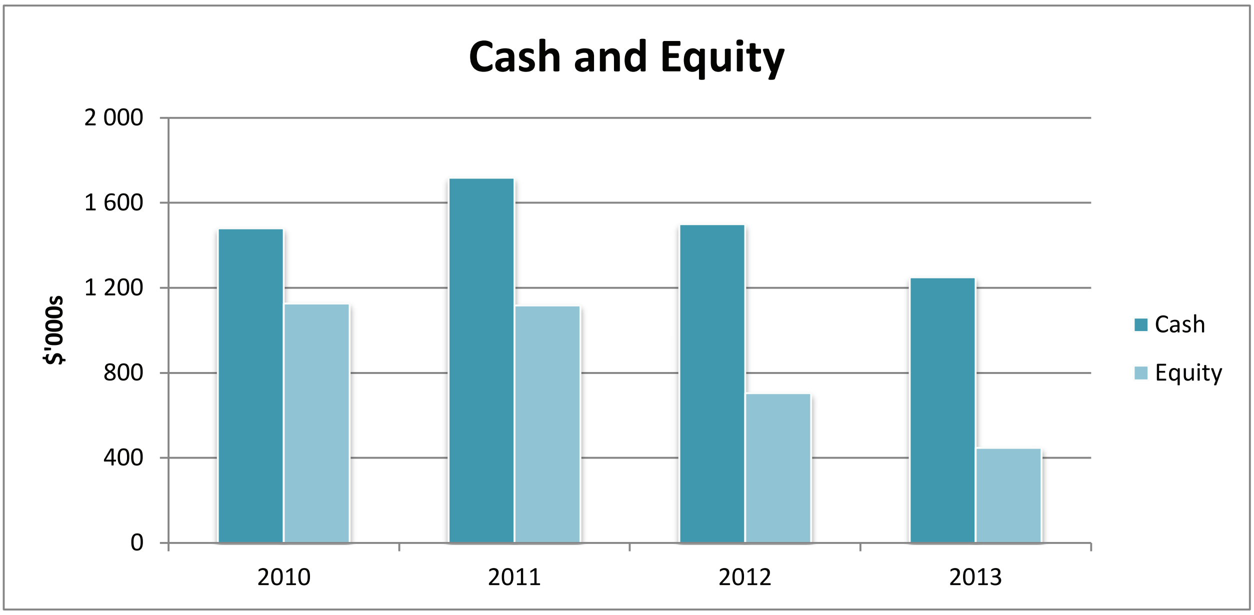
PFT recorded Net deficits in each of the past four financial years resulting in declining equity and cash resources.





The above graphs highlight the reduction in statutory fees, being the Private Forest Service Levy and Private Timber Reserve Fees, due to the decline in the forest industry. Revenue in 2012-13 reduced by 83.3% from that earned in 2009-10.

Over the same period, Government appropriations increased by 5.0%. PFT has utilised vacancy control and voluntary redundancies to reduce employee expenses. However reductions in statutory income have exceeded savings in employee costs, resulting in continuing Net deficits.



Declining cash and equity balances are a result of continued deficits. Further deficits will not be sustainable and PFT's cost saving strategies will need to continue to ensure that it operates as a going concern.

OTHER INFORMATION

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Total Revenue	1 703	1 580	2 342	2 086
Total Expenses	1 960	1 993	2 350	2 182
Net Surplus (Deficit)	**(257)**	**(413)**	**(8)**	**(96)**
Comprehensive Surplus (Deficit)	**(257)**	**(413)**	**(8)**	**(96)**

	2013	2012	2011	2010
	$'000s	$'000s	$'000s	$'000s
Total Assets	1 474	1 733	2 238	2 311
Total Liabilities	1 026	1 028	1 120	1 185
Net Assets	**448**	**705**	**1 118**	**1 126**
Total Equity	**448**	**705**	**1 118**	**1 126**

WATER AND SEWERAGE CORPORATIONS (Regional Water Corporations)

SNAPSHOT

- Regional Water Corporations generated a combined Underlying Profit of $15.230m this year, compared to $5.349m reported last year.
- Extension of two-part pricing for water services led to increased revenues from water usage of $20.433m and was most evident in the South of the State, which was largely unmetered in the past. At the same time fixed water charges dropped by $10.392m.
- Employee costs were $7.030m higher partly because of additional labour associated with transitioning towards the single corporation but also increased staffing levels in customer service and debt collection areas.
- Combined Net Profit after tax was $22.439m.
- Progress was made in recovering overdue charges which had a positive impact on cash flows. However, the percentage of receivables 90 days or more past due remained high, especially in Southern Water.
- Over $84.000m was distributed to owner councils in the form of ordinary and special dividends, guarantee fees and income tax equivalents since the establishment of the three Regional Water Corporations.
- This year was only the second year that Cradle Mountain Water declared dividends, indicating an improvement in its financial performance.

Testing of the design and operation of controls at Onstream, noted one low and two moderate risks in the areas of billing and payroll. The exceptions were satisfactorily addressed or were in the process of being addressed by management.

The 2012-13 year saw the commencement of the first three-year regulatory period and implementation of a new pricing structure.

The audit was completed satisfactorily with no matters outstanding.

INTRODUCTION

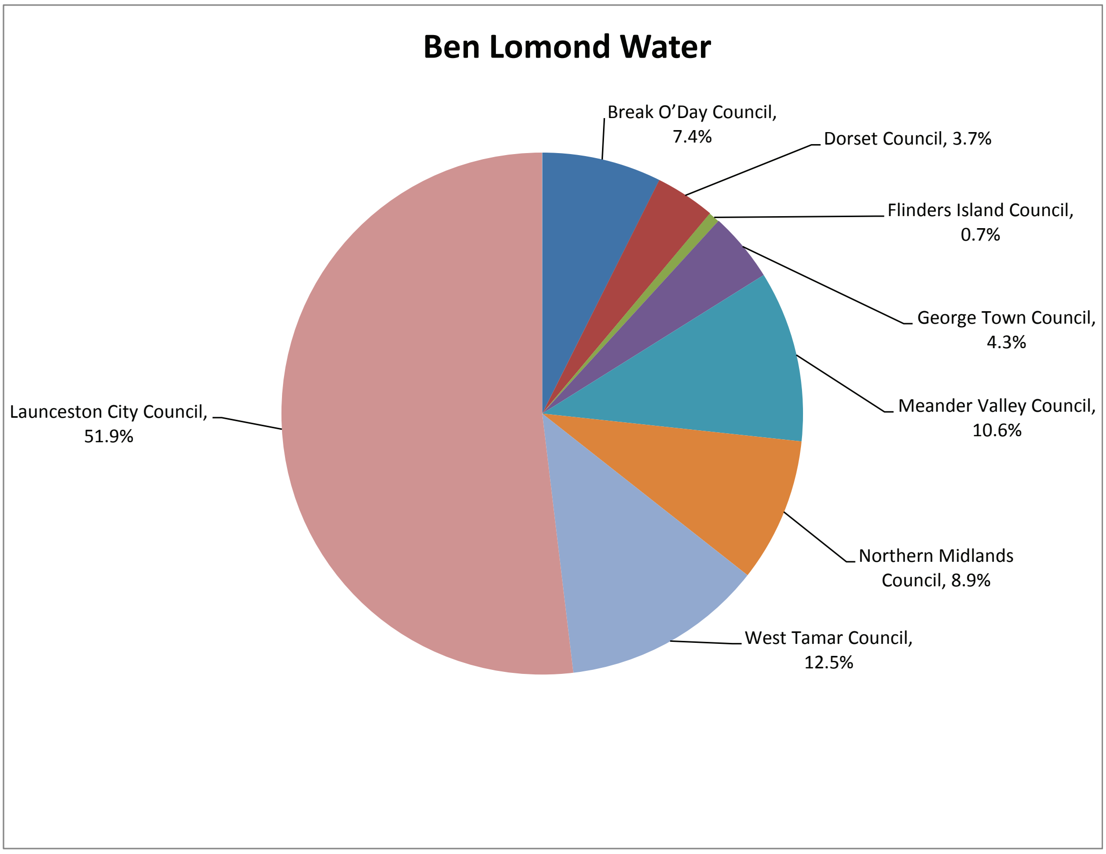
Tasmania's three Regional Water Corporations were established in 2008 under the *Water and Sewerage Corporations Act 2008* (the Act). The Corporations commenced operating on 1 July 2009 and were separate legal entities each responsible for its own financial performance until 30 June 2013.

