Tasmanian Audit Office

Report of the Auditor-General No. 5 of 2011-12

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

Volume 3

Government Business Enterprises, State Owned Companies, Water Corporations and Superannuation Funds 2010-11

November 2011

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THE ROLE OF THE AUDITOR-GENERAL

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

Our primary responsibility is to conduct financial or 'attest' audits of the annual financial reports of State entities which includes an Agency, Council, Government Business Enterprise, State-owned Company, State Authority, Corporations established by the *Water and Sewerage Corporations Act 2008* and the governing body of any corporation, body of persons or institution that are appointed by a Minister or by the Governor.

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

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

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

Following a financial audit, we issue a variety of reports to State entities and Responsible Ministers, and we report periodically to the Parliament. In combination these reports give opinions on the truth and fairness of financial reports, and comment on compliance with certain laws, regulations and Government directives. They may comment on financial prudence, probity and waste, and recommend operational improvements.

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

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

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

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

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

TASMANIA

2011
PARLIAMENT OF TASMANIA

REPORT OF THE AUDITOR-GENERAL
No. 5 of 2011-12

Volume 3

Government Business Enterprises, State Owned Companies, Water Corporations and Superannuation Funds 2010-11

November 2011

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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24 November 2011

President
Legislative Council
HOBART

Speaker
House of Assembly
HOBART

Dear Madam President

Dear Mr Speaker

Report of the Auditor-General No. 5 of 2011-12 – Financial Statements of State entities – Volume 3 – Government Business Enterprises, State Owned Companies, Water Corporations and Superannuation Funds 2010-11

In accordance with the requirements of Section 29 of the *Audit Act 2008*, I have pleasure in presenting my Report on the audit of the financial statements of Government Business Enterprises, State Owned Companies, Water Corporations and Superannuation Funds for the year ended 30 June 2011.

Yours sincerely

H M Blake
Auditor-General

FOREWORD

This Report is the third Volume of my report to Parliament outlining outcomes of our financial audit work for the 2010-11 financial year. It summarises the results of audits, and financial performance, of those State entities comprising the Public Non-Financial Corporation (PNFC) sector, including Local Government Water Corporations, and Public Financial Corporation (PFC) sector and that of superannuation funds managed by the Retirement Benefits Fund Board for the year ended 30 June 2011.

In the financial year ended 30 June 2011, entities making up the PNFC sector generated $3.140bn in revenue and incurred $3.008bn in expenditure including asset write downs. They managed total assets of $12.550bn and $6.702bn in liabilities which included borrowings from Tascorp of $2.946bn, superannuation obligations of $0.631bn and other liabilities of $3.124bn mainly comprising deferred tax provisions and financial liabilities.

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

There are four entities making up Regional Water Corporations whose net assets totalled $1.740bn at 30 June 2011.

The RBFB manages the State's defined benefit and other superannuation schemes but not the Judges' Superannuation Fund which is managed by Finance-General. Net assets under management by the RBFB totalled $3.829bn at 30 June 2011. Investment returns improved to $0.317bn in 2010-11 as investment markets continued to recover from the global financial crisis. The financial results of the RBFB are not included in the State's financial statements because its assets are not available for the State's benefit.

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

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

HM Blake
Auditor-General
24 November 2011

TABLE OF CONTENTS

INTRODUCTION

SCOPE OF THIS REPORT

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

STATUS OF AUDITS

All audits for the year ended 30 June 2011 have been completed. Statutory financial reporting requirements are detailed in the Chapter headed "Timeliness and quality of financial statements".

Appendix 2 provides details of the status of all 30 June 2011 audits.

FORMAT OF THE REPORT

Unless specifically indicated, comments in this Report were current as at 14 November 2011.

In addition to this Introduction, this report includes:

- Audit Summary
- Timeliness and Quality of Financial Statements
- Energy Businesses 2010-11
- Government Business Enterprises
- State Owned Corporations
- Tasmanian Water and Sewerage Corporations
- Superannuation Funds.

AUDIT SUMMARY

This Chapter summarises significant matters identified from our audits and analysis of financial statements of Government Businesses, Superannuation Funds and local government owned Water and Sewerage Corporations for the financial year ended 30 June 2011. Further detail can be found in the "At a glance" summaries in this Report and in individual Chapters for each entity.

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

MATTERS RAISED FOR THE ATTENTION OF THOSE CHARGED WITH GOVERNANCE

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

Timeliness of Financial Statements

Except for TOTE, Forestry and the Superannuation funds managed by the Retirement Benefits Fund Board (RBFB), all State Owned Companies (SOC), Government Business Enterprises (GBE) and Water and Sewerage Corporations met their statutory financial reporting deadlines.

Signed financial statements for TOTE and Forestry were received on 17 August 2011, which was two days after the statutory reporting deadline. In the case of the Superannuation funds, signed financial statements were received on 5 October 2011 and an unqualified audit report was issued on the same day. Financial statements were submitted 51 days after the statutory reporting deadline.

Related Parties Disclosure

Government businesses, GBEs and SOCs, are exempt from making certain disclosures around compensation of key management personnel, otherwise required under AASB 124 *Related Parties Disclosures*. However, we recommend all businesses give consideration to voluntary adoption of AASB 124.

The Regional Water Corporations included a Remuneration Report in their Directors' Reports for 2010-11. While the Remuneration Report did not meet all the requirements of AASB 124, we commend the Boards of these for this initiative, which provides information on remuneration policies and remuneration for directors and senior executives.

We urge other Government businesses to follow the lead set by the water corporations.

Segment Reporting

Last year, we recommended that the Regional Water Corporations give consideration to reporting financial performance by operating segment. While we understand that the Regional Water Corporations are exempt from complying with requirements of AASB 8 *Operating Segments*, in our view the additional information would assist readers to better assess and understand their financial performance. The Regional Water Corporations' main business activities are the provision of water and sewerage services. We understand that discrete financial information about each of these two functions is not currently available and therefore the Regional Water Corporations are unable to apply AASB 8 in relation to reporting separate information about each operating segment. However, we note that the Regional Water Corporations are working towards refining their internal reporting which would allow reporting based on business activities. We will monitor developments in this area and will assess their impact on future financial reporting.

FINANCIAL PERFORMANCE - GOVERNMENT BUSINESS ENTERPRISES

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

Tasmania's GBEs collectively had net assets of $2.575bn (2009-10, $2.548bn), employed 1 582 people (1 579), and generated $67.577m ($59.047m) in after tax profits in 2010-11.

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

Table 1 Summarised Financial Results

Government Business Enterprises	Net operating profit (loss) before net finance cost and tax	Net operating profit (loss) before tax	Net Profit (Loss)	Total Comprehensive Profit (Loss)	Net Assets
	$'000s	$'000s	$'000s	$'000s	$'000s
Forestry Tasmania	(8 509)	(17 722)	(129 476)	(128 794)	146 636
Hydro-Electric Corporation	180 497	100 016	151 092	157 032	2 013 453
Motor Accidents Insurance Board	1 813	69 642	51 769	51 769	288 638
Port Arthur Historic Site Management Authority	(160)	(160)	(160)	536	14 768
Rivers and Water Supply Commission	8 817	(18 435)	(12 905)	(12 905)	64 996
Tasmanian Public Finance Corporation	9 604	9 604	6 723	6 723	41 475
Public Trustee	1 412	740	534	716	4 799
Total	**193 474**	**143 685**	**67 577**	**75 077**	**2 574 765**

FORESTRY TASMANIA

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

> 'Forestry's operating result together with the ongoing uncertainty around the Tasmanian Forests Intergovernmental Agreement and the Statement of Principles and their possible impact on the business caused the directors to review the appropriateness of continuing to prepare the accounts on a going concern basis. The current trading outlook presents significant challenges in terms of sales volume and pricing and in these circumstances there are material uncertainties over future trading results and cash flows. In addition, the effect on the business of the Agreement and Principles is yet to be finalised but it is possible that they will lead to a significant reduction in the resource available for harvest and sale.

Also relevant is that Government has commenced a Strategic Review of Forestry. The outcome of this review may or may not increase the uncertainties surrounding Forestry's operations.

The directors concluded from this that the combination of these circumstances represents a material uncertainty on the operations of the business.

However, the directors note that:

- there are signs of improved demand for forest products, pricing is improving and Forestry has reduced its costs significantly
- measures have been instituted to preserve cash, additional sources of finance have been secured and other initiatives are being considered including asset sales
- it is likely that assistance will be received in restructuring operations and the balance sheet
- appropriate enquiries of the relevant Ministers have been made and, bearing in mind the uncertainties described above, the directors have concluded that the group and the organisation will receive ongoing support and adequate resources to continue in operational existence for the foreseeable future.

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

Audit inquiries supported this conclusion in addition to which we included an emphasis of matter in our audit opinion drawing attention these matters as follows.

'I draw attention to Note 33 to the financial report which describes circumstances giving rise to uncertainties as to the operations of Forestry Tasmania, the assessment by the directors and their conclusion that it is appropriate for Forestry Tasmania to continue to adopt the going concern basis in preparing this financial report. My audit opinion is not qualified in respect of these matters.'

We made an observation last year that it is not sustainable for Forestry to generate negative cash from its operating activities. This year, Forestry's cash position deteriorated further as cash decreased from $29.546m at 30 June 2010 to $9.365m at 30 June 2011. The decrease of $20.181m primarily resulted from an operating cash deficit of $9.348m, and net investment in assets of $17.589m. Another year of negative cash generated from operating activities at the 2010-11 level will see Forestry unable to continue with its plantation development programs.

It is anticipated by management that the measures instituted by it in 2010-11 will improve and maintain future cash flows. Those measures include cost reduction strategies, assets divestment and additional borrowings of up to $20.000m to fund operations and capital works. Based on its cash flow projections, Forestry anticipates that its cash position will start improving towards the end of 2011-12 and will strengthen further in 2012-13 following improved sales. There are also expectations that the State Government will provide ongoing support and adequate resources to allow continuation of operations.

HYDRO-ELECTRIC CORPORATION

Hydro and China, Light & Power agreed to cease their joint venture investment in Roaring 40s (R40s). The disaggregation occurred on 30 June 2011. Hydro gained control of the wind farms at Studland Bay, Bluff Point and the development site of Musselroe. The net assets of the companies acquired were fair valued at the consolidation level which resulted in a fair value gain of $50.670m.

The 2010-11 year has seen the continuation of Hydro's storage rebuild program initiated in 2007-08. This strategy was implemented by Hydro by adjusting its trading and generation strategies where storage levels were supported by electricity imports via Basslink from Victoria while meeting Tasmania's energy demands. This program is projected to be completed in the current five year corporate plan period. The water inflows for 2010-11 were well above the 8 700GWh rating of the system. Storages at 30 June 2011 were at 45.9%, significantly higher than last year, 36.3%. This equates to 6 630GWh of energy in storage.

The higher than average inflows into storages in the 2010-11 year was a factor in improved cash flows from trading.

In 2009 the Corporation included a conservative assumption within the fair value of generation asset determinations to reflect the expected impact on forecast prices of the then proposed carbon trading scheme. Due to the lack of progress in this scheme and uncertainty as to the impact on revenues of the Federal Government's recently proposed carbon tax no further change to the fair value has been recorded.

MOTOR ACCIDENTS INSURANCE BOARD

A significant portion of the Board's investment portfolio is exposed to Australian and international listed investment markets and consequently it is subject to associated market risk. From the balance date up to the date the financial statements were certified and authorised for issue by the Board, Australian and international markets experienced a period of significant volatility resulting in an estimated $60.000m unrealised reduction in the Board's investment portfolio. As the investments were measured at fair value at 30 June 2011 this fall was not reflected in the Comprehensive Income Statement or in the Statement of Financial Position.

At 31 October 2011 the estimated reduction since balance date was $19.000m.

RIVERS AND WATER SUPPLY COMMISSION

In December 2010, Government approved the restructuring of the three irrigation businesses into a single State-owned Company. The single company, Tasmanian Irrigation Development Board Pty Ltd, but which changed its name to Tasmanian Irrigation Pty Ltd, came into effect on 1 July 2011, at which time all assets, rights, liabilities and staff of the Commission and TIS were transferred to Tasmanian Irrigation Pty Ltd.

Between 1 July 2005 and 30 June 2011 significant net equity injections, $89.556m, and borrowings were made to the Commission aimed at, in the main, funding investments in irrigation related dams and schemes. Also relevant is that at 30 June 2011, the Commission's Net assets totalled $64.996m, which was $24.560m less than total equity contributions provided.

The Commission's operating profit increased from $3.844m in 2009-10 to $8.817m in 2010-11. Overall, the Commission reported a net deficit after tax of $12.905m after non-operating items, mainly impairment losses of $27.252m. By 30 June 2011 the total amount impaired against the Meander Valley Irrigation Scheme was $29.930m and against the South East Irrigation Scheme, $0.044m.

FINANCIAL PERFORMANCE - STATE OWNED COMPANIES

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

Tasmania's SOCs collectively had net assets of $1.795bn (2009-10, $1.600bn), employed 2 946 (3 045) people, and generated profits of $27.136m ($32.039m) after tax in 2010-11.

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

Table 2 Summarised Financial Results

State Owned Corporations	Net operating profit (loss) before net finance cost and tax	Net operating profit (loss) before tax	Net Profit (Loss)	Total Comprehensive Profit (Loss)	Net Assets
	$'000s	$'000s	$'000s	$'000s	$'000s
Aurora Energy Pty Ltd	99 388	20 311	31 135	31 135	561 063
Metro Tasmania Pty Ltd	(1 962)	(3 323)	(51)	719	33 258
Tasmanian Ports Corporation Pty Ltd	567	(856)	(23 784)	58 130	180 768
Tasracing Pty Ltd	(3 902)	(3 607)	(3 607)	(3 607)	49 853
Tasmanian Railway Pty Ltd	(4 632)	(4 632)	(27 869)	(27 869)	82 052
TOTE Tasmania Pty Ltd	2 506	1 546	3 141	3 141	8 540
Transend Networks Pty Ltd	100 165	67 470	47 665	72 527	623 238
TT-Line Company Pty Ltd	14 056	11 958	506	6 562	255 874
Total	**206 186**	**88 867**	**27 136**	**140 738**	**1 794 646**

AURORA ENERGY PTY LTD

On 1 July 2010 Aurora re-negotiated its agreements with Hydro Tasmania relating to its non-contestable electrical load within Tasmania. The agreement is for three years and is aimed at enabling Aurora's energy business to operate on a more sustainable basis.

In August 2010 the Office of the Tasmanian Economic Regulator (the Regulator) released its report titled "Investigation of maximum prices for declared retail electrical services on mainland Tasmania". This draft report (issued as final on 19 November 2010) proposed a rate of $73.50/MWh (in 2009-10 dollars) for the energy component of Aurora's non-contestable load, a cost to serve allowance of $94.00 (in 2010-11 dollars) per customer and a retail margin of 3.8%.

Without these initiatives, Aurora faced the prospect of incurring significant losses in 2010-11 and future years, and having to impair certain infrastructure assets commencing 30 June 2010.

As 31 December 2011, Aurora's debt increased from $1.030bn to $1.085bn. The increase in debt was attributable to Aurora's capital expenditure program, as shown by its investment of a further $171.231m in capital expenditure.

METRO TASMANIA PTY LTD

Metro received additional funding of $3.250m (2010, $3.250m) from the State to improve its bus fleet, assist with its long-term capital replacement program and fund other passenger growth initiatives. This funding has been included in Metro's budget for the next three years. During 2010-11, Metro spent $5.969m on new capital equipment, primarily eight new buses. The buses were predominantly funded by the capital component of the additional funding provided, cash generated from operations and cash on hand brought forward from 2009-10 resulting in cash holdings declining by $2.569m to $2.866m at 30 June 2011.

TASMANIAN PORTS CORPORATION PTY LTD

Tasports adopted a fair value measurement of infrastructure assets as at 30 June 2011 for the first time. Fair values were determined based on market values for land and a combination of depreciated replacement cost and value-in-use for the remaining infrastructure assets. The revaluation resulted in a net valuation increment of $73.111m, comprising an increase in asset values, $102.309m, (reported as Other comprehensive income) partly offset by a revaluation decrement, $29.198m (reported as a Non-operating expense).

TASRACING PTY LTD

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

Tasracing became entitled to collect race field fees following the introduction of legislation effective from November 2010. This meant that there was a period of five months in 2010-11 when Tasracing was unable to collect race field fees. The lost revenue caused by this delay was approximately $1.630m. Tasracing entered into a new $1.630m borrowing facility to fund this lost revenue. TOTE Tasmania provided Tasracing with operational funding until the legislation was passed. This amounted to $5.146m in 2009-10.

During 2010-11 due to cashflow problems Tasracing drew down $1.630m of the $40.000m facility to meet cash flow shortages and a further $1.734m for the Spreyton Park track upgrade.

TASMANIAN RAILWAY PTY LTD

During 2010-11 TasRail and the Department of Infrastructure, Energy and Resources signed the lease agreement to finalise the rail corridor lease. Under the terms of the lease, TasRail is responsible for remediation of any environmental obligations that may become apparent as a result of its operations, or past operations, of the network. While no environmental liabilities were identified at balance date, if significant environmental liabilities relating to past operations are identified in the future, TasRail will require financial support from the Tasmanian Government to fund remediation. TasRail is yet to clarify its responsibilities in relation to the maintenance of non operational lines acquired under the terms of the lease. Without this anticipated support from governments, and the financial support it has received since it commenced operations, TasRail is not a going concern.

TOTE TASMANIA PTY LTD

In December 2009, TOTE acquired a 25% share in Bet Worldwide Unit Trust (BWUT) for $5.000m. BWUT owns 100% of online bookmaker Sports Alive Pty Ltd, which was placed into voluntary liquidation on 26 August 2011 and its licence cancelled on the same day. A liquidator was appointed to recover all assets for the benefit of creditors. As at 30 June 2011, TOTE carried the investment at $3.880m and was owed $0.242m by Sports Alive Pty Ltd. The return on the investment and payment of the outstanding debts are uncertain. A note to this effect was included in the financial statements under the heading "Events Subsequent To Balance Date".

TOTE has a SuperTAB Pooling Agreement with Tabcorp Holdings Ltd until 14 August 2012. In July 2011, the Victorian Government announced that Tabcorp Wagering (Vic) Pty Ltd (a wholly owned subsidiary of Tabcorp Holdings Ltd) had been awarded the new wagering and betting licence in Victoria which runs until August 2024. Negotiations over future pooling arrangements between TOTE and the licence holder are expected to commence shortly. However, until a new pooling agreement is in place, TOTE's participation in that pool is at risk. The Directors have stated they have a number of strategies to mitigate that risk.

TRANSEND NETWORKS PTY LTD

In June 2011, the shareholders issued a direction requiring additional dividends and returns of equity. Subsequently, Transend amended its dividend policy for the balance of the current regulatory period until 30 June 2014. The policy is now to pay an annual dividend of 60% of net profit, compared to 50% in previous years. Commencing 2011-12, Transend will make an annual return of equity of $20.000m, subject to its operating and expenditure requirements and borrowing capacity.

The direction to amend the dividend policy, and to return equity, has the likely potential to further deteriorate Transend's already negative working capital, which currently stands at $(48.999)m. In addition, these directions may impact Transend's capacity to service its debt obligations and to continue its capital works program at current levels. This will need to be closely monitored by the Board.

TT-LINE COMPANY PTY LTD

An independent valuation of the Company's two ships is sought annually from independent sources, being two internationally recognised shipping agents. As the prevailing market for these types of ships is predominately in Europe, the valuation is provided in Euros. The valuation of each vessel in Euros at 30 June 2011 remained the same as that at 30 June 2010 (78.000m Euro). However, due to the stronger Australian dollar at 30 June 2011, the value of each vessel decreased from $111.818m to $103.909m between 2010 and 2011. As a result the Company recorded a ship valuation decrement expense of $11.600m in its Statement of Comprehensive Income.

At 30 June 2011 the Company was debt free.

TASMANIAN WATER AND SEWERAGE CORPORATIONS

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

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

Collectively the Corporations had net assets of $1.740bn, employed over 700 people, and reported a profit of $21.982m after tax in 2010-11.

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

Table 3 Summarised Financial Results

Water & Sewerage Corporations	Net operating profit (loss) before net finance cost and tax	Net operating profit (loss) before tax	Net Profit (Loss)	Total Comprehensive Profit (Loss)	Net Assets
	$'000s	$'000s	$'000s	$'000s	$'000s
Ben Lomond Water	9 239	7 653	7 016	7 371	492 997
Cradle Mountain Water	6 175	607	1 874	1 988	326 339
Southern Water	14 742	6 876	13 092	12 807	921 118
Total	**30 156**	**15 136**	**21 982**	**22 166**	**1 740 454**

During 2010-11 Southern Water identified certain strategies to reduce its operating expenses. One of the strategies was a review of its business structure to determine the suitable mix of people required leading to a decision to reduce its staff numbers. As a result, Southern Water recognised a provision for restructure, in accordance with accounting standards, of $1.200m (included within Current Employee Benefits). Another strategy to curtail its operating expense was to remove inefficient assets from service and optimise the use of existing infrastructure. Southern Water identified certain assets which will be decommissioned and as a result recognised a provision for restoration, in accordance with accounting standards, of $5.325m (included within Other current liabilities, $0.325m and Other non-current liabilities, $5.000m).

SUPERANNUATION FUNDS

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

Collectively the RBFB had $3.829bn in net assets under management, earned $316.6m in investment revenues, received $749.5m in contributions from members and paid benefits of $599.1m. Following the effects of the global financial crisis in previous years the RBFB recorded positive investment returns in all funds and schemes this year. Over the four year period to 30 June 2011, Net Assets increased by $517.2m, 15.62%.

For defined benefit schemes, accrued benefits were $5.581bn and the net unfunded superannuation liability was $4.014bn at year end. The RBFB is not responsible for the whole of Government unfunded superannuation liability. That liability is met on an emerging cost basis by the State.

The RBFB outsourced member administration processes and platforms to a third party. This arrangement commenced on 29 April 2011.

TIMELINESS AND QUALITY OF FINANCIAL STATEMENTS

STATUTORY FINANCIAL REPORTING AND AUDITING TIMING REQUIREMENTS

Under section 17 of the *Audit Act 2008* (the Audit Act) specific dates are set by when accountable authorities of State entities are to provide financial statements to the Auditor-General to formally allow the audit process to commence. The requirement is that financial statements are submitted for audit within 45 days after the end of the financial year.

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

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

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

Government Businesses Enterprises (GBE)

All GBEs, and their subsidiary entities, must submit financial statements for audit by 15 August. Signed financial statements for all GBEs, except Forestry Tasmania, were received by this date. Forestry Tasmania's financial statements were received on 17 August 2011. We completed all audits prior to 30 September 2011.

State Owned Corporations (SOC) other than Water and Sewerage Corporations

Other than for Tasmanian Railway Pty Ltd (TasRail) and Tasracing Pty Ltd (Tasracing), transitional provisions applied to SOCs whereby the provisions of the Audit Act did not apply until the year ended 30 June 2011 when these entities were required to submit signed financial statements to the Auditor-General within 45 days after the end of the financial year.

For Tasracing and TasRail, because these SOCs were established after the commencement of the Audit Act, the 45 day rule applied from their foundation.

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

Table 1: Financial and auditing timeframes achieved by SOCs

SOC	Date signed financial statements received	Date audit report issued
Aurora Energy Pty Ltd	12 August 2011	12 August 2011
Metro Tasmania Pty Ltd	11 August 2011	11 August 2011
Tasmanian Ports Corporation Pty Ltd	15 August 2011	15 August 2011
Tasracing Pty Ltd	15 August 2011, *re-signed: 30 September 2011*	30 September 2011
Tasmanian Railway Pty Ltd	15 August 2010	17 August 2011
TOTE Tasmania Pty Ltd	17 August 2011, *re-signed: 19 September 2011*	19 September 2011
Transend Networks Pty Ltd	12 August 2011	12 August 2011
TT Line Company Pty Ltd	10 August 2011	10 August 2011

The above table shows that all SOCs, except TOTE, met statutory financial reporting deadlines. TOTE's, financial statements were approved by the Board and certified on 15 August 2011, but these statements were not received, as is required by the Audit Act, by the Office until after the statutory deadline had elapsed.

Water and Sewerage Corporations

These four entities were given no transitional relief and had to complete signed financial statements for audit within 45 days of balance date since their foundation. For 2010-11 this was achieved by all Corporations submitting signed financial statements on or before 15 August 2011 with audit reports issued for the Corporations on the same days.

Superannuation Funds

Transitional provisions applied to Superannuation Funds whereby, as was the situation for SOCs, the provisions of the Audit Act did not apply until the year ended 30 June 2011 from when they were required to submit signed financial statements to the Auditor-General by 15 August 2011.

The Retirements Benefits Fund Board did not meet its statutory deadline for 2010-11 as signed financial statements, covering all funds under its management, were received on 5 October 2011 with our audit reports issued on the same day.

Steps taken by Audit to facilitate earlier financial reporting

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

- where possible early planning of audits. As part of planning audits discussions are held with management, and where relevant those charged with governance, and agreements reached on financial reporting and auditing timeframes. These agreements are always aimed at completion within statutory reporting deadlines
- preparation of detailed completion timeframes for components of the financial statements
- where financial systems allow, conducting audit testing of selected balances prior to balance date thus minimising work post balance date.

COMPLIANCE WITH FINANCIAL REPORTING STANDARDS

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

QUALITY OF FINANCIAL REPORTING

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

Following audits, Tasracing's and TOTE's financial statements were re-signed on 30 September 2011 and 19 September 2011, respectively. This indicated that overall, the quality of financial statements submitted for audit were of a high standard.

ENERGY BUSINESSES 2010-11

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 differing corporate structures.

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

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

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

INCOME STATEMENTS

	Hydro	Aurora	Transend
	$'000s	$'000s	$'000s
Electricity sales/transmission/distribution	804 181	1 322 689	204 748
Other operating revenue	8 591	60 352	15 382
Total Revenue	**812 772**	**1 383 041**	**220 130**
Depreciation and amortisation	79 873	101 204	65 959
Labour	104 660	108 493	27 496
Energy generation, acquisition and transmission	447 742	1 073 956	26 510
Total Expenses	**632 275**	**1 283 653**	**119 965**
Profit before interest and tax	180 497	99 388	100 165
Finance costs	80 481	79 077	32 695
Profit before tax and fair value movements	**100 016**	**20 311**	**67 470**
Movements in fair value	116 389	0	0
Net profit before tax	**216 405**	**20 311**	**67 470**
Income tax expense	(65 313)	(2 628)	(19 805)
Net profit after tax	**151 092**	**17 683**	**47 665**
Net Profit after tax in 2009-10	**236 434**	**(19 979)**	**26 358**
Net Profit after tax in 2008-09	**291 206**	**9 100**	**11 911**
Net Profit after tax in 2007-08	**158 921**	**27 071**	**18 727**
Net Profit after tax in 2006-07	**79 367**	**32 335**	**21 132**

Comment

These entities made a combined profit after tax of $216.440m (2009-10, $242.813m) with Hydro contributing 70% (97%), Aurora 8% (negative 8%) and Transend 22% (11%).

Hydro's sales revenues grew by 11.8% mainly due to additional revenues generated by Momentum Energy and higher generation supported by stronger water inflows into storages. Aurora's increased by 15.5% mainly associated with increases in both the regulated tariff for 2010-11 and higher consumption loads from mainland and major industrial customers. Transend's revenue increased by 19.9% due to higher sales from regulated electricity transmission.

Aurora's operating expenses included energy generation, acquisition and transmission costs of $943.214m (2009-10, $844.990m). These generation costs included the Tamar Valley Power Station (TVPS), power acquired from Hydro via the National Energy Market and transmission costs paid to Transend and resulted in electricity sales to its residential and business customers. These costs increased by $98.224m, 11.6%, due primarily to increased load purchased during the year to service customers and additional transmission costs associated with this load.

Hydro's revenue from movements in fair values, $116.389m, comprised mainly:

- $17.725m (2009-10, $232.207m gain) earned from fair value movements in electricity derivatives
- $76.261m ($15.599m gain) from net favourable movements in re-assessment of Basslink financial assets and liabilities
- $22.645m gain on the Roaring 40's restructure.

Aurora's other operating revenue, increased by $12.388m to $60.352m in 2010-11, mainly due to higher revenue received from community service agreements, $11.683m, with a corresponding increase in CSO discounts provided.

Hydro's operating expenses increased from $395.266m in 2009-10 to $447.724m in 2010-11 primarily due to increased energy purchases by Momentum Energy.

Labour costs increased for all businesses:

- Hydro increased by $3.897m or 3.9% (17% of total Expenditure) – due primarily to increased redunancies of $1.400m in 2010-11 and annual increases under wage agreements
- Aurora was higher by $13.828m or 14.6% (8%) – due mainly to redundancy costs, $12.267m, as a result of restructuring. Over all, Aurora average FTE's fell by 59 over the period
- Transend increased by $0.375m or 1.4% (22%) this was relatively consistent with prior year.

In line with the Australian Accounting Standards each utility made provisions for depreciation.

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

Financing costs as a percentage of Total costs

	2010-11	2009-10	2008-09	2007-08
Hydro	11.29%	12.28%	14.76%	18.12%
Aurora	5.80%	5.37%	4.50%	4.43%
Transend	21.42%	22.25%	22.71%	9.56%

Hydro's total financing costs decreased mainly because Total expenses increased overall and also because Hydro repaid some debt in 2010-11. When compared with 2009-10, Hydro's financing costs decreased by $6.311m.

Aurora's financing costs increased by $13.158m in 2010-11 (2009-10, increase $21.236m) in line with additional borrowings of $55.329m to fund capital expenditure program. However, the percentage above only increased by 0.43% in 2010-11 due to higher Total Expenses of $135.356m in the year.

Transend's financing costs were consistent in 2010-11 and increased by only $0.106m (2009-10, $0.176m). The significant increase in 2007-08 was due to the $270.000m debt/equity swap with Hydro and additional borrowings to finance on-going capital investment programs.

STATEMENTS OF FINANCIAL POSITION

	Hydro	Aurora	Transend
	$'000s	$'000s	$'000s
Cash and investments	7 680	53 662	2 213
Receivables	114 253	131 818	20 449
Unbilled energy	0	71 927	0
Inventories	65 461	28 639	4 651
Financial assets	157 881	40 935	0
Financial assets - Basslink	42 262	0	0
Other	7 268	28 170	9 453
Total Current Assets	**394 805**	**355 151**	**36 766**
Payables	81 260	159 075	42 000
Borrowings	380 283	25 000	0
Financial liabilities	94 831	70 657	0
Provisions	44 610	30 718	7 473
Tax (assets) liabilities	29 388	0	12 621
Other	0	19 908	23 671
Total Current Liabilities	**630 372**	**305 358**	**85 765**
Working Capital	**(235 567)**	**49 793**	**(48 999)**
Property, plant and equipment	4 414 220	1 697 295	1 453 135
Intangible assets	0	68 810	1 905
Financial assets - Basslink	441 067	0	0
Deferred tax assets	0	115 374	0
Goodwill	47 796	0	0
Other financial assets	208 706	190 480	0
Total Non-Current Assets	**5 111 789**	**2 071 959**	**1 455 040**
Borrowings	603 083	1 060 246	548 000
Provisions	326 544	111 218	47 194
Financial liabilities	1 157 846	163 021	0
Deferred tax liabilities	775 296	222 869	187 609
Other non-current liabilities	0	3 335	0
Total Non-Current Liabilities	**2 862 769**	**1 560 689**	**782 803**
Net Assets	**2 013 453**	**561 063**	**623 238**
Capital	271 100	314 255	66 549
Reserves	(5 576)	141 095	429 329
Retained profits	1 747 929	105 713	127 360
Total Equity	**2 013 453**	**561 063**	**623 238**
Total Equity at 30 June 2010	**1 881 930**	**496 416**	**563 911**
Total Equity at 30 June 2009	**1 665 482**	**518 228**	**524 796**
Total Equity at 30 June 2008	**1 396 440**	**410 482**	**591 366**

Comment

In previous years, Hydro and Transend reported negative working capital suggesting that, before adjusting for employee and other provisions, and subject to available credit, liquidity was tight. However, that assumed all short-term borrowings were to be repaid rather than re-negotiated. At 30 June 2011, Hydro reported $380.283m (2009-10, $206.835m) of borrowings as having to be settled within the next 12 months. These borrowings will be re-negotiated suggesting that it had sufficient liquidity at 30 June 2011 to meet short-term commitments. Only Hydro retired a portion of its debt as noted in the Statement of Cash Flows section of this Chapter.

Despite Transend's profitability, working capital continued to be negative, $48.999m at 30 June 2011 (2009-10, $49.237m).

In line with the Australian Accounting Standard the bulk of Aurora's Borrowings were classified as non-current at 30 June 2011, rather than current, which assisted its Working Capital position, improving it to a positive $49.793m (2009-10, $19.860m).

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

Other major assets and liabilities included:

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

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

	Hydro	Aurora	Transend
	$'000s	$'000s	$'000s
Borrowings at 30 June 2008	971 374	555 212	408 677
Borrowings at 30 June 2009	941 235	932 705	488 000
Borrowings at 30 June 2010	872 864	1 029 917	518 000
Borrowings at 30 June 2011	983 366	1 085 246	548 000
Increase in borrowings 2008-11	11 992	530 034	139 323
Percentage change in borrowings 2008-11	1.23%	95.47%	34.09%

Total Borrowings of all three entities grew by $681.349m over the four years under review. This was primarily due to their on-going capital investment programs into core assets, the purchase of TVPS and development of new systems. Other observations include:

- Hydro's debt fluctuated over the four year period:
  - debt decreased by $270.000m following the debt/equity swap with Transend in 2007-08 and an equity injection by the State in that year
  - in 2009-10 it was lower due to stronger cash flows enabling it to retire debt
  - debt reduction continued during 2010-11, however, was higher on 30 June 2011 due to Hydro fully consolidation 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.

- Aurora's debt increased over the period due the further investment required in building and maintaining a safe and reliable distribution network and the completion of the TVPS in October 2009.
- Transend's debt increased in the period 2007-08 to 2010-11 due to extensive capital works programs and also by the $270.000m debt for equity swap with Hydro, previously mentioned.

STATEMENTS OF CASH FLOWS

	Hydro	Aurora	Transend
	$'000s	$'000s	$'000s
Receipts from customers	790 947	1 450 717	230 962
Payments to suppliers and employees	(552 170)	(1 250 713)	(76 742)
Interest received	214	2 250	22
Finance costs	(55 290)	(66 665)	(21 878)
Income tax equivalents paid	(16 249)	(2 846)	(13 218)
Government guarantee fee paid	(6 646)	(6 315)	(6 860)
Cash from operations	**160 806**	**126 428**	**112 286**
Payments for investments	(27 674)	0	0
Payments for assets and intangibles	(64 618)	(171 231)	(132 605)
Proceeds from investments and asset sales	753	652	1 100
Cash (used in) investing activities	**(91 539)**	**(170 579)**	**(131 505)**
Proceeds from borrowings	262 600	55 329	30 000
Repayment of borrowings	(306 835)	0	0
Dividend paid	(25 510)	0	(13 200)
Proceeds from equity issue	10 639	4 900	0
Cash from (used in) financing activities	**(59 106)**	**60 229**	**16 800**
Net increase (decrease) in cash	**10 161**	**16 078**	**(2 419)**
Cash at the beginning of the year	3 038	37 584	4 632
Cash at end of the year	**13 199**	**53 662**	**2 213**

Comment

The three entities continue to generate significant cash from operations, which totalled $399.520m in 2010-11, an improvement on the previous three years (2009-10, $328.904m; 2008-09, $229.963m; 2007-08, $164.683m).

Hydro's Cash from operations remained relatively consistent, $160.806m in 2010-11 compared to $178.042m in 2009-10. This slight decrease was primarily due to income tax equivalents paid of $16.249m in 2010-11.

Aurora's Cash from operations increased from $49.339m in 2009-10 to $126.428m in 2010-11. This was mainly driven by increased receipts from customers of $135.801m due to higher tariffs, higher consumption, a full year of operations of the Tamar Valley Power Station and new major industrial customers.

Transend's Cash from operations increased from $87.917m in 2009-10 to $112.286m in 2010-11, due predominantly to higher TUOS (transmission use of system) revenue.

All three utilities continued to invest strongly in capital expenditure with $368.454m expended in 2010-11 ($476.028m, 2009-10; $634.824m, 2008-09; $232.042m, 2007-08).

FINANCIAL ANALYSES

	Bench Mark	Hydro	Aurora	Transend
Financial Performance				
Net profit after tax ($'000s)		151 092	31 135	47 665
EBIT ($'000s)		180 497	118 605	100 165
EBITDA ($'000s)		264 250	219 809	166 124
Operating margin	>1.0	1.47	1.03	1.83
Return on assets	5.21%	3.4%	5.0%	7.0%
Return on equity		7.8%	5.9%	8.0%
Financial Management				
Debt to equity		48.8%	193.4%	87.9%
Debt to total assets		17.9%	44.7%	36.7%
Interest cover - EBIT		2.24	1.5	2.4
Interest cover - cash from operations		3.91	2.5	3.7
Current ratio	>1	0.63	1.16	0.43
Cost of debt	6.90%	7.2%	7.5%	7.8%
Debt collection	30 days	52	51	4
Creditor turnover	30 days	24	20	0
Asset Management				
Investment gap %	>100%	80.9%	169%	201%
Returns to Government				
Dividends paid ($'000s)		25 510	0	13 200
Income tax paid or payable ($'000s)		16 249	8 620	13 218
Government guarantee fees paid ($'000s)		6 646	6 315	6 860
Total return to the State ($'000s)		48 405	14 935	33 278
Dividends payable ($'000s)		49 008	11 879	28 600
Dividend payout ratio		32.4%	38.2%	60.0%
Dividend to equity ratio		2.5%	2.2%	4.6%
CSO funding ($'000s)		7 500	34 833	0
Other Information				
Average staff numbers (FTEs)		899	1 294	284
Average staff costs ($'000s)		116	84	116
Average leave balances per employee ($'000s)		23	26	28

Comment

Aurora's Return on equity increased from negative 2.5% in 2009-10 to positive 5.9% in 2010-11 and its Return on assets improved from 1.4% to 5.0%.