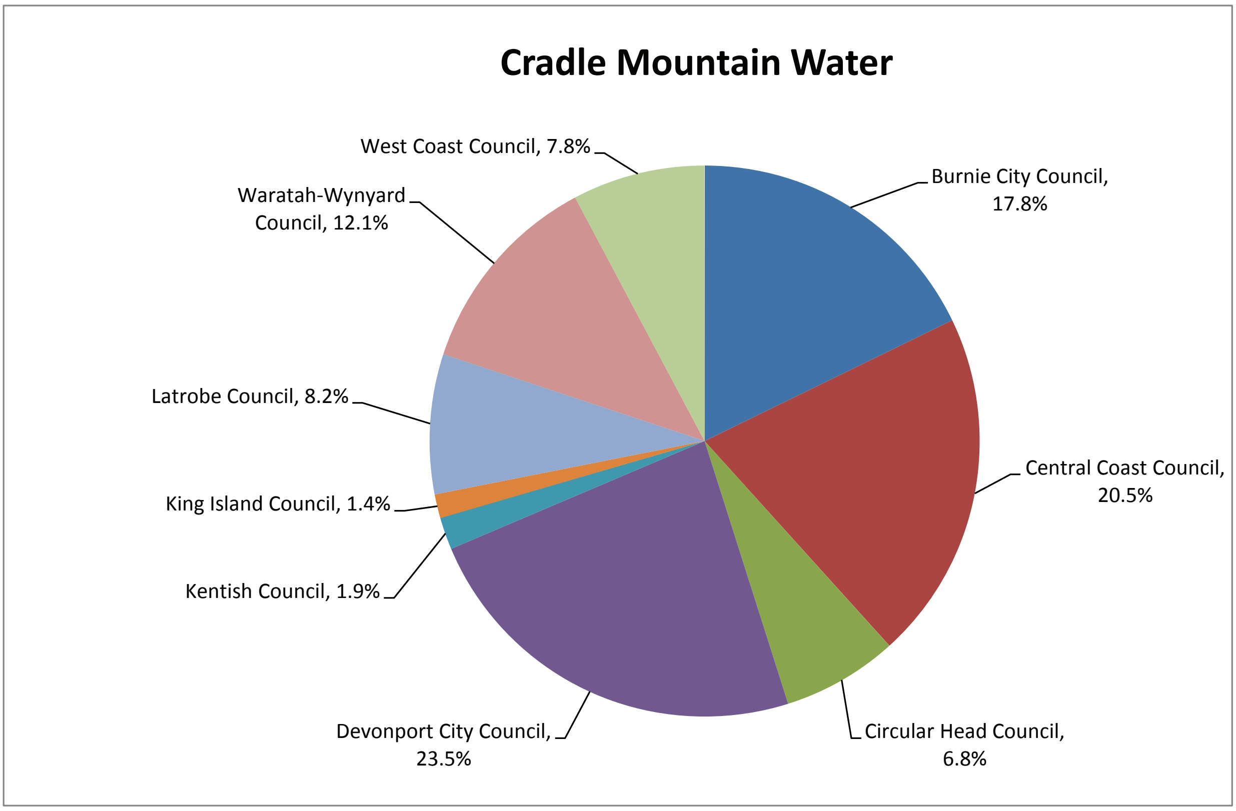
In 2012 Parliament passed legislation to establish a single, statewide water and sewerage entity through the amalgamation of the Regional Water Corporations and the Common Services Corporation (Onstream). The new single water corporation Tasmanian Water and Sewerage Corporation Pty Ltd, trading as TasWater, was registered on 5 February 2013 and commenced operating on 1 July 2013. The assets, rights, liabilities and employees of the existing Regional Water Corporations and Onstream were transferred to the new Corporation on that day.

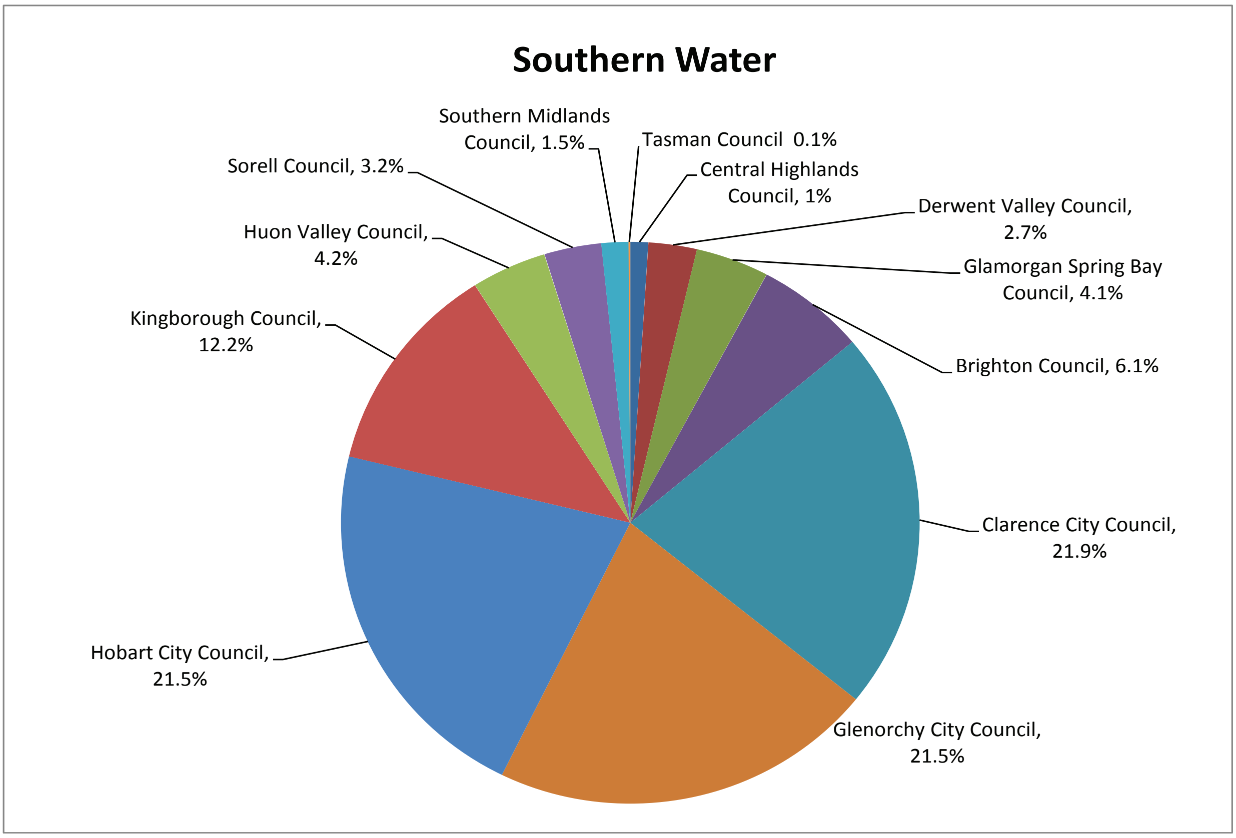
The information provided in this Chapter is to enable comparison of the relative performance of each Regional Water Corporation with the comparative tables including a combined column for illustrative purposes only. Separate Chapters for each Regional Water Corporation were not included this year because their activities were, by and large, consistent with those in 2012 and there were no unique distinguishing features this year.

The Regional Water Corporations were owned by councils in their respective regions:

The following charts show relative residual share percentages as per the *Treasurer's Allocation Order for Water and Sewerage Returns* at February 2011.







The Regional Water Corporations provided bulk, distribution and retail water and sewerage services.

The Corporations' 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

The Regional Water Corporations had a common Chairman and a different common Chair of their Audit and Risk Committees and other Board Committees. Each Board had up to six directors, some of whom were common to the other Corporations.