Hydro's Debt to equity ratio remained relatively consistent with 2009-10. Debt to equity ratios of Aurora and Transend indicated they relied to a greater extent on debt funding than did Hydro. Aurora's Debt to equity ratio decreased from 207.5% in 2009-10 to 193.4% in 2010-11 and Transend's from 91.9% to 87.9% over the same period.

Aurora invested strongly in distribution networks and Transend invested strongly in capital expenditure as indicated by their Investment gap ratios.

Average staff numbers (FTE's) decreased from 2 521 in 2009-10 to 2 477 in 2010-11, due primarily to Aurora reducing its average FTE's from 1 353 to 1 294. In addition, Aurora's Average staff costs increased from $0.070m to $0.084m, partly as a result of redundancy costs from restructuring.

In total these three entities returned $96.618m in the form of taxes and dividends (2009-10, $49.340m; 2008-09, $54.321m; 2007-08, $57.832m) to the State in 2010-11.

ENERGY PRICES

It is noted that the *Electricity Supply Industry Expert Panel Act 2010* established an independent Panel to conduct an investigation into, and provide guidance to Parliament on, the current position and future development of Tasmania's electricity industry. Their findings are expected to be submitted to Parliament before 31 March 2012.

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

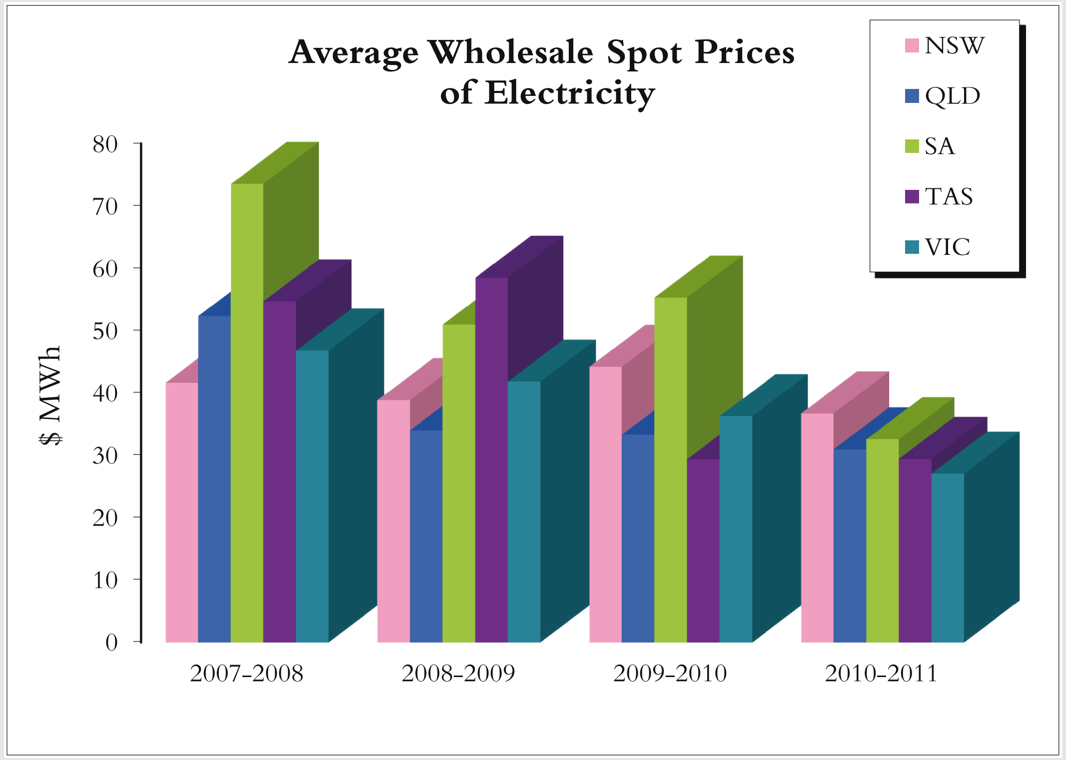
Average Annual Prices (per financial year) $/MWh

Year	NSW	QLD	SA	TAS	VIC
2007-2008	41.66	52.34	73.50	54.68	46.79
2008-2009	38.85	34.00	50.98	58.48	41.82
2009-2010	44.19	33.30	55.31	29.37	36.28
2010-2011	36.74	30.97	32.58	29.45	27.09

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

Under the existing market rules for the NEM average spot prices can range between a floor of negative $1 000 to a ceiling of $12 500 per megawatt hour. This price volatility initially impacted the valuation of generation assets by introducing uncertainty to cash flows and returns to investors. In response, larger market participants manage the impact of price volatility through a range of hedging instruments.

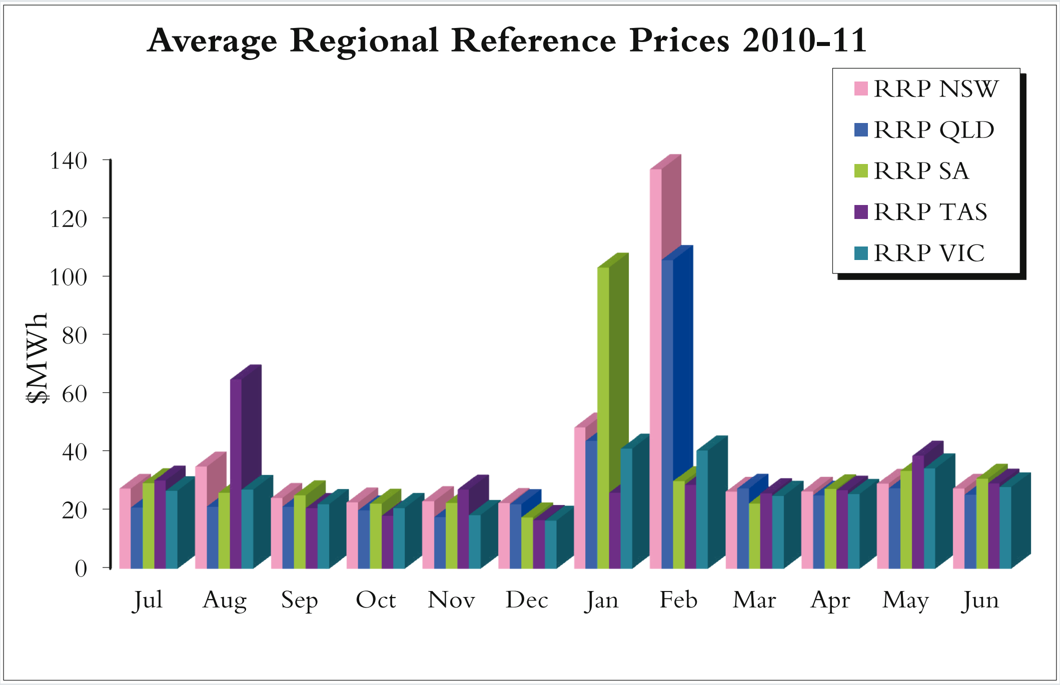
The graph below illustrates movement in the average annual wholesale spot prices of electricity for the past four years.



Source: AEMO: NEM Data

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

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



Source: AEMO: NEM Data

Whilst the Tasmanian market fluctuates, it did not appear to be as volatile as other States in 2010-11, apart from August 2010 where the MWh price peaked.

The highest and lowest electricity prices recorded in Tasmania for 2010-11 were:

- lowest average daily price was negative $1.36/MWh on 27 November 2010) (2009-10, negative $77.12/MWh on 3 February 2010)
- highest average daily price was $805.06/MWh on 8 August 2010 ($497.89/MWh on 22 May 2010)
- lowest half-hour price was negative $ 463.84/MWh on 27 November 2010 at 5.00am (negative $999.64/MWh at 3pm and 3:30pm on 2 February 2010)
- highest half-hour price was $12 400.26/MWh on 7 August 2008 at 6.30pm ($3 747.20/MWh on 22 May 2010 at 6pm).

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

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

GOVERNMENT BUSINESS ENTERPRISES

AT A GLANCE

BACKGROUND

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

The GBE Act 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 part of the Report 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)
- Rivers and Water Supply Commission (the Commission)
- Tasmanian Public Finance Corporation (TASCORP)
- Public Trustee.

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

- Audit of the 2010-11 Financial Statements
- Key Findings and Developments
- Financial Results:
    - Comprehensive Income Statement
    - Statement of Financial Position
    - Statement of Cash Flows
    - Financial Analysis.

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

KEY OUTCOMES, DEVELOPMENTS AND FINDINGS FROM AUDITS

Key outcomes from audits included:

- The audits of the financial statements of all seven GBEs were completed with all audit opinions unqualified.
- All audits were completed satisfactorily with no major items outstanding.
- All GBEs, except Forestry, submitted financial statements within the statutory deadline being 45 days following the end of the financial year.

Key developments and findings included:

FORESTRY TASMANIA

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

> 'Forestry's operating result together with the ongoing uncertainty around the Tasmanian Forests Intergovernmental Agreement (IGA) and the Statement of Principles and their possible impact on the business caused the directors to review the appropriateness of continuing to prepare accounts on a going concern basis. The current trading outlook presents significant challenges in terms of sales volume and pricing and in these circumstances there are material uncertainties over future trading results and cash flows. In addition, the effect on the business of the IGA and Principles is yet to be finalised but it is possible they will lead to a significant reduction in the resource available for harvest and sale.
>
> Also relevant is that Government commenced a Strategic Review of Forestry. The outcome of this review may or may not increase the uncertainties surrounding Forestry's operations.
>
> The Directors concluded from this that the combination of these circumstances represents a material uncertainty on the operations of the business.
>
> However, the Directors noted that:
>
> - there are signs of improved demand for forest products, pricing is improving and Forestry has reduced its costs significantly
> - measures have been instituted to preserve cash, additional sources of finance have been secured and other initiatives are being considered including asset sales
> - it is likely that assistance will be received in restructuring operations and the balance sheet
> - appropriate enquiries of the relevant Ministers have been made and, bearing in mind the uncertainties described above, the Directors have concluded that the group and the organisation will receive ongoing support and adequate resources to continue in operational existence for the foreseeable future.
>
> Taking into account all the above factors the Directors concluded that it is appropriate to continue to adopt the going concern basis in preparing the financial report.'

As indicated in the Audit Summary section of this Report, Audit concurred with this conclusion and included an emphasis of matter paragraph in the audit report.

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

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

HYDRO-ELECTRIC CORPORATION

Hydro and China, Light & Power agreed to cease their joint venture investment in Roaring 40s (R40s). The disaggregation occurred on 30 June 2011. Hydro gained control of the wind farms at Studland Bay, Bluff Point and the development site of Musselroe. The net assets of the companies acquired were fair valued at the consolidation level which resulted in a fair value gain of $50.670m.

The 2010-11 year has seen the continuation of Hydro's storage rebuild program initiated in 2007-08. This strategy was implemented by Hydro adjusting its trading and generation strategies where storage levels were supported by electricity imports via Basslink from Victoria while meeting Tasmania's energy demands. This program is projected to be completed in the current five year corporate plan period. The water inflows for 2010-11 were well above the 8 700GWh rating of the system. Storages at 30 June 2011 were at 45.9%, significantly higher than last year, 36.3%. This equates to 6 630GWh of energy in storage.

The higher than average inflows into storages in 2010-11 was a factor in improved cash flows from trading.

In 2009 the Corporation included a conservative assumption within the fair value of generation asset determinations to reflect the expected impact on forecast prices of the then proposed carbon trading scheme. Due to the lack of progress in this scheme and uncertainty as to the impact on revenues of the Federal Government's recently proposed carbon price no further change to the fair value has been recorded.

MOTOR ACCIDENTS INSURANCE BOARD

A significant portion of the Board's investment portfolio is exposed to Australian and international listed investment markets and consequently it is subject to associated market risk. From balance date up to the date the financial statements were certified and authorised for issue by the Board, Australian and international markets experienced a period of significant volatility resulting in an estimated $60.000m unrealised reduction in the Board's investment portfolio. As the investments were measured at fair value at 30 June 2011 this fall was not reflected in the Comprehensive Income Statement or in the Statement of Financial Position.

At 31 October 2011 the estimated reduction since balance date was $19.000m.

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 calculated on a percentage of the average net profits and losses after taxation over the current and four preceding years. For the year ended 30 June 2010 dividends were proposed under the policy at the rate of 50% consistent with prior years. Subsequent to the Board determining a dividend, the Shareholders issued a direction, which amended the percentage payable to 70% of the average net profits and losses. This increased the dividend by $9.877m. For the year ended 30 June 2011 the Board, in accordance with its Corporate Plan, proposed a dividend based on 50% of average net profits and losses.

PORT ARTHUR SITE MANAGEMENT AUTHORITY

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

At the request of Government the Authority assumed responsibility for the Cascades Female Factory Historic Site in December 2010. It is expected the proclamation under the *Nature Conservation Act 2002,* that will effect the transfer, will occur in 2011-12. This will mean the Authority has full control of the Site and it is expected that the Sites' conservation costs will be funded by Government. The funds committed by the Government are: 2011-12, $0.517m; 2012-13, $0.440m; 2013-14, $0.402m.

RIVERS AND WATER SUPPLY COMMISSION

In December 2010, Government approved the restructuring of the three irrigation businesses into a single State-Owned Company. The single company was previously the Tasmanian Irrigation Development Board Pty Ltd, changed its name to Tasmanian Irrigation Pty Ltd, and came into effect on 1 July 2011, at which time all assets, rights, liabilities and staff of the Commission and Tasmanian Irrigation Schemes Pty Ltd were transferred to Tasmanian Irrigation Pty Ltd.

Between 1 July 2005 and 30 June 2011 significant net equity injections, $89.556m, and borrowings were made aimed at, in the main, funding investments in irrigation related dams and schemes. Also relevant is that at 30 June 2011, the Commission's Net assets totalled $64.996m, which due to impairment write downs was $24.560m less than total equity contributions provided.

SUMMARY FINANCIAL PERFORMANCE

Tasmania's GBEs collectively had net assets of $2.575bn (2009-10, $2.548bn), employed 1 582 people (1 579), and generated $67.577m ($59.047m) in after tax profits in 2010-11. The following three GBEs made up 95% of the net assets controlled by all GBEs:

- Forestry
- Hydro
- MAIB.

They contributed $73.385m profit after tax in the current year compared to $46.851m the prior year.

FORESTRY TASMANIA

In 2010-11, Forestry recorded a Net operating loss before tax of $17.722m, which was $1.452m or 8.9% higher than last year. Developments in the forest sector led to Forestry seeking new export markets, focusing on more lucrative sales and making changes to its cost structure to align it with a smaller revenue base, including a reduction in its workforce, abolition of the Mersey District and leasing its entire vehicle fleet.

Overall, Forestry reported a Net Loss of $129.476m following a further decline in the value of its biological assets of $95.253m, revision of costs and revenues associated with its obligations to maintain non-commercial forests (formal reserves and special timber zones) which resulted in a write-back of $8.700m, actuarial reassessment of Forestry's superannuation commitment, $3.232m and recognition of an Income tax expense, $37.243m.

Total Equity decreased from $275.072m to $146.636m during 2010-11. The decrease, $128.436m, reflected the Comprehensive loss for the year, $128.794m, and a tax benefit credited directly to Equity, $0.358m.

We made an observation last year that it is not sustainable for Forestry to generate negative cash from its operating activities. This year, Forestry's cash position deteriorated further as cash decreased from $29.546m at 30 June 2010 to $9.365m at 30 June 2011. The decrease of $20.181m primarily resulted from an operating cash deficit of $9.348m and net investments in assets of $17.589m. Another year of negative cash generated from operating activities at the 2010-11 level will see Forestry unable to continue with its plantation development programs.

It is anticipated by management that the measures instituted in 2010-11 will improve and maintain future cash flows. Those measures include cost reduction strategies, assets divestment and additional borrowings of up to $20.000m to fund operations and capital works. Based on its cash flow projections, Forestry anticipates its cash position will start improving towards the end of 2011-12 and will strengthen further in 2012-13 following improved sales. There are also expectations the State Government will provide ongoing support and adequate resources to allow continuation of operations.

HYDRO-ELECTRIC CORPORATION

Hydro's storage rebuild program continued in 2010-11, however, because of above average inflows to storages, Hydro achieved net exports of 216GWh for the 2010-11 period. It exported 1 311GWh and imported 1 095GWh.

On an earnings before interest and tax basis, Hydro's results improved by $27.274m in 2010-11. Total expenses represented 77.80% of total revenue (78.9% in 2009-10). Total revenue increased by $85.839m, or 11.80%, primarily due to additional revenues generated by Momentum Energy Pty Ltd and stronger water inflows into storages. Direct operating expenses increased by $55.912m, or 17.53%.

Hydro's liquidity and financial position improved in the current year with equity increasing by $0.131bn from $1.881bn in 2009-10 to $2.013bn and its borrowings increasing by $0.111bn from $0.873bn to $0.983bn. This increase was due to additional borrowings taken on following the consolidation of HT Wind Operations Pty Ltd (formerly R40s).

Hydro's net working capital position at 30 June 2011 was negative $235.567m ($212.299m negative at 30 June 2010) primarily due to short term borrowing obligations of $380.283m which increased largely due to the acquisition of HT Wind Operations. While such a high level of negative net working capital might normally be a cause for concern, strong operating cash flows suggest this should not be a difficulty for Hydro, subject however to its ongoing capital expenditure and debt repayment programs.

MOTOR ACCIDENTS INSURANCE BOARD

For the year ended 30 June 2011, MAIB generated a Net profit before tax of $69.642m. This result was a $32.154m decrease on the 2009-10 profit and was principally attributable to higher Claims expenses.

Net profit before tax included investment income, which in 2010-11 totalled $77.148m, a decrease of $9.327m from the 2009-10 result, and represented an 8% (2009-10, 10%) return on the investment portfolio for the year. The Board's investment strategy of seeking to maximise long-term growth results in inherent volatility that may cause returns from year to year to fluctuate significantly.

Net assets increased by $17.202m to $288.638m. The major component of MAIB's total assets was its investment portfolio (including cash), which at 30 June 2011 totalled $1.063bn (2009-10, $0.969bn) and represented 94.74% of total assets (92.80%).

MAIB's provision for outstanding and unreported claims totalled $766.069m at 30 June 2011, an increase of $59.414m on the position at 30 June 2010.

PORT ARTHUR SITE MANAGEMENT AUTHORITY

The Authority remains economically dependent on funding from the State Government. It generated an operating deficit of $0.160m this year compared to a profit of $0.205m in 2009-10, before recognition of the actuarial superannuation expense, asset revaluation adjustment and impairment of non-current assets. Total Equity increased by $0.536m in 2010-11 to $14.768m, due to a positive Net Comprehensive result for the year.

RIVERS AND WATER SUPPLY COMMISSION

In 2010-11 the Commission continued to improve its equity position, mainly due to equity injections from Government over the last three years. These equity contributions minimised the Commission's need to borrow from external sources to fund its new projects. Total debt, which increased in 2007-08 as the Commission borrowed to fund the construction of Meander Dam, slightly decreased over the last three years.

The Commission's operating profit increased from $3.844m in 2009-10 to $8.817m in 2010-11. Overall, the Commission reported a deficit after tax of $12.905m after non-operating items, mainly impairment losses of $27.252m. By 30 June 2011 the total amount impaired against the Meander Valley Irrigation Scheme was $29.930m and against the South East Irrigation Scheme, $0.044m.

TASMANIAN PUBLIC FINANCE CORPORATION

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

TASCORP achieved a Net Profit before tax for the year of $9.604m (2009-10, $16.219m) and at 30 June 2011 it had Net Assets of $41.475m (30 June 2010, $38.466m).

TASCORP's Comprehensive Income for the year ended 30 June 2011 was $6.723m (2009-10, $11.353m). The decline was due to the fall in net interest revenue (being interest revenue less interest expense) of $4.833m ($17.712m increase) caused by a number of factors including:

- claw back in 2009-10 of unrealised market value losses incurred in 2007-08
- increased issuance and hedging costs for 2014 preferred stock totalling $750.000m issued in 2010-11 compared to the costs associated with the issue of 2020 preferred stock $100.000m in 2009-10
- higher operating expenses of $5.819m ($4.804m) caused by placement fees associated with the issuance of the 2014 preferred stock.

These factors were partly offset by lower income tax expense of $2.881m (2009-10, $4.866m).

TASCORP's Equity increased by $3.009m in 2010-11, being its net profit after tax for the financial year less dividends paid.

At 30 June 2011 TASCORP had Net Assets of $41.475m ($38.466m) comprising:

	June 2011 $m	June 2010 $m
Investments	4 127	2 421
Advances to State entities	2 971	2 931
Deposits received from State entities	(1 196)	(1 660)
Borrowings	(5 790)	(3 682)
Net derivatives	(79)	40
Other	8	(12)
Total	**41**	**38**

The increase in individual items on TASCORP's Statement of Financial Position resulted from investments and borrowings at 30 June 2010 being lower than expected (the issuance of the 2014 preferred stock was originally planned for June 2010) and June 2011 reflecting increased holdings of liquid assets. During 2010-11, TASCORP purchased a range and mixture of investments including a substantial volume of semi government bonds and bank investments, including term deposits. An objective was to increase its liquidity and to return investments to a more normal level.

PUBLIC TRUSTEE

Public Trustee's Net profit after tax was $0.534m, an improvement of $0.633m on the prior year loss of $0.099m, predominately the result of higher investment income.

Equity increased by $0.716m due to the Net Profit after tax of $0.534m and a net gain of $0.182m arising from the actuarial re-assessment of Public Trustee's defined benefit superannuation obligations.

RESPONSIBLE MINISTER

The Ministers responsible at 30 June 2011 for GBEs were:

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

FORESTRY TASMANIA

INTRODUCTION

Forestry Tasmania (Forestry) was established under the *Forestry Amendment (Forestry Corporation) Act 1994*, which amended the *Forestry Act 1920*. It is responsible for the management of approximately 1.5 million hectares of State forest and commercial plantations, a role that includes managing forests for multiple uses and delivering both economic and social benefits to the Tasmanian public. Consistent with requirements of other Government Business Enterprises, its principle objectives under the *Government Business Enterprises Act 1995* (GBE Act) are to perform its functions by operating in accordance with sound commercial practice and to achieve a sustainable commercial rate of return.

Forestry holds a 100% interest in Newood Holdings Pty Ltd (Newood) and a 50% share in a softwood joint venture with Grantham, Mayo and Osterloo (GMO JV).

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

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

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

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

AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

Financial statements were approved by the Board and certified on 15 August 2011. The signed financial statements were received on 17 August 2011, which was two days after the statutory reporting deadline, and an unqualified audit report was issued the same day. The audit report contained the following emphasis of matter paragraph:

> 'I draw attention to Note 33 to the financial report which describes circumstances giving rise to uncertainties as to the operations of Forestry Tasmania, the assessment by the directors and their conclusion that it is appropriate for Forestry Tasmania to continue to adopt the going concern basis in preparing this financial report. My audit opinion is not qualified in respect of these matters.'

Note 33 in the Forestry financial statements noted the following:

> 'Forestry Tasmania's operating result together with the ongoing uncertainty around the Tasmanian Forests Intergovernmental Agreement and the Statement of Principles and their possible impact on the business, have caused the directors to review the appropriateness of continuing to prepare the accounts on a going concern basis. The current trading outlook presents significant challenges in terms of sales volume and pricing and in these circumstances there are material uncertainties over future trading results and cash flows. In addition, the effect on the business of the Agreement and Principles is yet to be finalised, but it is possible that they will lead to a significant reduction in the resource available for harvest and sale.
>
> Also relevant is that the State Government has commenced a Strategic Review of Forestry Tasmania. The outcome of this review may or may not increase the uncertainties surrounding Forestry Tasmania's operations. The directors have concluded from this that the combination of these circumstances represents a material uncertainty on the operations of the business.
>
> However, the directors note that:
>
> - there are signs of improved demand for forest products, pricing is improving and Forestry Tasmania has reduced its costs significantly
> - measures have been instituted to preserve cash, additional sources of finance have been secured and other initiatives are being considered including asset sales
> - it is likely that assistance will be received in restructuring operations and the balance sheet
> - appropriate enquiries of the relevant Ministers have been made and, bearing in mind the uncertainties described above, the directors have concluded that the group and the organisation will receive ongoing support and adequate resources to continue in operational existence for the foreseeable future.
>
> Taking into account all the above factors the directors have concluded that it is appropriate to continue to adopt the going concern basis in preparing the financial report.'

KEY FINDINGS AND DEVELOPMENTS

The audit was completed satisfactorily with no major items outstanding.

Tasmanian Forests Intergovernmental Agreement

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

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

Tasmanian Community Forest Agreement

The Tasmanian Community Forest Agreement (TCFA) was signed in 2005 to supplement the Regional Forest Agreement. Between 2004-05 and 2009-10, Forestry received $140.137m to further facilitate the establishment of timber plantations to compensate for additional reserves added for conservation purposes. No further funding was received in 2010-11 under the TCFA. However, at 30 June 2011, Forestry still had to acquit $10.000m (2009-10, $15.000m) of these funds in that, while it had received the funds, this amount still had to be invested in plantation establishment. Also relevant is that at 30 June 2011, Forestry's Statement of Financial Position reported that of the $140.137m received, $47.732m ($59.966m) was 'unearned'. This represents that element of the funding invested in capitalised costs which will be transferred to income over the life of the associated assets.

Strategies to Reduce Operating Expenses

The downturn in the sector led Forestry to make changes to its cost structure to align it with a smaller revenue base, including a reduction in its workforce, abolition of the Mersey District and leasing its entire vehicle fleet. In April 2011, Forestry abolished 22 positions and paid out around $1.700m in redundancy entitlements.

Financial Performance

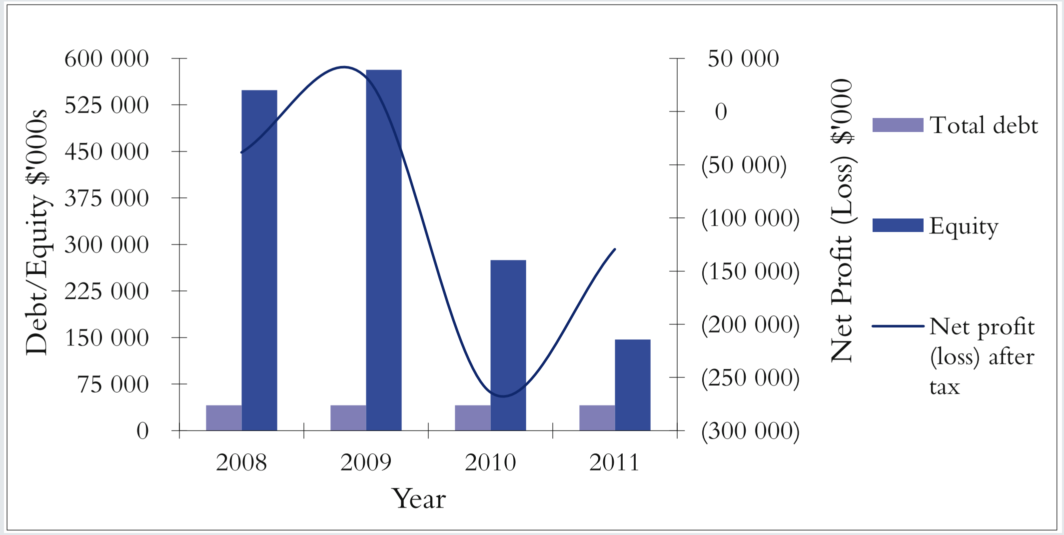
We made an observation last year, that it is not sustainable for Forestry to generate negative cash from its operating activities. This year, Forestry's cash position deteriorated further as cash at the end of the year decreased from $29.546m at 30 June 2010, to $9.365m at 30 June 2011. The decrease of $20.181m resulted from a combination of an operating cash deficit, $9.348m, and the TCFA coming to an end, resulting in a financing cash deficit, $9.663m. Another year of negative cash generated from operating activities at the 2010-11 level will see Forestry unable to continue with its plantation development programs.

It is anticipated by management that the measures instituted by it in 2010-11, will improve and maintain future cash flows. Those measures include cost reduction strategies, assets divestment and additional borrowings of up to $20.000m to fund operations and capital works. Based on its cash flow projections, Forestry anticipates that its cash position will start improving towards the end of 2011-12 and will strengthen further in 2012-13 following improved sales. There are also expectations that the State Government will provide ongoing support and adequate resources to allow continuation of operations.

Another key development was further write-down of Forestry's biological assets. Details are provided in the next section of this Chapter.

FINANCIAL RESULTS

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



Forestry's results fluctuated significantly over the last four years and were largely affected by impairment of its biological assets due to the decline in the value of timber, mainly timber from native forests. Decreased sales in 2009-10 also impacted on the results. Debt remained constant throughout the period.

Equity decreased significantly between 2009 and 2011 due to the impact of the revised valuation approach, which decreased the carrying amount of Forestry's integrated biological and forest estate assets as shown in the table below:

Components of integrated forest valuation	**2010-11**	**2009-10**	**2008-09**
	$'000	$'000	$'000
Standing timber	145 927	247 846	293 997
Land	0	0	277 127
Roads and structures	116 749	114 654	115 295
Total biological and forest estate assets	**262 676**	**362 500**	**686 419**
Obligations for non-commercial forest zones	(57 100)	(65 800)	0
GMO joint venture timber resource	85 650	70 891	91 300
Net biological and forest estate assets	**291 226**	**367 591**	**777 719**

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

The approach adopted to valuing biological assets remained fundamentally unchanged. The decrease in the valuation of Forestry's Standing timber (native forest and plantation commercial forest zones) of $101.919m, primarily related to the price impact of difficult trading circumstances being experienced in both domestic and international markets, updated costs in the valuation mode and changes in the discount rate applied.

The following four scenarios were considered, reflecting relevant market information and economic factors. The scenarios were:

1. base case of business as usual, but reflecting the current economic context, with updated prices and costs, including projected sawlog price increases, reduced pulpwood process and revised Community Service Obligations costs
2. reduced native forest sawlog supply to 150 000 cubic metres per annum, with additional plantation volumes as they come on stream. Other products were in proportion to this volume
3. as for scenario 2, but assuming phase out of the native forest harvest after 20 years, as plantation volumes take over
4. reduced native forest sawlog supply to 200 000 cubic metres per annum from native forest, with additional plantation volumes as they come on stream.

The valuation attached different weighting to Scenarios 2, 3 and 4, representing their probability, or how probable they would be in the view of a potential investor in the forest estate owned by Forestry.

COMPREHENSIVE INCOME STATEMENT

	2010–11	**2009–10**	**2008–09**	**2007–08**
	$'000s	$'000s	$'000s	$'000s
Revenue from forest sales	135 260	114 136	136 773	137 755
Share of GMO JV revenues	21 199	21 046	18 499	18 519
Forest management services revenue	5 733	5 982	7 624	10 182
Tasmanian Community Forest Agreement	3 716	4 282	3 504	3 768
Other revenue	10 145	14 808	14 068	14 474
Total Revenue	**176 053**	**160 254**	**180 468**	**184 698**
Employee benefits	30 345	33 029	33 036	35 344
Contractors expenses	94 493	83 772	85 726	85 469
Share of GMO JV expenses	17 089	16 689	15 674	17 680
Depreciation	10 514	11 797	14 279	12 470
Costs attributable to non-commercial forest zones#	5 255	6 390	9 090	0
Other expenses	26 866	16 036	15 701	26 065
Total Expenses	**184 562**	**167 713**	**173 506**	**177 028**
Net operating profit (loss) before net finance cost and tax	**(8 509)**	**(7 459)**	**6 962**	**7 670**
Finance revenue	2 331	2 023	2 499	1 469
Finance costs	(2 386)	(1 934)	(2 287)	(2 652)
Finance lease costs	(993)	(1 006)	(1 019)	(1 227)
Interest cost on defined benefit superannuation plan	(8 165)	(7 894)	(7 573)	(7 219)
Net operating profit (loss) before tax	**(17 722)**	**(16 270)**	**(1 418)**	**(1 959)**
Biological asset valuation adjustment	(95 253)	(74 630)	43 449	(73 889)
Movement in obligations for non-commercial zones	8 700	(65 800)	0	0
TCFA capital grant income earned	7 496	5 836	9 484	15 670
Superannuation actuarial gains (losses)	3 232	(11 131)	(4 276)	8 328
Investment market value adjustment	1 314	1 299	(2 217)	(2 885)
Impairment of forest land	0	(217 198)	0	0
Impairment of other assets	0	(1 736)	(773)	(508)
Net profit (loss) before tax	**(92 233)**	**(379 630)**	**44 249**	**(55 243)**
Income tax benefit (expense)	(37 243)	115 748	(11 963)	16 786
Net Profit (Loss)	**(129 476)**	**(263 882)**	**32 286**	**(38 457)**
Increase (decrease) in the revaluation of land and buildings	1 150	(59 631)	1 291	0
Income tax on revaluation of land and buildings	(468)	17 844	(363)	0
Total Comprehensive Profit (Loss)	**(128 794)**	**(305 669)**	**33 214**	**(38 457)**

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

Comment

In 2010-11, Forestry recorded a Net operating loss before tax of $17.722m, which was $1.452m or 8.9% higher than last year. Developments in the forest sector led to Forestry seeking new export markets, focusing on more lucrative sales and making changes to its cost structure to align it with a smaller revenue base, including a reduction in its workforce, abolition of the Mersey District and leasing its entire vehicle fleet.

Total Revenue increased by $15.799m or 9.9%, but was still behind the 2007-08 level. The growth was driven by rising Revenue from forest sales, up $21.124m, which increased as a result of a slight increase in the volume sold, up 96 kilo tonnes or 4%, a shift from stumpage (in-forest) to more lucrative mill door (delivered) sales and a growth in export sales, $4.649m or 73%.

The growth in Forest sales was offset by:

- increased Contractors expenses, $10.721m as harvest, haulage and other associated costs increased in line with the growth in timber production
- decreased Other revenue, $4.663m, as shown in the table below
- Increased Other expenses, $10.830, due to impairment of receivables.

Other Revenue Breakdown	2010-11	2009-10
	$'000s	$'000s
Tourism	1 672	2 364
Fire fighting~	0	2 907
Nursery and seed sales	512	1 144
Government grants	871	542
Share of profit in associates	85	135
Other	7 005	7 716
Total Other Revenue	**10 145**	**14 808**

~ *Forestry receives a contribution towards fire fighting cost. No claims were made in 2010-11.*

The changes to cost structures mentioned earlier led to a reduction in Forestry's workforce from 479 to 433 FTEs which resulted in lower Employee benefits, decreasing by $2.684m.

Overall, Forestry reported a Net Loss of $129.476m following:

- a further decline in the value of its biological assets (productive native forest and plantations, excluding those owned by GMO JV) of $95.253m, comprising net valuation decrement, $87.159, and establishment and future crop expenditure, $8.094m. The valuation decrement reflected the current state of the market for timber products and reduction in harvesting timber from native forests
- revision of costs and revenues associated with Forestry's obligations to maintain non-commercial forests (formal reserves and special timber zones) which resulted in a write-back of $8.700m
- actuarial reassessment of Forestry's superannuation commitment, which resulted in a gain of $3.232m, mainly due to a decrease in future liabilities
- recognition of an Income tax expense, $37.243m, which was a result of a write-back of deferred tax asset on forest land following its impairment last year and reassessment of its recoverability.

STATEMENT OF FINANCIAL POSITION

	2011	2010	2009	2008
	$'000s	$'000s	$'000s	$'000s
Cash	9 365	29 546	37 043	20 919
Investments	7 147	0	0	0
Receivables and prepayments	34 702	38 540	31 561	24 856
Inventories	12 684	12 189	10 825	10 343
Biological assets	6 741	5 559	23 864	14 620
Total Current Assets	**70 639**	**85 834**	**103 293**	**70 738**
Payables	15 170	20 509	17 613	18 862
Unearned revenue - TCFA	12 988	14 191	20 154	18 798
Borrowings	29 800	19 800	19 800	19 800
Employee benefits	4 943	5 540	5 766	6 259
Superannuation	4 556	4 187	4 685	14 849
Obligations for non-commercial forest zones	1 463	5 354	0	0
Total Current Liabilities	**68 920**	**69 581**	**68 018**	**78 568**
Net Working Capital	**1 719**	**16 253**	**35 275**	**(7 830)**
Biological assets	224 836	313 178	361 433	315 135
Forest estate	116 749	114 654	392 422	388 155
Property, plant and equipment	43 999	46 385	58 475	60 226
Investments	0	13 666	12 680	15 181
Deferred tax assets	0	27 467	0	0
Other	1 289	1 714	1 358	1 787
Total Non-Current Assets	**386 873**	**517 064**	**826 368**	**780 484**
Borrowings	11 000	21 000	21 000	21 000
Finance lease and other payables	11 522	11 716	11 895	12 049
Unearned revenue - TCFA	34 744	45 775	35 792	11 863
Deferred tax liabilities	10 244	0	106 126	93 864
Employee benefits	911	1 080	914	761
Superannuation	117 898	118 228	104 390	84 640
Obligations for non-commercial forest zones	55 637	60 446	0	0
Total Non-Current Liabilities	**241 956**	**258 245**	**280 117**	**224 177**
Net Assets	**146 636**	**275 072**	**581 526**	**548 477**
Contributed equity	234 457	234 457	235 457	235 457
(Accumulated losses)/Retained profits	(95 695)	33 423	58 254	26 336
Reserves	7 874	7 192	287 815	286 684
Total Equity	**146 636**	**275 072**	**581 526**	**548 477**

Comment

Total Equity decreased from $275.072m to $146.636m during 2010-11. The decrease, $128.436m, reflected the comprehensive loss for the year, $128.794m, and a tax benefit credited directly to Equity, $0.358m.

The corresponding decrease in Net Assets of $128.436m related to:

- lower Cash, $20.181m, which is discussed further in the Statement of Cash Flows section of this Chapter

- decreased Investments, $6.519m, which were used to fund redundancies and other cost as part of the restructure as well as to fund the shortfall in operating cash flow. Investments were classified as current at 30 June 2011, due to Forestry's intentions to realise the remaining balance
- decreased Receivables, $4.172m, predominantly due to an increase in Provision for impairment, $10.401m, partly offset by an increase in debtors, $6.111m, due to higher sales
- lower Biological assets, $87.160m, as a result of the net valuation decrement, $95.253m, less establishment costs and future crop expenditure incurred during the year, $8.094m
- decreased Payables, $5.339m, which was in line with the cost saving strategy
- lower Obligations for non-commercial forest zones, $8.700m, representing a reassessment of future costs and revenues associated with maintaining non commercial zones
- increase in future tax obligations from a Deferred tax asset of $27.467m, to a Deferred tax liability of $10.244m. The turnaround was due to a write-back of the deferred tax asset on forest land following its impairment last year and reassessment of its recoverability in the current year
- decreased Unearned revenue – TCFA, $12.234m. The movement represents funding consumed in operating and intensive forest management activities during the year.