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 AREAS OF AUDIT ATTENTION

Description of Area	Audit Approach
Property, plant and equipment include material long-life infrastructure assets. The fair value of water and sewerage assets is based on their value in use. The income valuation methodology adopted by the Regional Water Corporations is based on projected cash flows generated by the water and sewerage assets over a period of seven years. The projected cash flows are then discounted to present value using a discount rate based on a real pre-tax weighted average cost of capital (WACC). The calculation of value in use is highly dependent on a range of assumptions and estimates, such as the revenue growth rate, inflation rate, asset renewal spend, operating expenditure growth rate, WACC etc.	We: • audited the valuation methodology and underlying data used to determine fair value, including testing significant assumptions, the valuation model and underlying data • also tested management's impairment calculations and • examined relevant disclosure related to property, plant and equipment and critical accounting estimates and judgements in the financial report to ensure compliance with AASB 101 *Presentation of Financial Statements*.
The Corporations are subject to the National Tax Equivalent Regime. Tax effect accounting calculations are subject to complex tax legislation and rulings and generally are performed within a short timeframe.	We tested the tax effect accounting calculations and reviewed corresponding disclosures in the financial report to ensure that tax items were not materially misstated. We also obtained a representation from the Corporations' tax advisor.
Tariffs set in the 2012 Pricing Determination and transitional arrangements towards the target tariffs resulted in changes to the way charges are calculated and increased the complexity of those calculations.	We updated our system documentation around revenue and billing in order to understand the changes. Our audit tests were redesigned to reflect these changes.

Description of Area	Audit Approach
Revenue relating to water usage between the last read and year-end is estimated.	We performed audit procedures to ensure that unbilled water charges were not materially misstated, including: • an understanding of assumptions used • testing calculations • analytical procedures.
The Corporations had employees who are members of defined benefit superannuation schemes. Their obligations under these schemes (less fair value of plan assets) are recognised in the statements of financial position. The value of the unfunded superannuation liability, and movements therein, is recognised in the financial report based on an annual actuarial valuation. This valuation is based upon a number of assumptions and the use of discount rates, all of which are volatile.	We assessed the competence and qualifications of the actuaries performing the valuations and verified the actuarial reports, including the reasonableness of the assumptions used. In undertaking this work, we applied the provisions of ASA 500 *Audit Evidence*.
Amalgamation of the three Regional Water Corporations and Onstream into one entity effective from 2013-14 and commencement of the company to be called TasWater.	We audited the accounting treatment of start-up costs to ensure compliance with accounting standards and agreement to record costs incurred to 30 June 2013 within Onstream.
Onstream vacated its premises in both Hobart and Launceston during 2011-12. Since then, the Hobart premises were leased to a new tenant with the Launceston office only partly sublet. The Launceston head lease expires on 30 June 2019.	We audited the onerous provision calculations, including the underlying data used and assumptions made, to ensure the amount of the provision was adequate.
Last year, we noted a number of issues relating to provisions raised for redundancies. We anticipated the volume of redundancies to increase as a result of the transition towards a single corporation.	We performed substantive procedures to ensure accuracy of redundancy payments by re-performing calculations for selected redundancies and agreeing underlying data to supporting documentation.

AUDIT OF THE 2012-13 STATEMENTS

Signed financial statements for each Regional Water Corporation and Onstream were received on 14 August 2013 and unqualified audit reports were issued on the same day.

TASWATER - AUDIT ARRANGEMENTS FOR THE PERIOD ENDED 30 JUNE 2013

The Board of TasWater requested that the audit of TasWater for the period ended 30 June 2013 be dispensed with. The request was accepted and the audit was dispensed with on the basis that:

- activities of TasWater were fully funded by the existing Regional Water Corporations and accounted for by Onstream
- transactions pertaining to TasWater's operations from the date of its formation until 30 June 2013 be included in the financial statements of Onstream, which were subject to audit
- transactions and balances of TasWater be disclosed separately by way of a note to Onstream's financial statements, where material.

TasWater complied with these conditions and as a result it did not prepare financial statements for the period from the date of its incorporation, 5 February 2013 to 30 June 2013.

KEY FINDINGS

During the audit of the design and operation of controls at Onstream, we noted one low and two moderate risks in the areas of billing and payroll. The exceptions were satisfactorily addressed or in the process of being addressed by management.

The audits were completed without any outstanding matters.

KEY DEVELOPMENTS

New Pricing Structure

Water and sewerage services are regulated 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 prices set by the Regulator. The Regional Water Corporations were licensed regulated entities under the *Water and Sewerage Industry Act 2008*.

The Office of the Tasmanian Economic Regulator (OTTER) has approved prices for regulated water and sewerage services in Tasmania. These prices are effective for the period from 1 July 2012 to 30 June 2015.

The pricing determination by OTTER resulted in the extension of two-part pricing for water charges across the State: a fixed service charge and a variable usage charge. A fixed sewerage service charge continues to apply for customers with a sewerage connection. Water allowances also ceased (except for Burnie), sewerage charges were separated into domestic and trade waste and fire services were separated from water services.

The tariffs approved by OTTER for each year of the regulatory period 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.

Asset Valuations

At the end of each reporting period, Regional Water Corporations reviewed their assets for possible impairment by applying a cash generating unit test to determine recoverable amounts 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 revenue growth rate, inflation rate, operating expenditure growth rate, asset renewal spend, WACC etc.

Regional Water Corporations followed the same methodology as in previous years, including applying a risk-free rate based on an average rate of the 10-year Commonwealth Government bond rates over the last ten years. It is each of the Corporation's policy not to adjust asset values if the difference between the current net present value and the recorded value is less than 10%. The results of the impairment tests were all within the 10% range of the estimated asset carrying values at 30 June 2013 and therefore no adjustments were made to asset values at that date.

An additional impairment test was carried out this year to assess whether there was a potential impairment as a result of the amalgamation. Base figures used by each Regional Water Corporation were aggregated and an impairment test was performed as if TasWater was operating on 30 June 2013, using the same assumptions. No impairment was recognised as a result of this test.

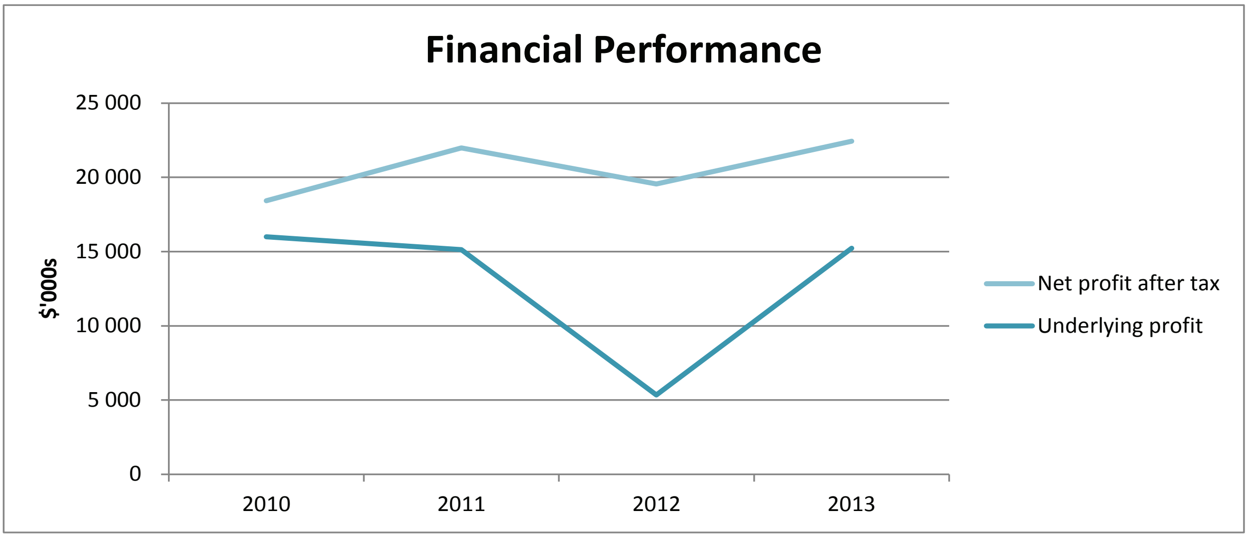
Redundancy Provision Due to Transitioning to Single Corporation

Restructuring to a single corporation was viewed by the Boards of the Regional Water Corporations as a practical measure to deliver significant savings to council owners. An independent report indicated annual savings in the order of $5.000m annually, with the majority of savings stemming from direct employee costs. Savings were to be achieved through the removal of duplication of various management functions across the State and thus allowing for the potential reduction of approximately 30 FTEs. As a result, a restructuring provision was established by each Regional Water Corporation and Onstream as at 30 June 2013. Where costs could not be specifically allocated to a Corporation, they were based on the proportion of management positions within each of the four transferring Corporations.

FINANCIAL ANALYSIS

The financial information below compares the results of the Regional Water Corporations in their fourth full year of operation ended 30 June 2013 and their aggregated financial position at that date.

Onstream's results are included in the results of the Regional Water Corporations.