STATEMENT OF CASH FLOWS

	2010-11	2009-10	2008-09	2007-08
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	161 799	151 292	162 861	169 215
Distributions from GMO JV	2 250	1 695	1 875	625
Interest received	1 796	2 023	2 166	1 253
Payments to suppliers and employees	(172 807)	(165 193)	(161 633)	(163 550)
Finance Costs	(2 386)	(1 934)	(1 954)	(2 848)
Cash from (used in) operations	**(9 348)**	**(12 117)**	**3 315**	**4 695**
Proceeds from investments	7 926	0	0	5 968
TCFA Grants	0	21 966	41 792	13 764
Payments for plantation activities	(8 094)	(8 070)	(12 094)	(14 433)
Payments for property, plant and equipment	(10 185)	(14 282)	(17 775)	(19 488)
Proceeds from sale of assets	690	6 176	2 069	888
Cash from (used in) investing activities	**(9 663)**	**5 790**	**13 992**	**(13 301)**
Finance lease payments	(1 170)	(1 170)	(1 183)	(1 170)
Cash (used in) financing activities	**(1 170)**	**(1 170)**	**(1 183)**	**(1 170)**
Net increase (decrease) in cash	**(20 181)**	**(7 497)**	**16 124**	**(9 776)**
Cash at the beginning of the year	29 546	37 043	20 919	30 695*
Cash at end of the year	**9 365**	**29 546**	**37 043**	**20 919**

Comment

Cash at the end of the year decreased from $29.546m in 2009-10, to $9.365m. The decrease of $20.181m was a combination of an operating cash deficit, $9.348m, and the TCFA coming to an end, resulting in a financing cash deficit, $9.663m.

The deficit in operating cash decreased by $2.769m as a result of higher sales, $10.507m, offset by an increase in payments to suppliers and employees, $7.614m.

Investing cash decreased from a surplus of $5.790m last year to a deficit of $9.663m in the current year. This turnaround of $15.453m, was due to the cessation of TCFA funding, partly offset by proceeds from the sale of investments set aside to fund future superannuation obligations. In 2010-11, Forestry withdrew $7.926m from its superannuation investment account with these funds used to pay for redundancies and retirement benefits associated with the restructure and the shortfall in Cash from operations. The account was fully extinguished in July 2011.

Forestry did not propose a dividend for the 2010-11 financial year, and no dividend was paid during the preceding three financial years.

FINANCIAL ANALYSIS

	Bench Mark	2010-11	2009-10	2008-09	2007-08
Financial Performance					
Net Profit (Loss) ($'000s)		(129 476)	(263 882)	32 286	(38 457)
EBIT ($'000s)		(6 178)	(5 436)	9 461	9 139
Operating margin *	>1.0	0.95	0.96	1.04	1.00
Return on assets		(1.6%)	(0.9%)	0.8%	1.9%
Return on assets **	5.21%	(0.2%)	0.1%	2.0%	1.0%
Return on equity		(4.0%)	(1.7%)	1.2%	2.9%
Return on equity **		(0.59)	(0.60)	0.07	(0.07)
Financial Management					
Debt to equity		27.8%	14.8%	7.0%	7.4%
Debt to total assets		8.9%	6.8%	4.4%	4.8%
Interest cover - EBIT	>2	(0.6)	(0.6)	1.0	0.9
Interest cover - operating cash flows	>2	(0.9)	(1.2)	0.3	0.5
Current ratio	>1	1.0	1.2	1.5	0.9
Cost of debt	6.9%	5.8%	4.7%	5.6%	6.5%
Debt collection	30 days	94	89	63	50
Creditor turnover	30 days	21	29	30	29
Other Information					
Average staff numbers (FTEs)		456	481	483	492
Average staff costs ($'000s)		67	69	75	78
Average leave balance per employee per FTE ($'000s)		13	12	12	12

* *Operating margin for 2007-08 included an estimate for costs attributed to non-commercial zones estimated based on similar rate of increase from 2008-09 to 2010-11.*
** *Excludes Costs attributable to non-commercial zones.*

Comment

Forestry continued to operate in a difficult environment. The continued decline in the value of its biological assets, mainly native forests, contributed largely to the Net Loss reported this year. Over the last two years, Forestry impaired its assets by $387.081m, which impacted significantly on its bottom line.

EBIT was calculated on the result inclusive of Costs attributable to non-commercial zones and some components of movements in superannuation liability (employer service cost and expected return on plan assets), as these are regarded as operating expenses. Therefore, EBIT is a better measure of its operations. The decline in EBIT this year was driven mainly by the increase in impairment of receivables.

Both Return on assets and Return on equity were calculated exclusive and inclusive of Costs attributable to non-commercial zones to analyse the impact of unfunded community service type obligations on Forestry’s performance.

The decreased in the value of biological assets drove the higher Debt to equity and Debt to total assets ratios. Interest cover and Current ratios were all below benchmark, indicating the unfavourable operating position and liquidity of Forestry.

Debt collection ratio worsened to 94 days and some major customers, on which Forestry relies for most of its sales, were not paying their commitments within the standard credit terms.

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

HYDRO-ELECTRIC CORPORATION

INTRODUCTION

The Hydro-Electric Corporation (Hydro, HEC or the Corporation) was established as a Commission by the *Hydro-Electric Commission Act 1944* and corporatised by the *Hydro-Electric Corporation Act 1995*. The Corporation trades as Hydro Tasmania.

Hydro is a Government Business Enterprise and:

- is a renewable electricity generator in the State of Tasmania
- operates a consulting division nationally and internationally
- is a renewable energy developer
- 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
- with effect from 30 June 2011, was the 100% owner of various wind farms through its subsidiary company HT Wind Operations Pty Ltd (formerly Roaring 40s Renewable Energy Pty Ltd).

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

Subsidiary and Associated Companies

- **Bell Bay Power Pty Ltd** (BBP), has the responsibility for demolition of this station. BBP has previously raised a provision for demolition and site restoration. This provision was increased by $0.44m during 2010-11 to $18.467m. The station ceased operations in April 2009.
- **Bell Bay Three Pty Ltd**. This company's assets have been disposed of and it did not operate in 2010-11.
- **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 $0.038m in 2010-11 (2009-10, $0.068m).
- **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 during 2010-11 of $0.030m (2009-10, $0.003m) on turnover of $2.203m (2009-10, $2.168m).
- **RE Storage Project Holding Pty Ltd** has entered into joint ventures to investigate renewable energy commercial opportunities. However at 30 June 2011 it was not operating.
- **HT Wind Operations Pty Ltd** (HT Wind Operations) is a subsidiary that was fully incorporated into the group on 30 June 2011, as part of the disaggregation of the joint venture, between Hydro and China Light & Power. The subsidiary is focussed on wind farm opportunities in Australia. The operation will be discussed later in this Chapter.
- **Momentum Energy Pty Ltd** (Momentum Energy) is an energy retailer with licences in Victoria, South Australia, New South Wales, Queensland and the ACT. The operation will be discussed later in this Chapter.

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

AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

The Directors signed Hydro's financial statements on 11 August 2011 and an unqualified audit report was issued on the same day.

The audits of Hydro's 100% owned subsidiaries, excluding HT Wind Operations, were completed at the same time, with unqualified audit opinions being issued for all by 11 August 2011.

The accounts for HT Wind Operations were signed on 2 September 2011. An unqualified audit opinion was issued. A letter of comfort was received on 8 August 2011 from the contracted auditor in respect of its audit of HT Wind Operations, facilitating completion of Hydro's audit on that day.

The audits were completed satisfactorily with no major items outstanding.

KEY FINDINGS AND DEVELOPMENTS

Disaggregation of R40s

Hydro and China, Light & Power agreed to cease their joint venture investment in R40s. The disaggregation occurred on 30 June 2011. Hydro gained control of the wind farms at Studland Bay, Bluff Point and the development site of Musselroe. The net assets of the companies acquired were fair valued at the consolidation level, which resulted in a fair value gain of $50.670m.

Storage rebuild program

The 2010-11 year has seen the continuation of Hydro's storage rebuild program initiated in 2007-08. This strategy was implemented by Hydro by adjusting its trading and generation strategies where storage levels were supported by electricity imports via Basslink from Victoria while meeting Tasmania's energy demands. This program is projected to be completed in the current five year corporate plan period. The water inflows for 2010-11 were well above the 8 700GWh rating of the system. Storages at 30 June 2011 were at 45.9%, significantly higher than last year, 36.3%. This equates to 6 630GWh of energy in storage.

The higher than average inflows into storages in the 2010-11 year was a factor in improved cash flows from trading.

Hydro's Corporate Plan

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

- Improving the resilience of the business to variations in inflows and the associated impacts on cash flow
- The management of Basslink flows both north and south to assist in the optimum management of storages, together with revenue opportunities created from physical connection to the National Electricity Market (NEM)
- The Momentum Energy retail strategy
- Funding the Corporation's capital refurbishment program.

Hydro's capital investment program

Hydro's capital investment program continued in 2010-11 and was targeted at sustaining generation assets and reducing their availability risks to assist Hydro to actively operate in the NEM.

Carbon Price

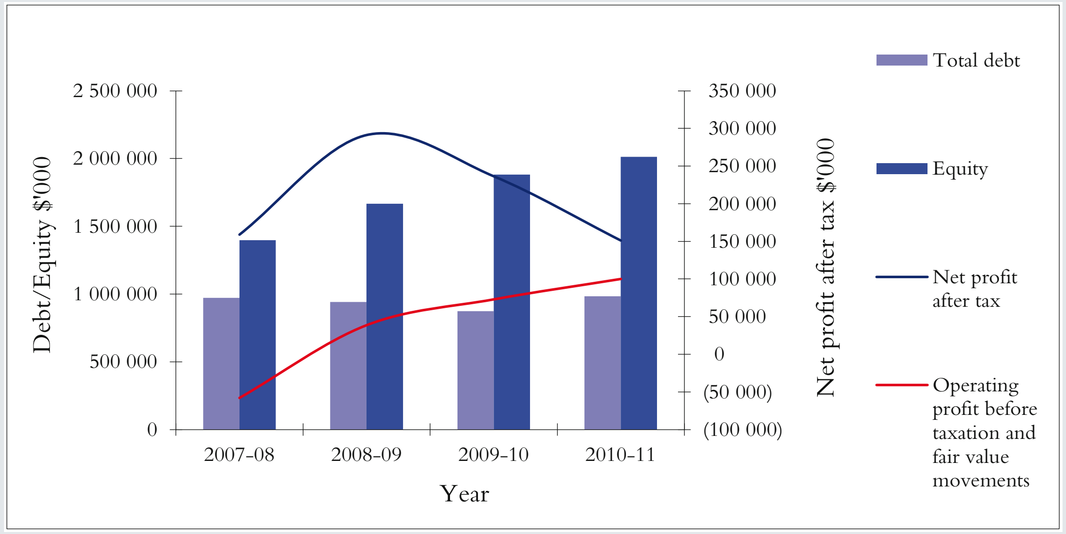
In 2009 the Corporation included a conservative assumption within the fair value of generation assets determinations, to reflect the expected impact on forecast prices of the then proposed carbon trading scheme. Due to the lack of progress in this scheme and uncertainty as to the impact on revenues of the Federal Government's recently proposed carbon tax no further change to the fair value has been recorded.

FINANCIAL RESULTS

The financial information presented below summarises the consolidated financial statements of Hydro and its subsidiaries. When assessing Hydro's operating performance in 2010-11, the following matters need to be considered:

1. The storage rebuild program commenced in 2007-08 continued. However, because of above average inflows to storages in 2010-11, Hydro achieved net exports of 216GWh for the 2010-11 period. It exported 1 311GWh and imported 1 095GWh.
2. The investment in R40s was equity accounted to the 30 June 2011 when the ownership structure of the group changed. At 30 June 2011 it became a wholly owned subsidiary and was consolidated. This meant that Hydro's financial report includes 50% of R40s' operating results for the year ended 30 June 2011, but 100% of its assets and liabilities at 30 June 2011. For the year ended 30 June 2011, Hydro's share of R40's operating results was a loss of $3.886m (loss of $6.044m in 2009-10) and at 30 June 2011 R40s' net assets totalled $90.698m ($255.051m at 30 June 2010 of which Hydro's share was $127.526m).
3. Tasmanian Energy Prices. During the year Hydro continued to negotiate new contracts with major industrial customers and Aurora in advance of the expiry of existing contracts.
4. The Corporation paid an income tax equivalent amount of $16.249 in 2010-2011.

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



The graph indicates that:

- In each of 2008-09, 2009-10 and 2010-11 Hydro generated net operating profits before tax and fair value movements. However, in 2007-08 it generated a loss of $58.002m primarily due to:
  - Significant reductions in revenue associated with low inflows and Hydro's low storage situation. This lead to increased reliance on imports over Basslink to assist in maintaining storages. When electricity is imported into Tasmania over Basslink, Hydro only receives the southbound Inter Regional Revenues (IRRs) associated with Basslink. There was a net import of 2 264GWh during that year
  - The hydrological situation also resulted in increased generation from the gas fired Bell Bay power station. The cost of electricity generated by this plant was significantly higher than the cost of hydro electricity generation
  - A reduction in energy prices since 30 June 2007. During the year ended 30 June 2008, energy prices in the Victorian region of the NEM were lower than the prices which existed at 30 June 2007
- On 30 June 2008, Hydro participated in a $220m swap of debt and equity with Transend and, also in that year, the Government provided $50m in new equity capital to support Hydro's continued investment in R40s. The capital injection by the Government was designed to improve the credit standing of Hydro in the NEM. It was not designed to counter the impacts of low inflows into storages
- Since 30 June 2008, Hydro's equity has improved mainly due to retained profits.

COMPREHENSIVE INCOME STATEMENT

	2010-11	2009-10	2008-09	2007-08
	$'000s	$'000s	$'000s	$'000s
Sales of goods and services	804 181	717 246	609 241	452 987
Other operating revenue	8 591	9 687	16 496	17 021
Total Revenue	**812 772**	**726 933**	**625 737**	**470 008**
Direst operating expenses	374 930	319 018	262 518	199 648
Labour	104 660	100 763	88 822	88 574
Other operating expenses	68 932	70 204	73 242	73 060
Share of loss of joint venture	3 880	6 044	2 092	3 022
Depreciation	79 873	77 681	73 766	68 043
Total Expenses	**632 275**	**573 710**	**500 440**	**432 347**
Operating profit before interest and tax	**180 497**	**153 223**	**125 297**	**37 661**
Finance costs*	(80 481)	(80 337)	(86 684)	(95 663)
Operating profit before tax and fair value movements	**100 016**	**72 886**	**38 613**	**(58 002)**
Share of profit of joint venture from asset sale	0	0	6 715	0
Gain on R40s restructure	22 645	0	0	0
Movements in fair value	93 744	259 194	372 563	282 187
Profit before tax	**216 405**	**332 080**	**417 891**	**224 185**
Income tax expense	(65 313)	(95 646)	(126 685)	(65 264)
Net Profit	**151 092**	**236 434**	**291 206**	**158 921**
Other Comprehensive income				
Cash flow hedge fair value gain taken to equity	2 653	1 660	(22 327)	3 849
Actuarial gains (losses) on RBF provision	6 210	(24 302)	(4 446)	9 471
Other	(264)	95	(87)	5
Income tax relating to these items	(2 659)	6 793	8 033	(3 996)
Other Comprehensive income (loss)	**5 940**	**(15 754)**	**(18 827)**	**9 329**
Total Comprehensive Profit	**157 032**	**220 680**	**272 379**	**168 250**

* *Finance costs include interest on the unfunded superannuation liability.*

Comment

Operating profits before interest and tax

On an earnings before interest and tax basis, Hydro's results improved by $27.274m in 2010-11. Total Expenses represented 77.80% of Total Revenue (2009-10, 78.9%). Total revenue increased by $85.839m, or 11.80%, primarily due to additional revenues generated by Momentum Energy and stronger water inflows into storages. Direct operating expenses increased by $55.912m or 17.53%.

Finance Costs

Finance costs are relatively consistent with the prior year mainly due to consistent debt levels throughout the period. The consolidation of HT Wind Operations at 30 June 2011 increased the debt level by $154.323m.

Fair Value Movements

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

Electricity Derivatives: Accounted for at fair value in accordance with accounting standards and Hydro policy.

Treasury Derivatives: Accounted for at fair value in accordance with accounting standards and Hydro policy.

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

Gain on R40s restructure: Reflects the gain on the investment in the joint venture.

Momentum Energy

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

All contracts entered into by Momentum are subject to economic hedging arrangements with Hydro. No residual energy pricing risk is retained in Momentum. For the year ended 30 June 2011, Momentum generated an after tax profit of $0.462m (2009-10, loss $1.293m).

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

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

As noted previously, on 30 June 2011 Hydro acquired the remaining net assets of R40s, these being mainly the wind farms of Bluff Point, Studland Bay and the development site for Musselroe including borrowings of $154.323m. Hydro made a gain of $22.645m through the restructure of the investment from a joint venture to a subsidiary. The following are extracts of the income statement and balance sheet of HT Wind Operations. As mentioned previously, Hydro is entitled to 50% of the loss through equity accounting. Set out below is HT Wind Operation's statement of Financial Position as consolidated into Hydro's financial statements.

	2010-11
Current assets	$'000s
Cash and cash equivalents	5 152
Receivables	16 831
Investments	5 487
Prepayments	1 230
Inventories	2 143
	30 843
Non-current assets	
Property, plant and equipment	271 506
Financial assets	9 054
	280 560
Current liabilities	
Payables	6 085
Interest-bearing liabilities	7 047
Provisions	78
Financial liabilities	5 055
	18 265
Non-current liabilities	
Interest-bearing liabilities	147 276
Deferred Tax Liability	3 862
	151 138
Net assets	142 000

STATEMENT OF FINANCIAL POSITION

	2010-11	2009-10	2008-09	2007-08
	$'000s	$'000s	$'000s	$'000s
Cash	7 680	2 791	4 315	1 504
Receivables	114 253	82 657	154 356	59 997
Investments	5 519	247	26 247	91 798
Inventories	65 461	57 168	51 815	18 363
Financial assets	201 892	117 554	166 005	62 975
Tax refund receivable	0	0	16 948	14 792
Assets held for sale	0	0	0	18 118
Total Current Assets	**394 805**	**260 417**	**419 686**	**267 547**
Payables	81 260	69 935	171 576	67 333
Borrowings	380 283	206 835	146 241	66 166
Other financial liabilities	94 831	148 537	152 916	153 941
Tax liabilities	29 388	11 392	0	0
Provisions	44 610	36 017	70 384	43 030
Total Current Liabilities	**630 372**	**472 716**	**541 117**	**330 470**
Working Capital	**(235 567)**	**(212 299)**	**(121 431)**	**(62 923)**
Property, plant and equipment	4 414 220	4 161 631	4 146 346	4 056 372
Investments	0	121 790	122 826	108 464
Other financial assets	649 773	537 368	476 245	413 224
Goodwill	47 796	47 796	47 796	0
Total Non-Current Assets	**5 111 789**	**4 868 585**	**4 793 213**	**4 578 060**
Borrowings	603 083	666 029	794 994	905 208
Provisions	326 544	327 444	295 195	280 563
Other financial liabilities*	1 157 846	1 043 176	1 238 430	1 373 893
Deferred tax liabilities	775 296	737 707	677 681	559 033
Total Non-Current Liabilities	**2 862 769**	**2 774 356**	**3 006 300**	**3 118 697**
Net Assets	**2 013 453**	**1 881 930**	**1 665 482**	**1 396 440**
Reserves	(5 576)	(7 965)	(9 720)	12 694
Contributed equity	271 100	271 100	270 000	270 000
Retained profits	1 747 929	1 618 795	1 405 202	1 113 746
Total Equity	**2 013 453**	**1 881 930**	**1 665 482**	**1 396 440**

* *Comprises Basslink Services Agreement and Facility Fee Swap, and energy derivatives.*

Comment

Commentary below deals with movements in the Statement of Financial Position between the 2010-11 and 2009-10 financial years.

Total Equity

Hydro's total equity increased in line with its total comprehensive profit of $157.032m, less the payment of dividends of $25.510m to the State.

Property, plant and equipment valuation

There was no impairment or upward valuation of the generation assets in the current year, apart from within HT Wind Operations as previously noted.

Financial Assets and Financial liabilities

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

- Bank and investment balances
- Receivables
- Basslink financial asset
- Treasury derivatives
- Basslink Services Agreement
- Basslink Facility Fee swap
- Energy trading derivatives including Tasmanian Energy Contracts
- Borrowings.

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

Borrowings

Hydro's borrowings totalled $983.366m at 30 June 2011 compared to $872.864m in the previous year, an increase of $110.502m. This increase has been largely driven by the borrowings acquired through HT Wind Operations. During 2010-11 Hydro repaid $43.700m during 2010-11 and acquired $154.323m of borrowings through HT Wind Operations, giving a net debt increase of $110.623m for 2010-11.

Net working capital

Hydro's net working capital position at 30 June 2011 was negative $235.567m (2009-10, negative $212.299m) primarily due to short term borrowing obligations of $380.283m. The short-term borrowing increase has been largely attributable to the acquisition of HT Wind Operations. While such a high level of negative net working capital might normally be a cause for concern, strong operating cash flows suggest this should not be a difficulty for Hydro, subject however to its ongoing capital expenditure and debt repayment programs.

Superannuation

Hydro's provision for superannuation liability totaled $319.719m (2009-10, $323.320m). The movement in this liability was caused by changes in discount rates and the value of contributory scheme assets and liabilities, as determined by the State Actuary.

STATEMENT OF CASH FLOWS

	2010-11	2009-10	2008-09	2007-08
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	781 480	788 458	491 430	544 130
Government grants	9 467	7 450	8 530	9 525
Payments to suppliers and employees	(552 170)	(555 461)	(394 779)	(453 136)
Interest received	214	652	4 252	3 657
Finance costs	(55 290)	(58 103)	(61 113)	(73 640)
Government guarantee fee	(6 646)	(4 954)	(4 477)	(5 579)
Income tax equivalent paid	(16 249)	0	0	0
Cash from operations	**160 806**	**178 042**	**43 843**	**24 957**
Payments for investments	0	(4 200)	(8 974)	(21 468)
Payments for financial assets	(27 674)	476	10 838	13 598
Payments for property, plant and equipment	(64 618)	(94 748)	(78 032)	(51 274)
Business Acquisition	0	(34 500)	(17 763)	0
Proceeds from sale of property, plant and equipment	753	859	15 659	33 074
Cash (used in) investing activities	**(91 539)**	**(132 113)**	**(78 272)**	**(26 070)**
Proceeds from borrowings	262 600	101 300	0	235 000
Repayment of borrowings	(306 300)	(170 000)	(30 000)	(242 200)
Equity Contribution	0	1 100	0	50 000
Cash balances acquired in business acquisition	10 639	0	7 037	0
Repayment of shareholder loans of acquired business	0	0	(5 165)	0
Repayment of finance lease	(535)	(521)	(183)	0
Dividend paid	(25 510)	(5 332)	0	0
Cash from (used in) financing activities	**(59 106)**	**(73 453)**	**(28 311)**	**42 800**
Net increase (decrease) in Cash	**10 161**	**(27 524)**	**(62 740)**	**41 687**
Cash at the beginning of the year	3 038	30 562	93 302	51 615
Cash at end of the year	**13 199**	**3 038**	**30 562**	**93 302**

Comment

Cash from operations in 2010-11, $160.806m, decreased by $17.236m from 2009-10. This is largely reflected by the income tax equivalent paid of $16.249m.

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

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

FINANCIAL ANALYSIS

	Bench Mark	2010-11	2009-10	2008-09	2007-08
Financial Performance					
Net profit after tax ($'000)		151 092	236 434	291 206	100 192
EBIT ($'000s)		180 497	153 223	125 297	37 661
EBITDA ($'000s)		264 250	236 948	199 063	105 704
Operating margin	>1.0	1.47	1.47	1.47	1.50
Return on assets	5.21%	3.4%	3.0%	2.5%	0.8%
Return on equity		7.8%	13.3%	19.0%	13.5%
Financial Management					
Debt to equity		48.8%	46.4%	56.5%	69.6%
Debt to total assets		17.9%	17.0%	18.1%	20.0%
Interest cover - EBIT	>2	2.24	1.91	1.45	0.39
Interest cover - EBITDA	>2	3.28	2.95	2.30	1.10
Interest cover - operating cash flows	>2	3.91	4.06	1.72	1.34
Current ratio	>1	0.63	0.55	0.78	0.81
Cost of debt	6.9%	7.2%	7.0%	6.6%	6.5%
Debt collection	30 days	52	42	85	43
Creditor turnover	30 days	24	18	36	19
Asset Management					
Investment gap %	>100%	80.9%	122.0%	105.8%	75.4%
Returns to and from Government					
Dividends paid ($'000s)		25 510	5 332	0	0
Income tax paid ($'000s)		16 249	0	0	0
Government guarantee fees ('$000s)		6 646	4 954	4 477	5 579
Total return to the State ($'000s)		48 405	10 286	4 477	5 579
Dividends payable ($'000s)		49 008	25 510	5 332	0
Dividend payout ratio	50%	0.0%	10.8%	1.8%	0.0%
Dividend to equity ratio		0.0%	1.4%	0.3%	0.0%
CSO funding ($'000s)		7 500	6 900	7 900	7 200
Other Information					
Average staff numbers (FTEs)		899	894	832	786
Average staff costs ($'000s)		116	113	107	113
Average leave balance per FTE ($'000s)		23	23	25	25

Comment

Hydro's debt to equity ratio increased slightly during the year due to the debt acquired through the subsidiary HT Wind Operations. Overall, Hydro improved its trading performance through 2010-11. This outcome is a reflection of the continued BBB strategy.

Dividends declared and payable to the State was $49.008m, a significant increase on prior years.

Return on assets of 3.4% is an improvement over last year with this ratio showing improvement throughout the period, which is also an outcome of the higher than average storage inflows and the BBB strategy.

Correspondingly, Hydro's leverage ratio continued to improve. The leverage ratio is calculated by dividing total assets by equity and it measures the proportion of equity funding in the asset base. The improvement is a reflection of the improved profit performance.

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

MOTOR ACCIDENTS INSURANCE BOARD

INTRODUCTION

The Motor Accidents Insurance Board (MAIB or the Board) was established under the *Motor Accidents (Liabilities and Compensation) Act 1973* (the Act). Its principal business is to manage all aspects of compensation awarded to persons suffering injury as a result of a motor accident as prescribed by this Act.

At 30 June 2011, the MAIB's Board of Directors comprised seven members, including the Chief Executive Officer, who are all appointed by the Governor on the joint recommendation of the Treasurer and Portfolio Minister.

AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

Signed financial statements were received on 11 August 2011 and an unqualified audit report was issued on that date.

KEY FINDINGS AND DEVELOPMENTS

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

A significant portion of the Board's investment portfolio is exposed to Australian and international listed investment markets and consequently it is subject to associated market risk. From the balance date up to the date the financial statements were certified and authorised for issue by the Board, Australian and international markets experienced a period of significant volatility resulting in an estimated $60.000m unrealised reduction in the Board's investment portfolio. As the investments were measured at fair value at 30 June 2011 this fall was not reflected in the Comprehensive Income Statement or in the Statement of Financial Position.

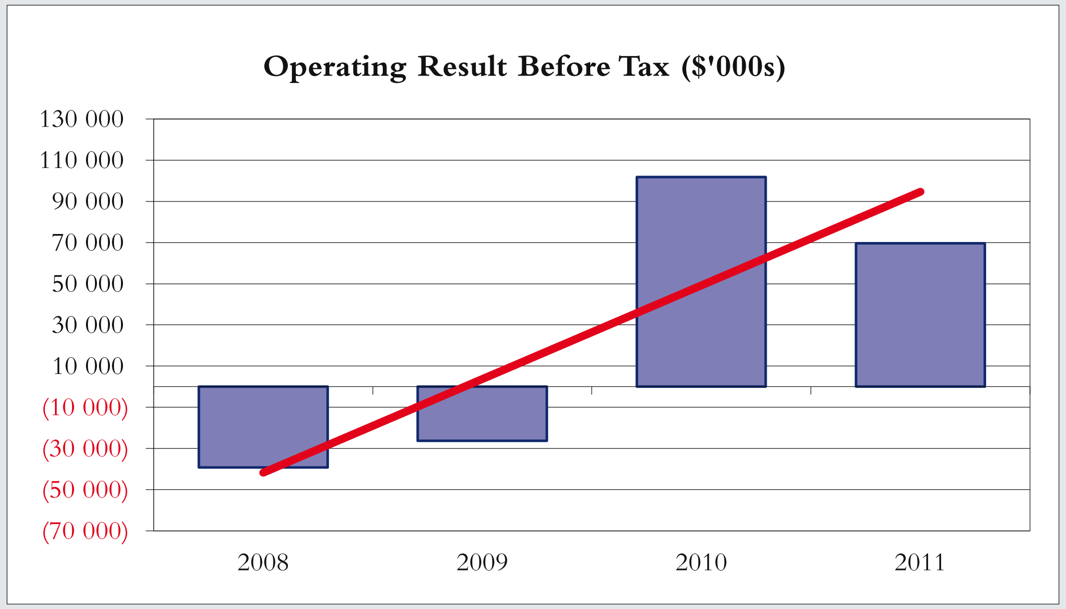
At 31 October 2011 the estimated reduction since balance date was $19.000m.

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 calculated on a percentage of the average net profits and losses after tax over the current and four preceding years. For the year ended 30 June 2010, dividends were proposed under the policy at the rate of 50% consistent with prior years. Subsequent to the Board determining a dividend, the Shareholders issued a direction, which amended the percentage payable to 70% of the average net profits and losses. This increased the dividend by $9.877m. For the year ended 30 June 2011 the Board, in accordance with its Corporate Plan, proposed a dividend based on 50% of average net profits and losses.

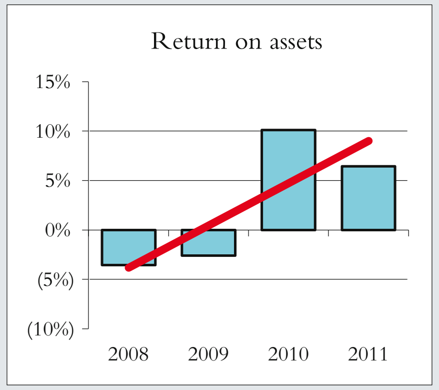
FINANCIAL RESULTS

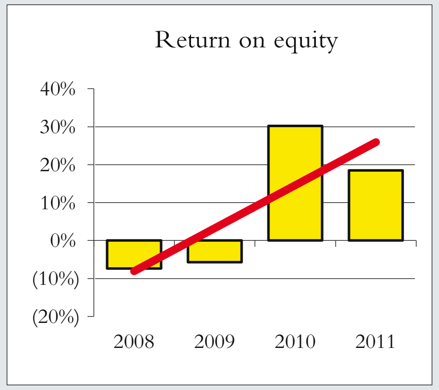
The following graphs summarise key ratios highlighting important aspects of MAIB's financial performance over the past four years. Being a long-tail insurer with a significant allocation of investments to growth assets, MAIB targets long-term investment growth but, in doing so is subject to short-term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

Operating results and returns

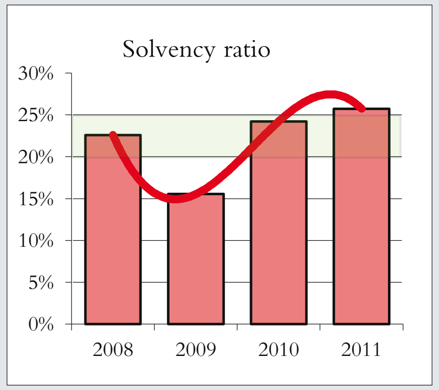


For the year ended 30 June 2011, MAIB generated a net profit before income tax of $69.642m, a decrease of $32.154m from 2009-10. The negative results in 2007-08 and 2008-09 reflected the difficult market conditions experienced in those years and highlights the market volatility noted previously. The volatility of the varying net profit results is further illustrated in the return on assets and return on equity ratios which follow.





Solvency

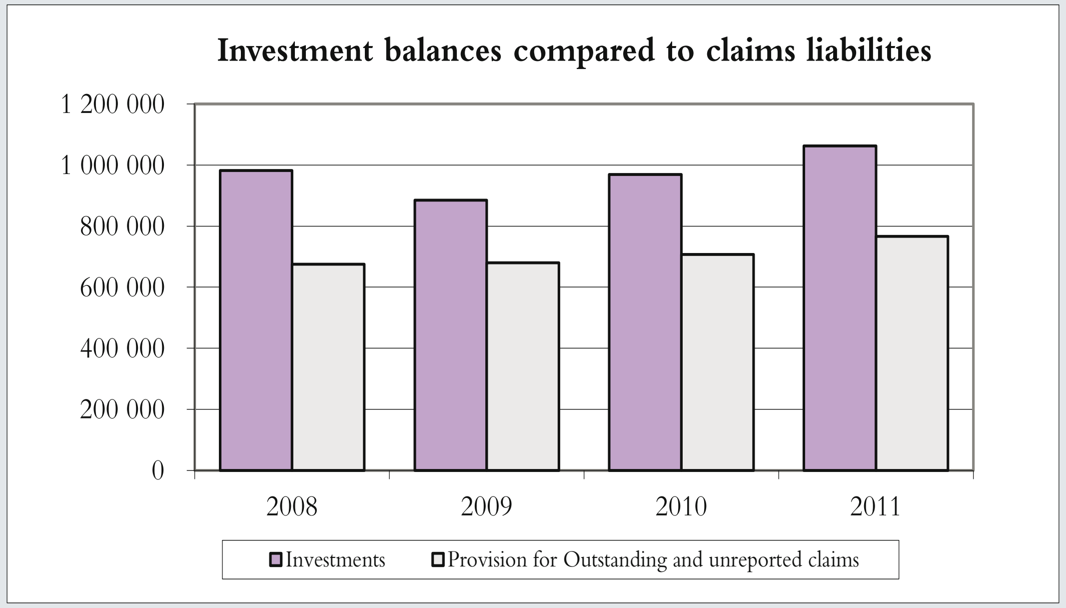


Solvency ratio is MAIB's primary indicator of balance sheet strength (capital adequacy). A positive solvency ratio represents additional assets held over and above outstanding claims liabilities. These additional assets provide a buffer to the volatility that exists in claims costs and investment markets. 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% which takes into account the claims liability profile and investment strategy along with the fact MAIB is a monopoly provider and government business enterprise. The target range is reviewed annually and MAIB monitors its solvency level on a monthly basis to ensure appropriate strategies are in place to maintain long-term solvency within the target range.

Following the lower solvency levels reported during the global financial crisis, a solvency ratio of 25.7% at 30 June 2011 is marginally above the Board's target range. MAIB management advised the current forecast is for long-term solvency to remain within the 20% to 25% range, but that short-term volatility inherent in claims experience and/or financial markets may mean that at year end the reported solvency may fluctuate outside of that range. The Board monitors financial results, forecasts and ratios on a monthly basis.

Investment balances compared to claims liabilities



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

COMPREHENSIVE INCOME STATEMENT

	2010-11	2009-10	2008-09	2007-08
	$'000s	$'000s	$'000s	$'000s
Premium revenue	136 475	130 247	126 079	123 224
Outwards reinsurance expense	(5 344)	(5 272)	(5 139)	(4 979)
Claims expense	(133 978)	(100 587)	(74 698)	(59 111)
Recovery revenue	7 340	(781)	10 786	5 339
Unexpired risk benefit (expense)	0	4 527	(1 710)	2 774
Other underwriting expenses	(2 680)	(2 493)	(2 427)	(2 471)
Underwriting result	**1 813**	**25 641**	**52 891**	**64 776**
Investment revenue (deficit)	77 148	86 475	(68 519)	(95 446)
General and administration expenses	(5 224)	(5 421)	(5 166)	(4 413)
Interest expense	0	0	0	0
Road safety strategy funding	(3 408)	(3 952)	(4 606)	(3 398)
Injury Prevention and Management Foundation	(687)	(947)	(906)	(746)
Net Profit (Loss) before tax	**69 642**	**101 796**	**(26 306)**	**(39 227)**
Income tax benefit (expense)	(17 873)	(27 497)	12 265	16 603
Net Profit (Loss)	**51 769**	**74 299**	**(14 041)**	**(22 624)**
Total Comprehensive Profit (Loss)	**51 769**	**74 299**	**(14 041)**	**(22 624)**

Comment

For the year ended 30 June 2011, MAIB generated a Net profit before tax of $69.642m. This result was a $32.154m decrease on the 2009-10 profit and was principally attributable to the higher Claims expense, which is explained later in this section.

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

Premium revenue in 2010-11 increased by $6.228m, 4.78%, primarily due to the realisation of a full year effect of the premium increase of 3.5% on 1 December 2009, the first since 2004. In addition, there was an increase in the number of registered vehicles. The following table demonstrates the relationship between premium revenue and registered vehicle numbers.

	2010-11	2009-10	2008-09	2007-08
	$'000s	$'000s	$'000s	$'000s
Premium revenue ($m)	136 475	130 247	126 079	123 224
Total registered vehicles	463 567	452 893	441 476	435 595
Average premium ($)	294	288	286	283

The other main contributor impacting the Underwriting result was the Claims expense which represented the actual and estimated future cost of new claims incurred in the year combined with revisions to actual and estimated future costs of claims incurred in prior years. An independent Actuary was engaged by the Board to undertake the valuation of the year end claims liability. The Movement in the provision for outstanding and unreported claims of $59.414m is based on the Actuary's assessment of the net movement in the provision for the year 2010-11. Variances in the annual expense are primarily due to the combined impacts of differing claims experience and revisions to economic and actuarial assumptions on prior years' claims. The process is discussed further in the Statement of Financial Position section below. The following table details claim expense totals for the past four years.