This year saw the commencement of the first three-year regulatory period and the new pricing structure. The extension of two-part pricing to areas where it had previously not applied and the transition to a single usage tariff led to significant increases in water usage revenues, which almost doubled to $41.292m in 2012-13. Water consumption increased only marginally during the same period. However, at the same time there was a reduction in fixed water charges, which dropped by $10.392m. The impact of the two-part pricing was most evident in Southern Tasmania, which was largely unmetered in the past.

The increase in approved charges this year reversed the impact of the decision by Government to reduce the price cap rebate, which compensated the Regional Water Corporations for having to cap price increases. The following table summarises the amount of price-cap rebates, other support and concessions received by Regional Water Corporations.

Government Subsidies	Combined				SW			
	2012-13	**2011-12**	**2010-11**	**2009-10**	**2012-13**	**2011-12**	**2010-11**	**2009-10**
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
Price cap rebate	2 000	4 000	12 923	5 554	962	1 925	6 089	2 556
Other Government support*	1 425	925	0	0	0	0	0	0
Other concessions**	6 969	6 696	5 873	5 551	3 163	3 081	2 719	2 614
Total Government Subsidies	**10 394**	**11 621**	**18 796**	**11 105**	**4 125**	**5 006**	**8 808**	**5 170**

	BLW				CMW			
	2012-13	**2011-12**	**2010-11**	**2009-10**	**2012-13**	**2011-12**	**2010-11**	**2009-10**
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
Price cap rebate	654	1 306	4 392	1 972	384	769	2 442	1 026
Other Government support*	0	0	0	0	1 425	925	0	0
Other concessions**	2 084	1 930	1 712	1 553	1 722	1 685	1 442	1 384
Total Government Subsidies	**2 738**	**3 236**	**6 104**	**3 525**	**3 531**	**3 379**	**3 884**	**2 410**

* *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.*

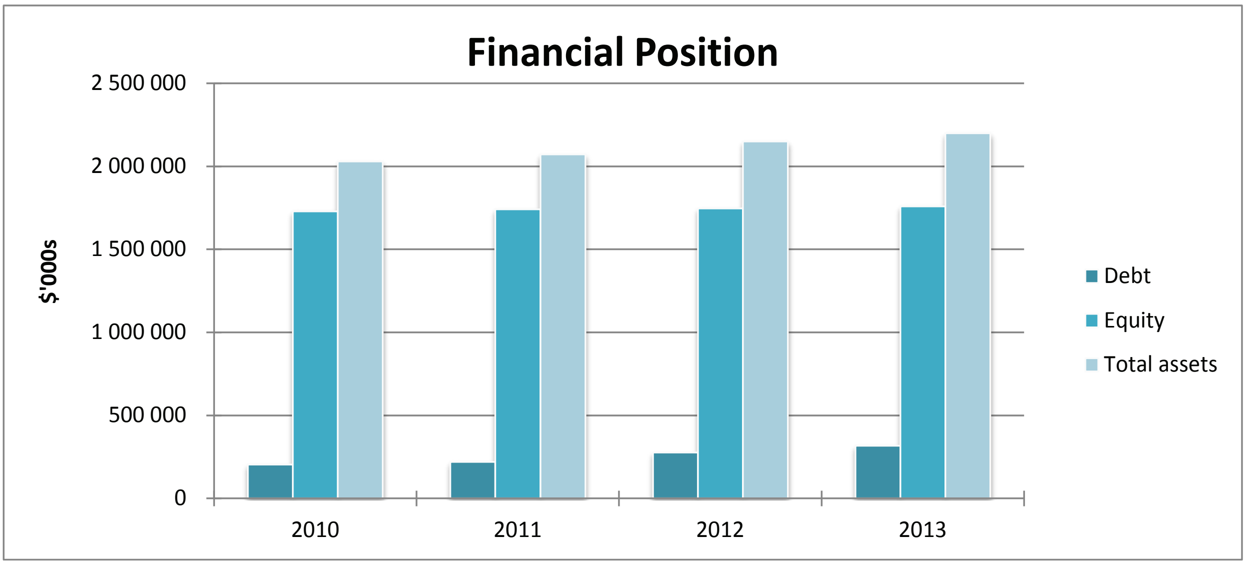
** *Other concessions, mainly to eligible pensioners and low income earners, increased in line with price rises in water and sewerage charges.*

Evident from the table is the combined reduction in the price-cap rebate in 2011-12 of $8.923m which reduced significantly the profitability of each Regional Water Corporation that year. The price-cap rebate was lowered by $2.000m in 2012-13.

Overall, Regional Water Corporations generated a combined Underlying Profit of $15.230m in 2012-13, compared to $5.349m reported last year. The increase in Sales revenue, $19.554m, was partly offset by an increase in Total Expenses, $9.240m. The increase in expenditure was primarily driven by higher Employee benefits, $7.030m, largely because of increased staffing levels in customer service and debt collection, and additional labour costs associated with the transition to a single corporation.

On a Net Profit after tax basis, the combined result was $22.439m, which was $2.882m better than last year despite a provision for redundancies as a result of the amalgamation of $1.935m. Each year, Net Profit is boosted by contributions received from customers and developers, which totalled $18.570m in 2012-13 (2011-12, $22.555m). 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.

Over the past four years, Regional Water Corporations invested significantly in upgrading their existing or constructing new assets, including the roll-out of water meters throughout the State.



The Regional Water Corporations inherited $203.627m of debt from previous regional water entities and Local Government councils. Debt increased by $113.952m or 56.0% since Regional Water Corporations began operating. Government grants received since 2009-10 totalled $24.645m, with $10.000m provided towards the roll-out of water meters and the remainder largely for the South East Tasmania and Huon Valley Regional water schemes. Total Assets increased by $169.826m or 8.4% over the same period. There were no revaluation movements during the past four years and the value of assets contributed by customers or developers totalled $47.142m.

The capital program was funded by a combination of loans, cash generated from operations, contributions from customer and developers and Government grants.

Working capital of each Regional Water Corporation deteriorated during the year. The higher working capital deficits, $82.085m in total, were connected to higher current borrowings, which increased by $25.191m in 2012-13. We acknowledge that current borrowings are likely to be re-financed being within existing borrowing facilities.

Billing and collection of outstanding debts has been challenging for the Regional Water Corporations since the beginning. 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. Data quality and validation requirements also impacted on the timeliness and accuracy of billing.

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, restrictions to water supply and, from 2013-14, charging interest on overdue accounts.

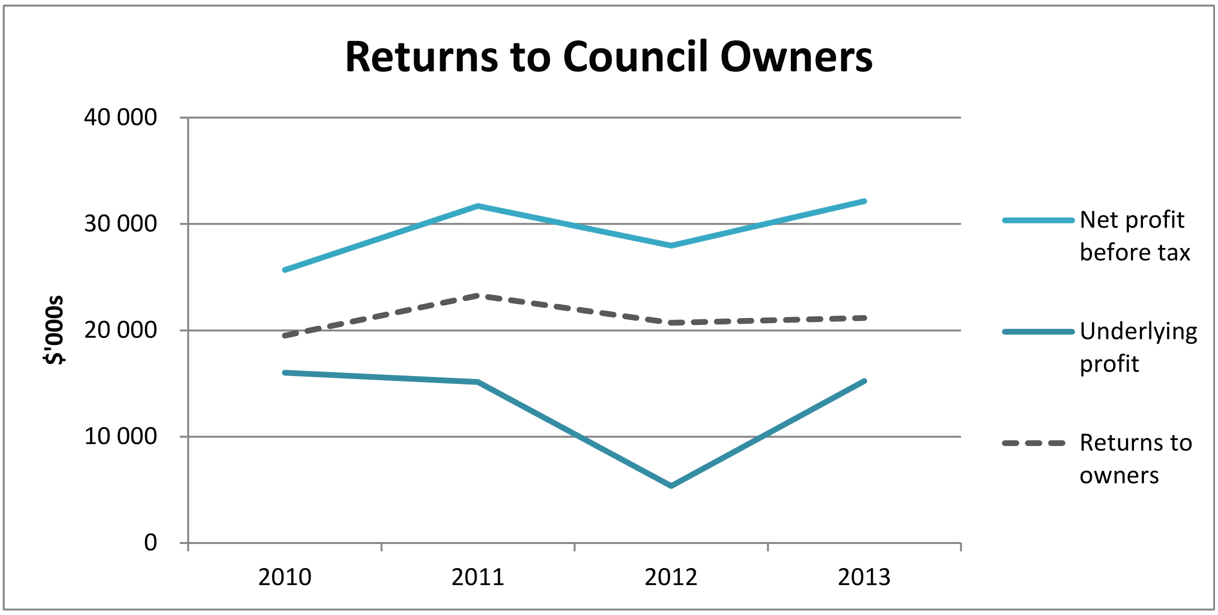
The following table provides details of the carrying value and percentage of receivables past due more than 90 days.