	2010-11	2009-10	2008-09	2007-08
	$'000s	$'000s	$'000s	$'000s
Claims paid	74 146	72 657	69 551	70 536
Movement in the provision for outstanding and unreported claims	59 414	27 436	4 684	(11 899)
Other claims paid	418	494	463	474
Total claims expenses	**133 978**	**100 587**	**74 698**	**59 111**

Other material movements in the Underwriting result included:

- Recovery revenue increased by $8.121m in 2010-11. This was attributable mainly to reinsurance recoveries of $3.112m and $2.477m recovered from other third parties. Settlement of claims with reinsurers occurs at irregular intervals resulting in substantial variances from year to year. The loss in 2009-10 resulted from the downwards reassessment of reinsurance recoveries receivable by the Board's reinsurance broker
- Actuarial review of the Provision for unexpired risk liability as at 30 June 2010 determined there was no deficiency between the Provision for unearned premium and the expected cost of claims arising from the remainder of the periods of registration. As a result, the provision balance was released during the 2009-10 year. The review at 30 June 2011 confirmed this position for the current year, therefore there was no Unexpired risk benefit or expense for 2010-11.

Net profit before tax included Investment income, which in 2010-11 totalled $77.148m, a decrease of $9.327m from the 2009-10 result, and represented an 8% (2009-10, 10%) return on the investment portfolio for the year. The Board's investment strategy of seeking to maximise long-term growth results in inherent volatility that may cause returns from year to year to fluctuate significantly.

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

	2010-11	2009-10	2008-09	2007-08
	$'000	$'000	$'000	$'000
Investment income	74 307	39 973	85 674	109 330
Changes in net market values				
Investments held at end of reporting period	2 730	38 345	(133 789)	(138 236)
Investments realised during the reporting period	1 808	10 042	(18 591)	(65 300)
Less investment related expenses	(1 697)	(1 885)	(1 813)	(1 240)
Total investment revenue	**77 148**	**86 475**	**(68 519)**	**(95 446)**

STATEMENT OF FINANCIAL POSITION

	2011	2010	2009	2008
	$'000s	$'000s	$'000s	$'000s
Cash and cash equivalents	165 334	125 192	182 084	157 916
Accounts receivable	1 306	1 349	1 358	1 767
Deferred acquisition costs	1 119	1 162	0	0
Reinsurance recoveries receivable	13 432	11 681	13 842	17 514
Debt securities and other investments	2 156	15 383	3 577	38 038
Listed instruments	114 369	102 116	112 396	92 456
Unlisted instruments*	765 374	710 483	570 875	678 245
Investment properties	15 300	15 730	15 345	15 510
Plant and equipment and intangibles	1 143	987	449	515
Deferred tax asset	34 835	44 957	73 244	41 934
Other assets	7 195	15 052	27	27
Total Assets	**1 121 563**	**1 044 092**	**973 197**	**1 043 922**
Sundry creditors and accrued expenses	2 001	2 529	2 651	2 014
Provision for tax	0	0	7 897	32 892
Provision for unearned premium	58 557	56 722	53 817	53 632
Provision for injury prevention	889	1 164	1 104	882
Provision for unexpired risk	0	0	3 493	1 766
Provision for outstanding and unreported claims	766 069	706 655	679 220	674 536
Provision for employee benefits - leave	574	497	456	404
Provision for employee benefits - superannuation	3 305	3 471	2 877	2 398
Deferred tax liability	1 530	1 618	1 442	1 498
Total Liabilities	**832 925**	**772 656**	**752 957**	**770 022**
Net Assets	**288 638**	**271 436**	**220 240**	**273 900**
Retained Earnings	288 638	271 436	220 240	273 900
Total Equity	**288 638**	**271 436**	**220 240**	**273 900**

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

Comment

MAIB's Equity increased by $17.202m, being the Net profit after tax of $51.769m less dividends paid of $34.567m.

The main movements in Net Assets are discussed below.

The major component of MAIB's Total Assets is its investment portfolio (including cash), which at 30 June 2011 totalled $1.063bn (2009-10, $0.969bn) and represented 94.74% of Total Assets (92.80%). Total investments increased by $0.094bn, 9.66%, from 2009-10.

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 2011 the Board's actual investment holdings were 60% in the growth category (including Australian and international equities, property and infrastructure) and 40% defensive (including cash and fixed interest). The Board has adopted benchmark allocations for each asset class within the investment portfolio which, based on historical returns, is expected to achieve a satisfactory level of return for an acceptable risk. Funds are transferred within asset classes to maintain target allocations or to implement tactical decisions to deviate from benchmark allocations where opportunities or material risks have been identified.

Other assets decreased by $7.857m in 2010-11 due to the utilisation of $7.838m of the prior year prepayment of National Tax Equivalent Regime (NTER) instalments, $15.009m.

The major component of the MAIB's Total Liabilities is its Provision for outstanding and unreported claims (claims liability), which at 30 June 2011 represented 91.97 % of total liabilities (2009-10, 91.46%). An independent actuary is engaged by the Board to undertake the valuation of the year end claims liability. Determination of the claims liability was impacted by a variety of factors including:

- the number of claims received as a result of motor accidents
- the nature, type and severity of claims received
- estimates of how long claimants will receive benefits
- statutory obligations to claimants
- the extent to which claims are re-insured
- movement in economic factors such as inflation and discount rates.

The increase of $59.414m in 2010-11, 8.41%, was attributable to a rise in all categories of claims. The composition of the claims liability is provided in the following table.

	2011	2010	2009	2008
	$'000s	$'000s	$'000s	$'000s
Future care	529 059	503 740	460 172	459 105
Common law	190 847	167 079	180 248	174 499
Scheduled benefits	46 163	35 836	38 800	40 932
Total Claims Liability	**766 069**	**706 655**	**679 220**	**674 536**

	2011	2010	2009	2008
Future care	97	95	90	89
Common law *	960	921	1 058	1 088
Scheduled benefits	2 703	2 539	3 015	2 955

* *Represents potential common law claims - a percentage of these claims will ultimately be have no damages paid*

STATEMENT OF CASH FLOWS

	2010-11	2009-10	2008-09	2007-08
	$'000s	$'000s	$'000s	$'000s
Receipts from premiums	152 004	146 330	139 353	136 572
Payments for claims	(79 252)	(77 910)	(74 406)	(75 283)
Other payments	(28 874)	(27 922)	(27 062)	(25 730)
Other receipts	8 130	3 175	16 098	3 027
Tax paid	0	(21 941)	(44 096)	(49 262)
Dividends received	64 065	31 218	61 997	101 127
Interest received	7 927	7 060	22 857	6 413
Cash from operations	**124 000**	**60 010**	**94 741**	**96 864**
Payments for investments	(48 947)	(93 133)	(30 591)	(169 983)
Payments for property, plant and equipment	(412)	(688)	(511)	(1 914)
Proceeds from sale of property, plant and equipment	68	22	147	74
Cash (used in) investing activities	**(49 291)**	**(93 799)**	**(30 955)**	**(171 823)**
Dividends paid	(34 567)	(23 103)	(39 618)	(42 950)
Net increase (decrease) in cash	**40 142**	**(56 892)**	**24 168**	**(117 909)**
Cash at the beginning of the year	125 192	182 084	157 916	275 825
Cash at end of the year	**165 334**	**125 192**	**182 084**	**157 916**

Comment

As at 30 June 2011, MAIB held $165.334m in short term cash, primarily comprising direct cash investments.

Cash from operations totalled $124.000m (2009-10, $60.010m), being the excess of premium and investment receipts over claims and other payments. Cash from operations was used to:

- increase managed fund investments by $48.947m
- pay Dividends of $34.567m
- increase cash balances held by $40.142m.

FINANCIAL ANALYSIS

	Bench Mark	2010-11	2009-10	2008-09	2007-08
Financial Performance					
EBIT ($'000s) * **		69 642	101 796	(26 306)	(39 227)
Net profit (loss) ($'000s)		51 769	74 299	(14 041)	(22 624)
Operating margin	>1.0	1.46	1.86	0.72	0.48
Return on assets *	5.21%	6.4%	10.1%	(2.6%)	(3.6%)
Return on equity *		18.5%	30.2%	(5.7%)	(7.4%)
Financial Management					
Solvency ratio *	20-25%	25.7%	24.2%	15.5%	22.6%
Returns to Government					
Dividends paid ($'000s)		34,567	23,103	39,619	42,950
Income tax paid ($'000s)		-	21,941	44,096	49,262
Total return to the State ($'000s)		34,567	45,044	83,715	92,212
Dividends paid or payable ($'000s)		20 249	34 567	33 103	39 618
Dividend payout ratio	50%	39.1%	46.5%	(235.8%)	(175.1%)
Dividend to equity ratio	6%	7.2%	14.1%	13.4%	12.9%
Other Information					
Average staff numbers (FTEs)		36	35	35	35
Average staff costs ($'000s)		78	75	71	69
Average leave balance per FTE ($'000s)		16	14	13	11

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

** *EBIT includes interest cost on RBF defined benefits superannuation of $212,000 for 2010-11*

Comment

The Board is required under the *Government Business Enterprise Act 1995* to make tax equivalent payments to the State Government. No tax equivalent payment was made during 2010-11. Tax equivalent payable in respect of 2010-11, $7.838m, was offset against the prior year prepayment.

Dividends totalling $20.249m relating to the 2010-11 net profit are payable to the State Government under the dividend averaging policy agreed between the Board and Government. In accordance with the policy, dividends are based on the average of profits and losses over the current and four preceding years.

At 30 June 2010 dividends of $24.690m relating to 2009-10 were proposed under the dividend averaging policy. Subsequent to year-end, Shareholders issued a direction which increased the percentage payable under the policy for 2009-10, resulting in a dividend payment of $34.567m. Also, special dividends of $10.000m were approved and paid in each of 2007-08 and 2008-09.

Dividend and tax equivalent payments returned total cash payments to the State of $255.538m over the four year period under review.

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

PORT ARTHUR HISTORIC SITE MANAGEMENT AUTHORITY

INTRODUCTION

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

AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

Signed financial statements were received on 8 August 2011 and an unqualified audit report was issued on 22 September 2011.

KEY FINDINGS AND DEVELOPMENTS

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

At the request of Government, the Authority assumed responsibility for the Cascades Female Factory Historic Site in December 2010. It is expected the proclamation under the *Nature Conservation Act 2002* that will affect the transfer will occur in 2011-12. This will mean that the Authority has full control of the Site and it is expected that the Site's conservations costs will be funded by Government. The funds committed by the Government are: 2011-12, $0.517m; 2012-13, $0.440m; 2013-14, $0.402m.

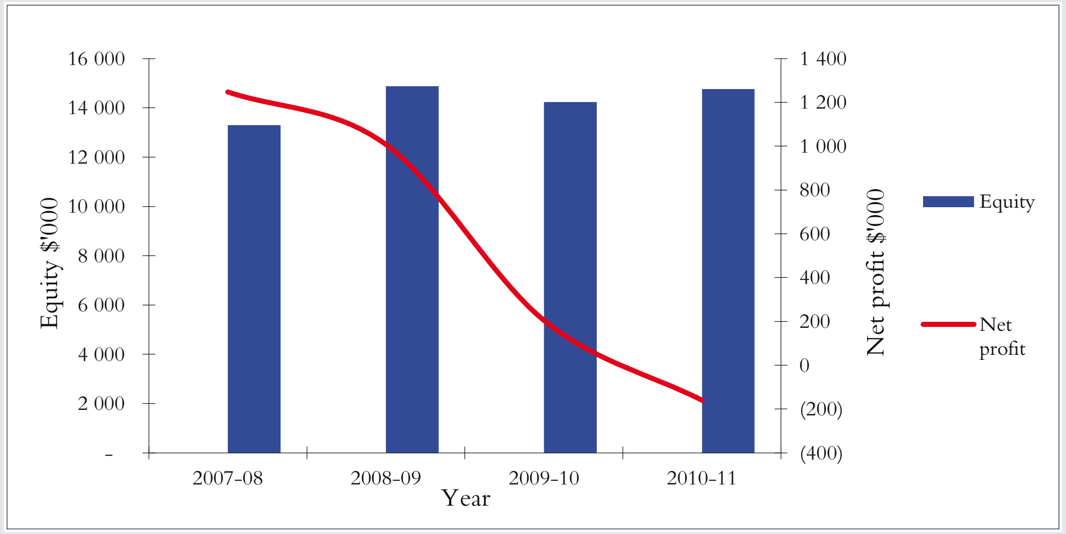
The audit was completed satisfactorily with no major matters outstanding.

FINANCIAL RESULTS

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

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

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



The graph shows that Equity remained fairly stable over the four-year period. However, Net profit steadily declined to the point where, in 2010-11, a small loss was incurred, mainly as a result of changes to visitor numbers and the extent of conservation works.

Another factor affecting the Authority's operations during the 2010-11, was that it was required to contribute $0.960m to the Port Arthur Caravan and Cabin Park for leasehold improvements incurred by the lessee and reimbursable by the Authority.

The Authority does not have any borrowings.

COMPREHENSIVE INCOME STATEMENT

	2010-11	2009-10	2008-09	2007-08
	$'000	$'000	$'000	$'000
Site revenue	9 647	9 506	10 031	9 080
Interest and other income	539	462	611	789
Conservation funding	3 213	2 808	2 000	3 515
Total Revenue	**13 399**	**12 776**	**12 642**	**13 383**
Site operation expenses	6 882	6 623	6 389	6 066
Conservation expenses	3 700	3 055	2 422	3 370
Other operating expenses	2 977	2 893	2 823	2 700
Total Expenses	**13 559**	**12 571**	**11 634**	**12 136**
Net Profit (Loss)	**(160)**	**205**	**1 008**	**1 248**
Other Comprehensive Income				
Increase in the revaluation of non-current assets	795	125	457	1 334
Impairment of non-current assets	(349)	0	0	0
Defined benefit plan actuarial gain (loss)	250	(981)	114	(105)
Total Comprehensive Profit (Loss)	**536**	**(651)**	**1 579**	**2 477**

Comment

During 2010-11, Total Revenue increased by $0.623m while expenditure increased $0.988m, resulting in a small Net Loss of $0.160m. Total revenue increased as a result of higher conservation funding and tourism related operations which resulted from higher admission fees. These increases in admission fees were offset to some extent by a decline in visitor numbers. 2010-11 saw a decline in day visitor numbers of 8 091 and a drop in Ghost Tour Visitors of 1 414.

Expenditure increased due to additional conservation works carried out and the State service wage increases during the year.

The Authority is heavily reliant on Government support to fund its conservation efforts. Since 2000-01, the Authority has received at least $2.000m annually from State Government for conservation works. In 2010-11 this commitment was increased by an additional $0.500m to $2.500m, indexed to 2014-15. The increase reflects inflationary costs since the initial arrangement was put in place and the Authority's first full year of responsibility for the Coal Mines Historic Site.

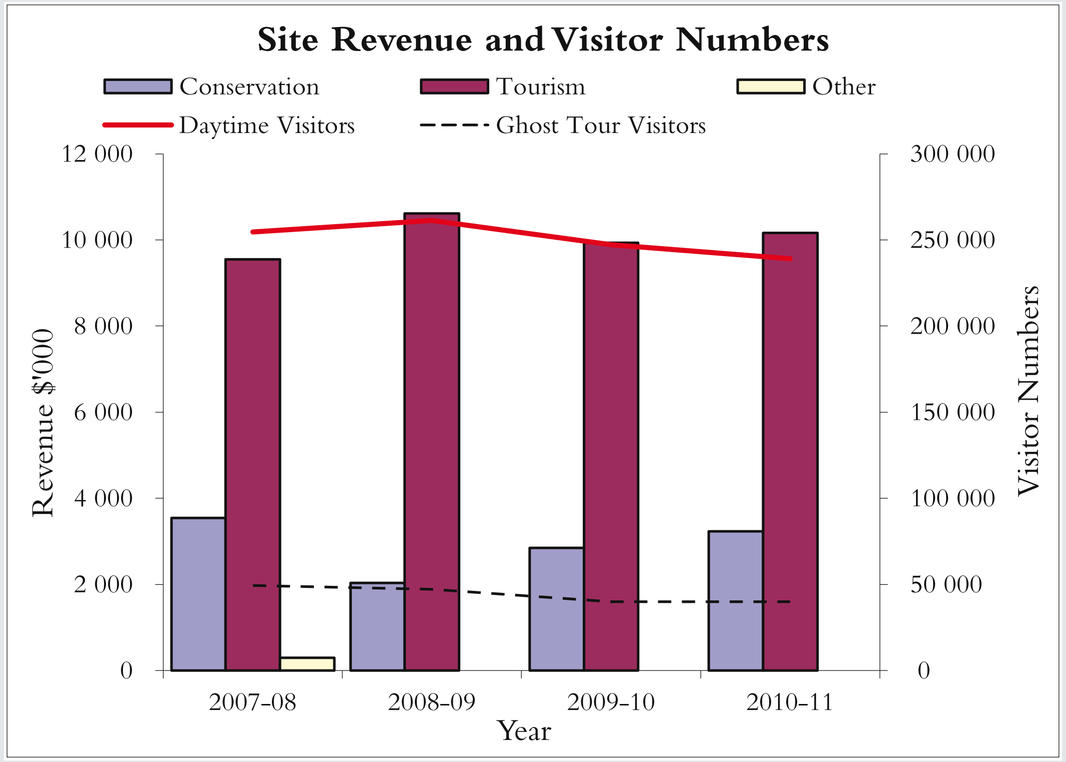
In years where the funding exceeded $2.000m, the additional funding was provided by the Australian Government, with the exception of additional conservation funding received in 2007-08 from the Tasmanian Government. Without this funding the Authority would have had to curtail conservation work, as tourism activities do not generate sufficient income to cover the costs of maintaining the sites. Conservation grants are expended in accordance with the Act and the *Port Arthur Historic Sites Statutory Management Plan 2008*. The majority of conservation works are carried out on heritage assets and ruins with all expenditure on conservation works expensed rather than capitalised.

During 2010-11 the Authority revalued upwards infrastructure and land and buildings by $0.795m. As part of this process impairment losses totalling, $0.349m, were identified, for predominately carpark and jetty assets.

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

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

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



STATEMENT OF FINANCIAL POSITION

	2010-11	2009-10	2008-09	2007-08
	$'000	$'000	$'000	$'000
Cash assets	4 047	5 317	5 488	3 840
Receivables	156	124	105	159
Inventories	429	444	425	459
Other	64	54	23	51
Total Current Assets	**4 696**	**5 939**	**6 041**	**4 509**
Payables	1 250	824	1 025	761
Provisions	1 134	1 122	1 143	1 294
Total Current Liabilities	**2 384**	**1 946**	**2 168**	**2 055**
Working Capital	**2 312**	**3 993**	**3 873**	**2 454**
Property, plant and equipment	18 324	16 257	15 788	15 406
Total Non-Current Assets	**18 324**	**16 257**	**15 788**	**15 406**
Provisions	5 868	6 018	4 778	4 556
Total Non-Current Liabilities	**5 868**	**6 018**	**4 778**	**4 556**
Net Assets	**14 768**	**14 232**	**14 883**	**13 304**
Retained earnings	8 556	8 815	9 591	8 468
Reserves	6 212	5 417	5 292	4 836
Total Equity	**14 768**	**14 232**	**14 883**	**13 304**

Comment

Total Equity increased by $0.536m, being the Comprehensive result for the year. Corresponding to the increase in Total Equity, Net Assets increased by the same amount with main movements being:

- lower Cash assets, down $1.270m, which is discussed further in the Statement of Cash Flows section of this Chapter
- increased Property, plant and equipment, $2.067m, mainly due to additions of $2.238m, including improvements to the Caravan and Cabin Park which were reimbursed to the lessee, $0.960m, asset revaluation increments, $0.795m, offset by Depreciation expenses, $0.666m, and impairment, $0.349m,
- lower Provisions, $0.138m, primarily due to a $0.122m decrease in the provision for superannuation benefits.