	SW			BLW			CMW		
	2013	**2012**	**2011**	**2013**	**2012**	**2011**	**2013**	**2012**	**2011**
Receivables past due >90 days ('000s)	5 710	7 616	6 692	2 096	3 737	3 676	1 186	2 250	3 696
% of total receivables	36.4%	28.2%	23.4%	22.7%	21.5%	27.3%	16.7%	18.7%	50.3%

Regional Water Corporations made progress in recovering overdue charges which had a positive impact on their cash flows this year. However, the percentage of receivables 90 days or more past due remained high, especially in the case of Southern Water.

During the year, Regional Water Corporations wrote-off the following uncollectable receivables: SW, $0.362m (2011-12, $0.071m), BLW, $0.648m ($0.190m) and CMW, $0.400m ($0.342m).

Over the four years of their operations, Regional Water Corporations distributed over $84.000m to their council owners in the form of ordinary and special dividends, guarantee fees and income tax equivalents. The majority of the distributions were made by Southern Water, 66.0%, followed by Ben Lomond Water, 21.6%, and Cradle Mountain Water, 12.4%. This year was only the second year that Cradle Mountain Water declared dividends. The graph below shows that returns were aligned with movements in Net profits before tax until this year, when returns flattened but Net profit before tax went up.



Based on Underlying Profit, which excludes contributions from customers and developers and other items which we do not consider to be underlying operations, returns to council owners appeared high in all years under review. This was predominantly due to the expectation to pay priority dividends in accordance with Section 35(2)(d)(i) of the Act. This arrangement will cease during 2013-14.

Nevertheless, total dividends paid by Southern Water from the 2012-13 profit to council owners was $8.343m, yet the Underlying Profit was $6.070m. This means that Southern Water paid dividends that significantly exceeded its Net Profit after deducting headwork charges, contribution assets and connection fees. Contributed assets represent elements of capital works which need to be maintained, and generate revenues, into the long term. In comparison, Ben Lomond Water and Cradle Mountain Water paid dividends from this year's profit of $0.866m and $0.877m, respectively.

STATEMENT OF COMPREHENSIVE INCOME

	2012-13 Combined	2012-13 SW	2012-13 BLW	2012-13 CMW
	$'000s	$'000s	$'000s	$'000s
Sales revenue	241 210	119 317	63 306	58 587
Other operating revenue excluding contributions from customers and developers	3 918	1 884	1 159	875
Total Revenue	**245 128**	**121 201**	**64 465**	**59 462**
Depreciation	59 636	31 270	14 805	13 488
Employee benefits	66 314	33 668	17 703	14 883
Finance costs	18 049	9 818	2 193	6 038
Interest cost on defined benefit superannuation plan	786	367	380	39
Other operating expenses	85 186	40 008	24 398	20 780
Total Expenses	**229 898**	**115 131**	**59 539**	**55 228**
Underlying Profit	**15 230**	**6 070**	**4 926**	**4 234**
Net assets contributed on formation not previously recognised	113	113	0	0
Redundancy provision on restructure	(1 935)	(856)	(533)	(546)
Customer and developer contributions	18 570	6 795	8 080	3 695
Share of profit of associate	185	88	50	47
Net Profit Before Tax	**32 163**	**12 210**	**12 523**	**7 430**
Income tax equivalents expense	(9 724)	(3 763)	(3 746)	(2 215)
Net Profit	**22 439**	**8 447**	**8 777**	**5 215**
Superannuation actuarial loss	5 355	2 448	2 851	56
Share of other comprehensive loss of associate	119	57	32	30
Income tax benefit on above items	(1 573)	(701)	(855)	(17)
Total Other Comprehensive Income	**3 901**	**1 804**	**2 028**	**69**
Total Comprehensive Profit	**26 340**	**10 251**	**10 805**	**5 284**

STATEMENT OF FINANCIAL POSITION

	2013 Combined	2013 SW	2013 BLW	2013 CMW
	$'000s	$'000s	$'000s	$'000s
Cash	10 564	4 470	3 263	2 831
Receivables and prepayments	47 750	23 966	13 566	10 218
Inventories	6 159	3 576	1 498	1 085
Current tax asset	978	942	0	36
Total Current Assets	**65 451**	**32 954**	**18 327**	**14 170**
Payables	21 668	9 074	7 029	5 565
Borrowings	106 937	54 800	25 938	26 199
Employee benefits (incl. superannuation)	15 807	7 531	4 266	4 010
Unearned income	1 793	1 280	223	290
Current tax liability	631	0	631	0
Restoration provision	700	700	0	0
Total Current Liabilities	**147 536**	**73 385**	**38 087**	**36 064**
Working Capital	**(82 085)**	**(40 431)**	**(19 760)**	**(21 894)**
Property, plant and equipment	2 128 466	1 142 945	558 358	427 163
Intangibles	4 368	1 536	746	2 086
Investment in associate	315	153	84	78
Total Non-Current Assets	**2 133 149**	**1 144 634**	**559 188**	**429 327**
Borrowings	210 642	121 749	18 750	70 143
Superannuation liability	7 608	4 545	2 355	708
Employee benefits	1 650	1 070	393	187
Unearned income	38 011	30 603	3 593	3 815
Deferred tax liabilities	30 994	20 573	8 937	1 484
Restoration provision	2 703	2 703	0	0
Total Non-Current Liabilities	**291 608**	**181 243**	**34 028**	**76 337**
Net Assets	**1 759 456**	**922 960**	**505 400**	**331 096**
Reserves	1 718 758	909 547	484 103	325 108
Retained earnings	40 698	13 413	21 297	5 988
Total Equity	**1 759 456**	**922 960**	**505 400**	**331 096**

STATEMENT OF CASH FLOWS

	2012-13 Combined	2012-13 SW	2012-13 BLW	2012-13 CMW
	$'000s	$'000s	$'000s	$'000s
Receipts from customers and other sources	284 313	136 880	79 971	67 462
Payments to suppliers and employees	(175 201)	(84 706)	(50 366)	(40 129)
Interest received	175	61	42	72
Finance costs	(15 356)	(8 292)	(1 930)	(5 134)
Income tax equivalents	(8 492)	(2 688)	(3 635)	(2 169)
Guarantee fees paid	(2 549)	(1 378)	(255)	(916)
Cash From Operations	**82 890**	**39 877**	**23 827**	**19 186**
Payments for property, plant and equipment	(101 566)	(54 444)	(31 143)	(15 979)
Capitalised costs	(11 466)	(6 207)	(1 938)	(3 321)
Proceeds from sale of property, plant and equipment	925	492	362	71
Cash (used in) Investing Activities	**(112 107)**	**(60 159)**	**(32 719)**	**(19 229)**
Proceeds from borrowings	253 676	162 604	71 346	19 726
Repayment of borrowings	(212 441)	(132 629)	(60 164)	(19 648)
Dividends paid	(12 641)	(10 429)	(1 335)	(877)
Customer and development contributions*	3 713	2 091	826	796
Grant funds received	2 791	1 791	450	550
Cash From Financing Activities	**35 098**	**23 428**	**11 123**	**547**
Net Increase in Cash	**5 881**	**3 146**	**2 231**	**504**
Cash at the beginning of the year	4 683	1 324	1 032	2 327
Cash at End of the Year	**10 564**	**4 470**	**3 263**	**2 831**

* *Contributions from customers and developers are shown as arising from financing activities because they represent capital provided for investment in infrastructure.*

FINANCIAL ANALYSIS

	Bench Mark	SW	BLW	CMW
Financial Performance				
Net profit ($'000s)		8 447	8 777	5 215
Modified EBIT ($'000s)*		15 399	6 966	9 765
Operating margin*		1.15	1.12	1.20
Return on assets*		1.3%	1.2%	2.2%
Return on equity		0.9%	1.8%	1.6%
Financial Management				
Indebtedness ratio		149.5%	52.8%	137.0%
Debt to equity		19.1%	8.8%	29.1%
Debt to total assets		15.0%	7.7%	21.5%
Interest cover	>2	1.6	3.2	1.6
Current ratio	>1	0.4	0.5	0.4
Cost of debt		5.6%	5.6%	6.3%
Debt collection	30 days	50	49	49
Creditor turnover	30 days	11	10	13
Asset Management				
Asset investment ratio	>100%	174%	223.4%	143.1%
Asset renewal ratio	100%	N/A	55.3%	37.6%
Consumption ratio	>40%	49%	61.5%	49.5%
Returns to Owners				
Dividends paid ($'000s)		10 429	1 335	877
Guarantee fee paid ($'000s)		1 406	255	916
Income tax paid ($'000s)		2 688	3 635	2 169
Total return to Owners		13 117	5 225	3 962
Dividends paid or payable ($'000s)		8 343	866	877
Dividend payout ratio	50%	98.8%	9.9%	16.8%
Dividend to equity ratio		0.9%	0.2%	0.3%
Other Information				
Average staff numbers (FTEs)		386	193	178
Average staff costs ($'000s)		99	95	97
Average leave balance per FTE ($'000s)		19	20	20

* *Contributions from customers and developers were excluded from EBIT, Operating margin and Return of assets calculations.*

TASMANIAN WATER AND SEWERAGE CORPORATION (COMMON SERVICES) PTY LTD (Onstream)

SNAPSHOT

- The restructure of Onstream's operations in October 2011 led to a reduction in employee costs of $1.435m and other expenses, $0.682m, in 2012-13.
- Onstream wrote-down its leasehold improvements and increased its provision for onerous contracts by $0.098m and $0.223m respectively.
- The transition towards a single corporation resulted in the recognition of a redundancy provision of $0.215m.
- The cost of the establishment of TasWater and its initial operations was $0.719m to 30 June 2013, excluding in-kind services.

INTRODUCTION

When analysing Onstream's results, it must be understood that its objective is the provision of shared services to its owners on a cost recovery, rather than generating profit.

STATEMENT OF COMPREHENSIVE INCOME

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Base service fee	10 772	12 436	12 823	13 032
Reimbursement of costs	4 686	2 708	2 391	1 974
Other revenue	685	1 258	987	139
Total Revenue	**16 143**	**16 402**	**16 201**	**15 145**
Employee benefits	5 392	6 827	7 064	6 069
Other expenses	4 103	4 785	6 067	6 745
Costs reimbursed by owners	4 685	2 708	2 391	1 974
Finance expense	444	530	447	326
Total Expenses	**14 624**	**14 850**	**15 969**	**15 114**
Underlying Profit	**1 519**	**1 552**	**232**	**31**
Leasehold improvements write-off	(98)	(773)	0	0
Provision for onerous contracts	(223)	(705)	0	0
Redundancy provision on restructure	(215)	0	0	0
TasWater costs	(719)	0	0	0
Net Profit Before Tax	**264**	**74**	**232**	**31**
Income tax equivalents expense (benefit)	79	22	70	(36)
Net Profit	**185**	**52**	**162**	**67**
Superannuation actuarial gain (loss)	170	(270)	(104)	(13)
Income tax equivalents expense (benefit) on above items	(51)	81	31	4
Total Comprehensive Income (Expense)	**119**	**(189)**	**(73)**	**(9)**
Total Comprehensive Profit (Loss)	**304**	**(137)**	**89**	**58**

The decision made in October 2011 to restructure Onstream's operations impacted on the composition of revenue and quantum and type of expenditure incurred over the past two years. Onstream was able to make cost savings by reducing staff levels, sharing of resources with the Regional Water Corporations and co-locating within their existing premises. These cost savings were reflected in reduced Employee benefits and Other expenses, down $1.435m and $0.682m, respectively compared to last year.

The decision to co-locate within premises occupied by the Regional Water Corporations led to a write down of leasehold improvements and recognition of an onerous contracts provision relating to leases for premises previously occupied by Onstream in Hobart and Launceston. Furthermore, the decision to amalgamate the three Regional Water Corporations and Onstream into the newly created TasWater resulted in the recognition of a Redundancy provision on restructure, $0.215m. Onstream also incurred costs on behalf of the newly created TasWater, $0.719m, relating to its establishment and initial operations. The cost excluded in-kind services.

STATEMENT OF FINANCIAL POSITION

	2013 $'000s	2012 $'000s	2011 $'000s	2010 $'000s
Cash	1 745	1 269	1 599	1 921
Receivables and prepayments	751	3 184	1 504	4 172
Property, plant and equipment	5 413	5 214	6 716	4 126
Other Assets	533	644	441	385
Total Assets	**8 442**	**10 311**	**10 260**	**10 604**
Borrowings	5 500	7 000	6 500	6 500
Provisions employee entitlements	1 429	1 374	1 595	1 273
Provisions	396	705	0	0
Other liabilities	803	1 222	2 018	2 773
Total Liabilities	**8 128**	**10 301**	**10 113**	**10 546**
Net Assets	**314**	**10**	**147**	**58**
Total Equity	**314**	**10**	**147**	**58**

Total Equity increased in line with the Comprehensive Profit for the year and totalled $0.314m at 30 June 2013.

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 titled 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 – Executive and Legislature, Government Departments, Tasmanian Health Organisations, Other General Government Sector State entities, Other State entities and Superannuation Funds
- Volume 2 – Government Businesses, Other Public Non-Financial Corporations and Water Corporations
- Volume 3 - Local Government Authorities
- Volume 4 – Analysis of the Treasurer's Annual Financial Report
- 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 Management		
Asset consumption ratio	Between 40% and 60%	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
Capital Investment Gap, Asset investment ratio or Investment gap	>100%	Payments for Property, plant and equipment divided by Depreciation expenses
Asset sustainability ratio, Capital Replacement Gap, Asset renewal ratio or Renewal gap	100%	Renewal and upgrade expenditure on existing assets divided by depreciation on existing assets

Financial Performance Indicator	Benchmark[1]	Method of Calculation
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) ($'000s)		Total financial liabilities less liquid assets
Net financial liabilities ratio	0 – (50%)	Total liabilities less liquid assets divided by total operating income
Returns to Government		
CSO funding ($'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)

Financial Performance Indicator	Benchmark[1]	Method of Calculation
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 ($'000s)		Total employee annual and long service leave entitlements divided by Staff Numbers
Average long service leave balance	Not more than 100 days	Actual long service leave provision days due divided by average FTEs
Average recreational leave balance	20 days [3]	Actual annual leave provision days due divided by average FTEs
Average staff costs [(2)] ($'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
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, i.e. included in the Statement of Comprehensive Income. 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.

AUDIT FINDINGS - RISK CATEGORIES

In reporting audit finding to clients, we have determined the following three risk categories. These categories are based on their significance and potential impact on the client.

Risk Category	Client Impact
High	Matters which pose a significant business or financial risk to the entity and/or matters that have resulted or could potentially result in a modified or qualified audit opinion if not addressed as a matter of urgency by the entity.
Moderate	Matters of a systemic nature that pose a moderate business or financial risk to the entity if not addressed as high priority within the current financial year and/or matters that may escalate to high risk if not addressed promptly and/or Low risk matters which have been reported to management in the past but have not been satisfactorily resolved or addressed.
Low	Matters that are isolated, non-systemic or procedural in nature and/or matters that reflect relatively minor administrative shortcomings and could be addressed in the context of the entity's overall control environment.

APPENDIX 2 - GLOSSARY

Accountability

The responsibility to provide information to enable users to make informed judgements about the performance, financial position, financing and investing, and compliance of the State entity.

Adverse Opinion

An adverse opinion is issued when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial report.

Amortisation

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

Asset

A resource controlled by an entity as a result of past events, and from which future economic benefits are expected to flow to the entity.

Asset useful life

The period over which an asset is expected to provide the entity with economic benefits. Depending on the nature of the asset, the useful life can be expressed in terms of time or output.

Asset valuation

The fair value of an asset on a particular date.

Audit Act 2008

An Act of the State of Tasmania that:

- ensures that the State has an Auditor-General with the necessary functions, immunities and independence
- provides for the independent audit of the public sector and related entities.

Auditor's opinion (or Auditor's Report)

Written expression within a specified framework indicating the auditor's overall conclusion on the financial reports based on audit evidence obtained.

Biological asset

A living animal or plant.

Borrowing costs

Interest and other costs that an entity incurs in connection with the borrowing of funds.

Capital expenditure

Amount capitalised to the Statement of Financial Position (also referred to as the balance sheet) for expenditure on or contributions by a State entity to major assets controlled or owned by the entity, including expenditure on:

- capital renewal of existing assets that returns the service potential or the life of the asset to that which it had originally been commissioned
- capital expansion which extends an existing asset at the same standard to a new group of users.

Capital grant

Government funding provided to an agency for acquiring capital assets such as buildings, land or equipment.

Carrying amount

The amount at which an asset is recognised after deducting any accumulated depreciation (amortisation) and accumulated impairment losses thereon.

Cash

Cash on hand and demand deposits.

Cash equivalents

Short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash flows

Inflows and outflows of cash and cash equivalents.

Comprehensive result

The overall net result of all items of income and expense recognised for the period. It is the aggregate of net surplus (deficit) or profit (loss) and other movements in equity.

Consolidated financial statements

The financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity.

Contributed assets

Assets, usually property, plant and equipment, contributed to a State entity at no cost or are non-reciprocal.

Control

The capacity of an entity to dominate decision-making, directly or indirectly, in relation to the financial and operating policies of another entity so as to enable that other entity to operate with it in achieving the objectives of the controlling entity.

Corporations Act 2001

An Act of the Commonwealth of Australia that sets out the laws dealing with business entities in Australia at Federal and State levels. It focuses primarily on companies, although it also covers some laws relating to other entities such as partnerships and managed investment schemes.

Cost

The amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.

The Council

The group of councillors, who are the elected representatives of people who are residents in the council's municipality or ratepayers of the council.

Current asset

An asset that an entity:

- expects to realise or intends to sell or consume it in its normal operating cycle;
- holds primarily for the purpose of trading;
- expects to realise within twelve months after the reporting period; or
- is cash or a cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

An entity shall classify all other assets as non-current.

Current liability

A liability that an entity:

- expects to settle in its normal operating cycle;
- it holds primarily for the purpose of trading;
- is due to be settled within twelve months after the reporting period; or
- does not have an unconditional right to defer settlement for at least twelve months after the reporting period.

An entity shall classify all other liabilities as non-current.

(Current) Replacement cost

The cost an entity would incur to acquire the asset at the end of the reporting period.

Deficit

Total expenditure exceeds total revenue. Term is generally applied to results of not-for-profit entities. Equivalent term in the case of for-profit entities is a loss.

Depreciation

The systematic allocation of the depreciable amount of an asset over its useful life.

Depreciated replacement cost

The current replacement cost of an asset less, where applicable, accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired future economic benefits of the asset.

Derivative

A financial instrument or other contract with all three of the following characteristics:

- its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying')
- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors
- it is settled at a future date.

Disclaimer of Opinion

A disclaimer of opinion is used when it is not possible for the auditor to form an opinion. This may occur in rare circumstances when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial report of undetected misstatements, if any, could be both material and pervasive.

Emphasis of matter

An auditor's report can include an emphasis of matter paragraph that draws attention to a disclosure or item in the financial report that is relevant to the users of the report but is not of such nature that it affects the auditor's opinion (i.e. the auditor's opinion remains unmodified).

Employee benefits provision

The liability recognised for employees' accrued service entitlements, including all costs related to employment consisting of wages and salaries, leave entitlements, redundancy payments and superannuation contributions.

Equity or net assets

Residual interest in the assets of an entity after deduction of its liabilities. Where liabilities exceed assets, this gives rise to negative equity or net liabilities or accumulated deficits.

Expense

Outflows or other depletions of economic benefits in the form of incurrence of liabilities or depletion of assets of the entity, other than those relating to contributions by owners, that results in a decrease in equity, or increase in a liability, during the reporting period.

Fair value

The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Financial Asset

Any asset that is:

- cash
- an equity instrument of another entity
- a contractual right:
    - to receive cash or another financial asset from another entity; or
    - to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or
- a contract that will or may be settled in the entity's own equity instruments and is:
    - a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or
    - a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

Financial delegation

A schedule that specifies the level or approval required for each transaction category to facilitate the execution of functions necessary for the efficient operation of the entity.

Financial liability

Any liability that is:

- a contractual obligation:
    - to deliver cash or another financial asset to another entity; or

    - to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or
- a contract that will or may be settled in the entity's own equity instruments and is:
    - a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or
    - a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

Financial position

The relationship of the assets, liabilities and equity of an entity, as reported in the Statement of Financial Position (balance sheet).

Financial report

Structured representation of financial information, which usually includes accompanying notes, derived from accounting records and intended to communicate an entity's financial performance over a period of time and its economic resources or obligations at a point in time in accordance with a financial reporting framework.

Financial statements

A complete set of financial statements comprises:

- a Statement of Financial Position as at the end of the period
- a Statement of Profit or Loss and Other Comprehensive Income for the period
- a Statement of Changes in Equity for the period
- a Statement of Cash Flows for the period
- Notes, comprising a summary of significant accounting policies and other explanatory information
- comparative information in respect of the preceding period
- a Statement of Financial Position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

An entity may use titles for the statements other than those used in the relevant accounting standard. For example, an entity may use the title 'Statement of Comprehensive Income' instead of 'Statement of Profit or Loss and Other Comprehensive Income'.

Financial sustainability

An entity's ability to manage financial resources so it can meet its spending commitments both at present and into the future.

Financial year

The period of 12 months for which a financial report is prepared.

For-profit entity

An entity whose principal objective is the generation of profit. A for-profit entity can be a single entity or a group of entities comprising the parent entity and each of the entities that it controls.

Future economic benefit

The potential to contribute, directly or indirectly, to the flow of cash and cash equivalents to the entity. The potential may be a productive one that is part of the operating activities of the entity. It may also take the form of convertibility into cash or cash equivalents or a capability to reduce cash outflows.

General purpose financial report

A financial report intended to meet the information needs common to users who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs.

Going concern

An entity which is expected to be able to pay its debts as and when they fall due, and continue in operation for the foreseeable future without any intention or necessity to liquidate or otherwise wind up its operations.

Governance

The control arrangements in place at an entity that are used to govern and monitor its activities in order to achieve its strategic and operational goals.

Government Business Enterprises Act 1995

An Act that makes provision in respect of the establishment, commercial operation and accountability of Government Business Enterprises, the relationship between Government Business Enterprises and the Government and the payment of financial returns to the State by Government Business Enterprises and for related purposes.

Impairment loss

The amount by which the carrying amount of an asset exceeds its recoverable amount.

Internal audit

A function of an entity's governance framework that examines and reports to management, or those charged with governance, on the effectiveness of risk management, control and governance processes.

Independent auditor's report

An expression of the independent auditor's opinion on an entity's financial (and performance) report.

Intangible asset

An identifiable non-monetary asset without physical substance.

Internal control

Processes affected by an entity's structure, work and authority flows, people and management information systems, designed to assist the entity accomplish specific goals and objectives. Internal controls are a means by which an entity's resources are directed, monitored and measured. They play an important role in preventing and detecting error and fraud and protecting the entity's resources.

Investment

The expenditure of funds intended to result in medium-to long-term service and/or financial benefits arising from the development and/or use of infrastructure assets by either the public or private sectors.

Joint venture

A contractual agreement joining together two or more parties for the purpose of executing a particular business undertaking. All parties agree to share in the profits and losses of the enterprise.

Land under roads

Land under roadways, and road reserves, including land under footpaths, nature strips and median strips.

Liability

A present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow of resources from the entity.

Local Government Act 1993

An Act of the State of Tasmania that provides for local government and establishes councils to plan for, develop and manage municipal areas in the interests of their communities.

Loss

Total expenditure exceeds total revenue. Term is generally applied to results of for-profit entities. Equivalent term in the case of not-for-profit entities is a deficit.

Masterfile

A database of records pertaining to one of the main subjects of an information system, such as customers, employees and vendors. Masterfiles contain descriptive data that does not often change, such as name and address and bank account details.

Material

Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

Materiality

Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial report.

Modified audit opinion

The Auditing Standards establish three types of modified opinions, namely, a qualified opinion, an adverse opinion, and a disclaimer of opinion. The decision regarding which type of modified opinion is appropriate depends upon:

- the nature of the matter giving rise to the modification, that is, whether the financial report is materially misstated or, in the case of an inability to obtain sufficient appropriate audit evidence, may be materially misstated; and
- the auditor's judgement about the pervasiveness of the effects or possible effects of the matter on the financial report.

Non-Financial Asset

Physical assets such as land, buildings and infrastructure.

Non-reciprocal

Transfers in which an entity receives assets without directly giving equal value in exchange to the other party to the transfer.

Not-for-profit entity

An entity whose principal objective is not the generation of profit. A not-for-profit entity can be a single entity or a group of entities comprising the parent entity and each of the entities that it controls.

Onerous contract

A contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Operating cycle

The time between the acquisition of assets for processing and their realisation in cash or cash equivalents.

Performance report

A statement containing predetermined performance indicators and targets and actual results against these for that financial year, with an explanation for any significant variance between the results and the targets.

Pervasive

A term used, in the context of misstatements, to describe the effects on the financial report of misstatements or the possible effects on the financial report of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence. Pervasive effects on the financial report are those that, in the auditor's judgement:

- are not confined to specific elements, accounts or items of the financial report;
- if so confined, represent or could represent a substantial proportion of the financial report; or
- in relation to disclosures, are fundamental to users' understanding of the financial report.

Profit

Total revenue exceeds total expenditure. Term is generally applied to results of profit entities. Equivalent term in the case of not-for-profit entities is a surplus.

Property, plant and equipment (including infrastructure)

Tangible items that:

- are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- are expected to be used during more than one period.

Public sector entity

A department; a public hospital; a local government; a statutory body; an entity controlled by one, or more than one department, public hospital, local government or statutory body; or an entity controlled by a public sector entity.

Qualified audit opinion

A qualification is issued when the auditor concludes that an unqualified opinion cannot be expressed due to one of the following reasons:

- The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial report; or

- The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial report of undetected misstatements, if any, could be material but not pervasive.

A qualified opinion shall be expressed as being except for the effects of the matter to which the qualification relates.

Recoverable amount

The higher of an asset's net selling price and its value in use.

Relevant

Measures or indicators used by an entity are relevant if they have a logical and consistent relationship to an entity's objectives and are linked to the outcomes to be achieved.

Residual value (of an asset)

The estimated amount that an entity would currently obtain from disposal of an asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Revaluation

Recognising a reassessment or restatement of values for assets or liabilities at a particular point in time.

Revenue

Inflows of funds or other enhancements or savings in outflows of service potential, or future economic benefits in the form of increases in assets or reductions in liabilities of the entity, other than those relating to contributions by owners which result in an increase in equity during the reporting period.

Risk

The chance of a negative impact on the objectives, outputs or outcomes of the entity.

Special purpose financial statements

A financial report intended to only meet the information needs of specific users who are able to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs.

Stakeholder

A person, group, or organisation that has direct or indirect stake in an organisation because it can affect or be affected by the organisation's actions, objectives and policies.

State entity

A body, whether corporate or unincorporated, that has a public function to exercise on behalf of the State or is wholly owned by the State, as defined under the *Audit Act 2008*, including:

- an agency
- a council
- a Government Business Enterprise
- a State-owned company
- a State authority that is not a Government Business Enterprise

- the council, board, trust or trustees, or other governing body (however designated) of, or for, a corporation, body of persons or institution, that is or are appointed by the Governor or a Minister of the Crown
- a body or authority referred to in section 21, established under section 29 or 30, or continued under section 326, of the *Local Government Act 1993*
- the Corporation incorporated under section 5 of the *Water and Sewerage Corporation Act 2012*
- a body or authority in respect of which the Treasurer has made a determination under section 32A.

State Owned Company

A company incorporated under the Corporations Act which is controlled by:

- the Crown
- a State authority
- another company which is itself controlled by the Crown or a State authority.

Steering committee

Provides oversight and strategic direction for key organisational processes or risk.

Surplus

Total revenue exceeds total expenditure. Term is generally applied to results of not-for-profit entities. Equivalent term in the case of for-profit entities is a profit.

Those charged with governance

The person(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. In most cases this would be the Board of Directors (or equivalent). In the case of government departments, this would be the Secretary. If an entity has an audit committee or equivalent then that committee may have the governance function delegated to it.

Unqualified audit opinion – financial report

A positive written expression provided when the financial report has been prepared and presents fairly the transactions and balances for the reporting period in accordance with the requirements of the relevant legislation and Australian accounting standards.

Also referred to as a **clear audit opinion**.

Value in use

The present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Value in use (in respect of not-for-profit entities)

Depreciated replacement cost of an asset when the future economic benefits of the asset are not primarily dependent on the asset's ability to generate net cash inflows and where the entity would, if deprived of the asset, replace its remaining future economic benefits.

Working capital

Working capital is the amount of current assets minus the amount of current liabilities at a specific date. It reflects how much in liquid assets that an entity has on hand. Working capital is needed to pay for planned and unexpected expenses and meet the short-term obligations.

APPENDIX 3 - ACRONYMS AND ABBREVIATIONS

AAS	Australian Accounting Standards
AASB	Australian Accounting Standards Board
ABF	Activity Based Funding
AEMO	Australian Energy Market Operator
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
AETV	Aurora Energy Tamar Valley
APRA	Australian Prudential Regulation Authority
BBP	Bell Bay Power Pty Ltd
BLW	Ben Lomond Water
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CLAF	Crown Land Administration Fund
CMW	Cradle Mountain Water
COPE	Commonwealth Own Purpose Expenditure
CPI	Consumer Price Index
DHHS	Department of Health and Human Services
DIER	Department of Infrastructure, Energy and Resources
DORC	Depreciated Optimised Replacement Cost
DPIPWE	Department Primary Industries, Parks, Water and Environment
EBIT	Earnings Before Interest and Tax
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EEP	Environmental Energy Products
FCAS	Frequency Control Ancillary Services
FMAA	*Financial Management and Audit Act 1990*
FTE	Full-time Equivalent
FSI	Forest Services International
GBE	Government Business Enterprise
GWh	Gigawatt Hour
HEC	Hydro-Electric Corporation
IRRs	Inter Regional Revenues
IT	Information Technology
KIPC	King Island Ports Corporation
KV	Kilovolt
LGAT	Local Government Association of Tasmania
LSL	Long Service Leave
MAIB	Motor Accidents Insurance Board
MAR	Maximum Allowable Revenue
MIC	Member Investment Choice
MWh	Megawatt Hour
NEM	National Electricity Market
NEMMCO	National Electricity Market Management Company Limited
Newood	Newood Holdings Pty Ltd
PRBF	Parliamentary Retiring Benefits Fund
PSF	Parliamentary Superannuation Fund

R40s	Roaring 40s Renewable Energy Pty Ltd
RBF	Retirement Benefits Fund
RBFB	Retirement Benefits Fund Board
REC	Renewable Energy Certificates
SFC	State Fire Commission
SFCSS	State Fire Commission Superannuation Scheme
SG	Superannuation Guarantee
SOC	State Owned Company
SW	Southern Water
TAS	Tasmanian Accumulation Scheme
Tascorp	Tasmanian Public Finance Corporation
Tasracing	Tasracing Pty Ltd
TASSS	Tasmanian Ambulance Service Superannuation Scheme
TasWater	Tasmanian Water and Sewerage Corporation Pty Ltd
TCFA	Tasmanian Community Forest Agreement
TDRA	Temporary Debt Repayment Account
TFA	Tasmanian Forests Agreement
TFIA	Tasmanian Forest Intergovernmental Agreement
TFS	Tasmanian Fire Service
THO	Tasmanian Health Organisation
TI	Treasurer's Instruction
TIPL	Tasmanian Irrigation Pty Ltd
TMD	(formerly known as Telecommunications Management Division), a division of the Department of Premier and Cabinet
TVPS	Tamar Valley Power Station
TWSC	Tasmanian Water and Sewerage Corporation
WACC	Weighted Average Cost of Capital
WIF	Water Infrastructure Fund
VaR	Value at Risk

APPENDIX 4 - RECENT REPORTS

TABLED	No.	TITLE
November	No. 6 of 2011-12	Volume 4 - Local Government Authorities 2010-11
December	No. 7 of 2011-12	Volume 5 - Other State Entities 30 June 2011 and 31 December 2011
March	No. 8 of 2011-12	The assessment of land-use planning applications
June	No. 9 of 2011-12	Volume 6 - Other State Entities 30 June 2011 and 31 December 2011
June	No. 10 of 2011-12	Public Trustee: management of minor trusts
June	No. 11 of 2011-12	Updating the Motor Registry System
June	No. 12 of 2011-12	Follow up of Special Reports 75-81
July	No 1 of 2012-13	Sale of TOTE Tasmania
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May	No. 11 of 2012-13	Department of Health and Human Services - Output based expenditure (included in Financial Statements of State entities: Volume 5 - Other State entities)
August	No. 1 of 2013-14	Fraud control in local government

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
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Our Vision

STRIVE I LEAD I EXCEL I 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.

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;

(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.

Tasmanian
Audit Office

Photo courtesy of Tourism Tasmania and Geoff Murray

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