STATEMENT OF CASH FLOWS

	2010-11	2009-10	2008-09	2007-08
	$'000	$'000	$'000	$'000
Receipts from customers	10 711	10 459	11 408	9 949
Tasmanian Government	3 115	2 000	2 000	3 142
Australian Government	98	448	359	0
Payments to suppliers and employees	(13 159)	(12 353)	(11 857)	(11 540)
Interest received	237	226	265	206
Cash from (used in) operations	**1 002**	**780**	**2 175**	**1 757**
Payments for property, plant and equipment	(2 328)	(1 038)	(585)	(291)
Proceeds from sale of property, plant and equipment	56	87	58	62
Cash (used in) investing activities	**(2 272)**	**(951)**	**(527)**	**(228)**
Net increase (decrease) in cash	**(1 270)**	**(171)**	**1 648**	**1 529**
Cash at the beginning of the year	5 317	5 488	3 840	2 311
Cash at end of the year	**4 047**	**5 317**	**5 488**	**3 840**

Comment

The Authority's cash balance decreased by $1.270m in 2010-11 because expenditure on property, plant and equipment was funded from current operating cash and cash reserves.

The Authority's cash balance of $4.047m includes deposits with financial institutions of $3.620m (2009-10, 3.455m) to cover, in part, its superannuation liability.

FINANCIAL ANALYSIS

	Bench Mark	2010-11	2009-10	2008-09	2007-08
Financial Performance					
Result from operations ($'000s)		(160)	205	1 008	1 248
Operating margin	>1.0	0.99	1.02	1.09	1.10
Financial Management					
Current ratio	>1	1.97	3.05	2.79	2.19
Debt collection	30 days	9	7	6	10
Creditor turnover	30 days	34	24	32	23
Other Information					
Average staff numbers (FTEs)		88	89	87	85
Average staff costs ($'000s)		67	63	58	58
Average leave balance ($'000)		12	12	12	11

Comment

Result from operations for 2010-11 was a Net Loss of $0.160m, compared to a Net Profit of $0.205m in 2009-10. This result was discussed under the Comprehensive Income Statement section of this Chapter.

Current ratio was high in each of the four years indicating that the Authority is able to meet its short term commitments. Creditor turnover was higher than benchmark in 2010-11 due to increased contract instalment payables at year end.

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

RIVERS AND WATER SUPPLY COMMISSION

INTRODUCTION

Rivers and Water Supply Commission (the Commission) operates under the *Rivers and Water Supply Commission Act 1999.* It is a Government Business Enterprise responsible for the management of State Government owned irrigation schemes and progress of new water and irrigation developments.

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

- Tasmanian Irrigation Schemes Pty Ltd (TIS) – responsible for managing irrigation and water schemes throughout the State
- Tasmanian Irrigation Development Board Pty Ltd (TIDB/TI) – responsible for developing new water and irrigation schemes from feasibility assessment through to construction. Completed schemes are then transferred to TIS. On 6 June 2011 TIDB changed its name to Tasmanian Irrigation Pty Ltd (TI).

AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

Signed financial statements for the Commission and its two subsidiaries were received on 15 August 2011. Unqualified audit reports for all three entities were issued on 30 September 2011.

KEY FINDINGS AND DEVELOPMENTS

The audits were completed satisfactorily with no major items outstanding.

The Commission is instrumental in delivering the Government's vision for the future of agriculture in the State, outlined in the Tasmanian Infrastructure Strategy. It is currently pursing projects to deliver irrigated water to areas in Northern, Eastern and Central Tasmania. The Commission remains financially dependant on State government support which is provided as grants, equity contributions or loans.

Restructure

In December 2010, Government approved the restructuring of the three irrigation businesses into a single State-owned Company. The single company, Tasmanian Irrigation Development Board Pty Ltd, but which changed its name to Tasmanian Irrigation Pty Ltd, came into effect on 1 July 2011, at which time all assets, rights, liabilities and staff of the Commission and TIS were transferred to Tasmanian Irrigation Pty Ltd.

Equity injections, borrowings, capital expenditure and asset impairments

Between 1 July 2005 and 30 June 2011 significant net equity injections and borrowings have been made to the Commission aimed at, in the main, funding investments in irrigation related dams and schemes. The table below summarises these funding arrangements, investments in assets and impairments over this period.

	$'000
Net equity injections	54 075
Net borrowings	17 832
Investments in assets	82 122
Impairments of assets	40 210

Source: Tasmanian Audit Office reports to Parliament

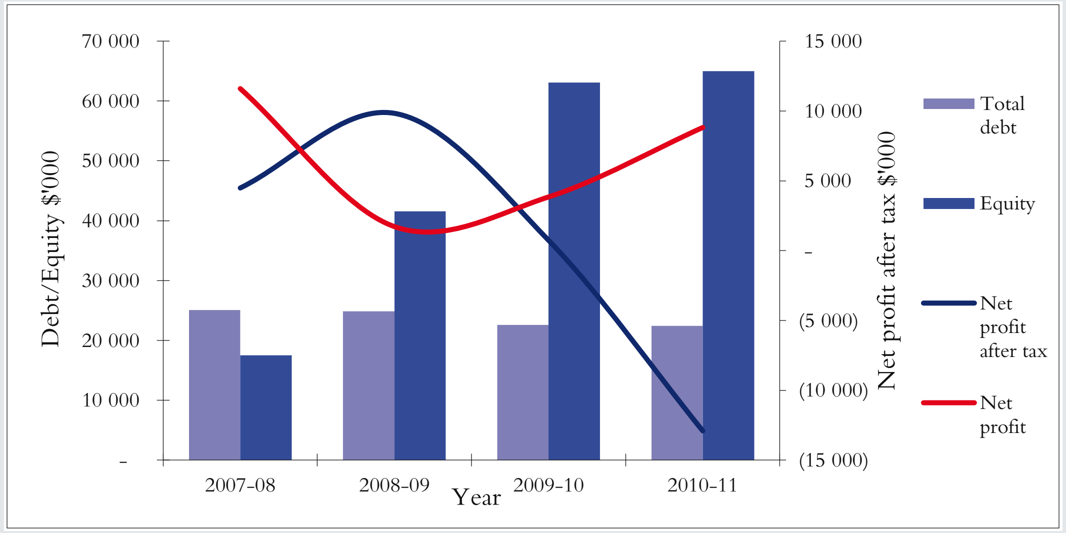
This table is provided to highlight investments in water related assets and schemes over the past six years, in particular the high level of asset impairments indicating that direct financial returns to the State have been sufficiently low to date as to require this level of write down in these assets. No assessment has been made as to the level of indirect or flow-on benefits.

Also relevant is that at 30 June 2011, the Commission's Net assets totalled $64.996m, which was $24.560m less than total equity contributions provided.

FINANCIAL RESULTS

The analysis on the following pages is based on the results of the Commission as a single consolidated entity with inter-company transactions eliminated on consolidation.

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



Growth in the Commission's equity over the period was all due to equity injections from Government. In 2010-11 the Commission returned $6.710m to the Government as the first instalment of $16.700m assistance provided for the Meander Valley Pipeline Extension project.

Total debt, which included funds for the construction of the Meander Dam project, declined slightly as borrowings were repaid.

Following a decline in 2008-09, Net profit improved to levels close to that achieved in 2007-08. However, on a Net profit after tax basis, the Commission's financial performance deteriorated markedly, particularly in 2010-11 when an impairment of $27.252m was recorded. This impairment resulted from a significant drop in usage of water rights by irrigators causing a decline in the potential for additional revenue from irrigation rights and water charges. We understand that the State Government has agreed to provide assistance until the sale of irrigation rights exceed break-even and annual water supply fees are sufficient to cover costs.

The high net profit after tax in 2008-09 was mainly attributed to recognition of an Income tax benefit, $8.531m, in that year. Prior to 2008-09, the Commission could not recognise any deferred tax assets due to the low probability, as assessed at that time, of future taxable profits. In 2008-09 the Commission reassessed its future projections and determined it expected to generate profits in future. In accordance with accounting standards it was then able to recognise a deferred tax asset.

The following table summarises equity and grant contributions over the past three years (three years was selected because this coincided with the establishment of the two subsidiary companies):

Funding and Asset movement	**2010-11**	**2009-10**	**2008-09**	**Total**
	$'000s	$'000s	$'000s	$'000s
State equity contribution	16 616	12 127	14 224	**42 966**
Commonwealth capital contribution	4 920	8 663	0	**13 584**
State and Commonwealth operating grants	7 023	6 993	3 116	**17 132**
State Government interest contribution	628	1 268	1 314	**3 209**
Total Government contributions	29 186	29 050	18 654	**76 891**
Equity Return (Meander Valley)	(6 710)			(6 710)
Net Government Contributions	**22 476**			**70 181**

COMPREHENSIVE INCOME STATEMENT

	2010-11	**2009-10**	**2008-09**
	$'000s	$'000s	$'000s
Irrigation rights and water charges	10 919	5 821	4 400
State Government interest contribution	628	1 267	1 314
Government grants	7 023	6 993	3 700
Other revenue	2 531	1 848	1 193
Total Revenue	**21 101**	**15 929**	**10 607**
Employee benefits	4 316	3 305	1 979
Finance costs	1 703	1 770	1 783
Depreciation	905	789	626
Operational and other	5 360	6 221	4 498
Total Expenses	**12 284**	**12 085**	**8 886**
Profit before other items	**8 817**	**3 844**	**1 721**
Impairment losses	(27 252)	(3 256)	(421)
Assets received at no consideration	0	450	0
Net Profit (Loss) before tax	**(18 435)**	**1 038**	**1 300**
Income tax benefit (expense)	5 530	(301)	8 531
Net Profit (Loss)	**(12 905)**	**737**	**9 831**
Other Comprehensive Income	0	0	0
Total Comprehensive Profit (Loss)	**(12 905)**	**737**	**9 831**

Comment

The Commission's profit, before other items, increased from $3.844m in 2009-10 to $8.817m in 2010-11. This improvement of $4.973m was a result of:

- higher revenue from Irrigation rights and water charges, up $5.098m, resulting from the full impact of additional new pipelines commissioned in the prior year within the greater Meander Valley Irrigation District (Caveside-Dairy Plains, Rubicon and Hagley-Whitemore)
- higher Other revenue, up $0.683m, mainly due to increased interest revenue on investments, revenues from irrigation plans and electricity generation
- lower Operational and other expenses, down $0.861m, mainly due to decreased costs for contractors and consultants following the completion of prior year projects at TIDB/TI, and a decline in the cost of purchasing water due to the very wet winter and summer months. This impacted TIS.

The effects of the foregoing were offset in part by:

- lower State Government interest contribution, down $0.640m, as loans were repaid
- higher Employee benefits, up $1.011m, due to nine more employees at TIDB/TI and annual indexation of wages across the Group.

Overall, the Commission reported a Net Loss after tax of $12.905m after accounting for non-operating items, mainly Impairment losses, $27.252m. By 30 June 2011 the total amount impaired against the Meander Valley Irrigation Scheme was $29.930m and against the South East Irrigation Scheme was $0.044m. These impairment losses were also the main cause of the off-setting Income tax benefit, $5.530m.

The table below provides a comparison of revenue and expenses of TIS and TIDB/TI.

	TIS			TIDB / TI		
	2010-11	**2009-10**	**2008-09 from October**	**2010-11**	**2009-10**	**2008-09 from October**
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
Irrigation rights and water charges	10 919	5 821	4 142	0	0	0
State Government interest contribution	628	1 267	1 314	0	0	0
Grants	22	268	0	7 001	6 725	3 116
Other revenue	1 890	1 406	931	623	376	0
Total Revenue	**13 459**	**8 762**	**6 387**	**7 624**	**7 101**	**3 116**
Employee benefits	666	639	417	3 650	2 666	1 465
Finance costs	2 026	2 203	1 411	0	0	0
Depreciation	676	484	363	230	305	202
Operational and other	1 922	2 257	1 375	3 413	3 916	1 932
Total Expenses	**5 290**	**5 583**	**3 566**	**7 293**	**6 887**	**3 599**
Profit (Loss) before tax and other items	**8 169**	**3 179**	**2 821**	**331**	**214**	**(483)**
Impairment losses	(27 252)	(3 256)	(421)	0	0	0
Net profit (loss) before tax	**(19 083)**	**(77)**	**2 400**	**331**	**214**	**(483)**
Income tax benefit (expense)	5 628	(107)	(719)	(100)	(54)	165
Net Profit (Loss)	**(13 455)**	**(184)**	**1 681**	**231**	**160**	**(318)**
Other Comprehensive Income	**0**	**0**	**0**	**0**	**0**	**0**
Total Comprehensive Result	**(13 455)**	**(184)**	**1 681**	**231**	**160**	**(318)**

The break down illustrates that TIDB/TI, which was engaged in the development of new water and irrigation schemes, was almost entirely dependent on Government funding. On the other hand, TIS, which is responsible for management of water and irrigation schemes, had greater capacity to generate its own revenue, mainly from the sale of irrigation rights and water charges. The growth in TIS' revenues resulted in a decline in the requirement for Government support. The TIS was also impacted by the impairment of irrigation schemes, as previously mentioned.

STATEMENT OF FINANCIAL POSITION

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

Comment

Despite the Comprehensive loss of $12.905m reported earlier in this Chapter, The Commission's Total Equity increased by $1.921m to $64.996m at 30 June 2011. This was because:

- Government provided further equity of $21.536m primarily to assist the Commission with its capital expenditure and feasibility programs. This funding was provided out of the Water Infrastructure Fund
- The return to Government of $6.710m of assistance provided in previous years for the Meander Valley Pipeline Extension project.

Movements in line items on the Statement of Financial Position were caused by:

- lower Cash and cash equivalents, down $1.889m, discussed further in the Statement of Cash Flows section of this Chapter
- decreased Property, plant and equipment, $4.166m, mainly due to the significant impairment of infrastructure schemes previously mentioned offset by additions to water infrastructure with $23.726m outlaid in 2010-11
- higher Deferred tax asset, $5.529m, predominately the tax effect on impairments

- higher Fixed repayment plans for Meander River irrigation rights, $4.112m, due to the completion of pipeline extension projects
- higher Payables, $0.646m, and Unearned revenue, $0.640m, mainly due to increased accrued expenses on completed works at TIS and Unearned revenue water entitlements held by TIDB/TI.

The Commission's Working Capital declined by $3.239m compared to last year, predominantly due to a reduction in Cash and deposits and higher Payables and Unearned revenues.

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

	TIS			TIDB / TI		
	2011	**2010**	**2009**	**2011**	**2010**	**2009**
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
Cash and deposits	1 823	4 932	8 639	15 767	14 541	3 386
Receivables	378	805	1 046	691	657	311
Fixed repayment plans	1 017	725	670	0	0	0
Intercompany loan	4 980	5 791	0	0	0	0
Water stock	584	511	508	0	0	0
Total Current Assets	**8 782**	**12 764**	**10 863**	**16 458**	**15 198**	**3 697**
Payables	563	346	2 678	3 149	2 708	859
Unearned revenue	105	1 360	1 803	6 464	4 569	0
Borrowings	3 506	7 822	22 227	35 289	16 847	4 690
Provisions	107	77	42	247	245	109
Total Current Liabilities	**4 281**	**9 605**	**26 750**	**45 149**	**24 369**	**5 658**
Working Capital	**4 501**	**3 159**	**(15 887)**	**(28 691)**	**(9 171)**	**(1 961)**
Property, plant and equipment	22 136	41 737	36 953	9 858	1 679	595
Work in progress	0	7 489	5 697	23 008	8 263	1 053
Deferred tax asset	3 442	0	614	0	0	56
Fixed repayment plans	8 454	4 895	4 478	0	0	0
Other	426	426	426	0	0	0
Total Non-Current Assets	**34 458**	**54 547**	**48 168**	**32 866**	**9 942**	**1 704**
Borrowings	27 289	29 472	30 562	0	0	0
Provisions	338	357	40	76	97	61
Deferred tax liability	0	3 089	0	4 025	831	0
Total Non-Current Liabilities	**27 627**	**32 918**	**30 602**	**4 101**	**928**	**61**
Net Assets	**11 332**	**24 788**	**1 679**	**74**	**(157)**	**(318)**
Share capital	23 293	23 293	0	0	0	0
Retained earning (accumulated losses)	(11 961)	1 495	1 679	74	(157)	(318)
Total Equity	**11 332**	**24 788**	**1 679**	**74**	**(157)**	**(318)**

In October 2008, the Commission transferred the majority of its assets and liabilities to TIS and in turn recognised a short term loan for the net value of transferred assets, $21.200m. In 2009-10, the Commission forgave that loan in exchange for an equity investment in TIS. This transaction contributed to a $19.046m favourable turnaround in TIS's Working Capital and a $23.109m increase in its Net Assets. In 2010-11 TIS repaid borrowings including the $6.710m returned to the Government for assistance provided for the Meander Valley Pipeline Extension project previously mentioned.

TIDB/TI, on the other hand, continued to borrow from the Commission to fund the development of new projects. It recorded inter-company loans as current liabilities due to these loans being 'at call'. These loans were from RWSC and eliminate on preparation of the group financial statements. As a result, TIDB/TI's Working Capital continued to be negative. TIDB/TI's Net Profit, $0.231m, resulted in Total Equity becoming positive for the first time.

STATEMENT OF CASH FLOWS

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

Comment

Cash decreased by $1.899m to $17.635m at 30 June 2011. During the year the Commission generated cash from its operating activities, sales of water rights and net contributions from the State government totalling $22.214m (2009-10, $29.047m) and invested $23.782m in new irrigation infrastructure and other assets ($19.471m).

Cash generated from operating activities plus proceeds from the sales of water rights totalled $7.388m (2009-10, $8.257m). Our expectation is that this would equate roughly with the Commission's operating profit before tax and before impairment losses plus depreciation which was $13.189m ($4.633m) with the difference primarily relating to the growth by $4.112m in fixed repayment plans of $(0.472)m. However, the main reason for the difference in 2009-10 was the increase in that year in unearned revenues of $4.126m.

The table below compares cash flows of TIS and TIDB.

	TIS			TIDB		
	2010-11	2009-10	2008-09 from October	2010-11	2009-10	2008-09 from October
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
Receipts from customers	6 805	6 060	2 447	144	12	0
Government grants and contributions	649	1 536	1 314	6 275	9 900	3 116
Interest received	844	519	371	479	365	0
Payments to suppliers and employees	(2 344)	(4 876)	476	(6 414)	(4 907)	(2 679)
Finance costs	(1 655)	(1 761)	(1 407)	0	0	0
Cash from operations	**4 299**	**1 478**	**3 201**	**484**	**5 370**	**437**
Payments for property, plant and equipment	(628)	(10 873)	(6 696)	(23 154)	(8 598)	(1 850)
Proceeds from sale of property, plant and equipment	42	518	37	0	0	0
Loans to other entities	0	0		(261)	0	0
Proceeds from sale of water entitlements	0	0	0	2 621	1 394	0
Cash (used in) investing activities	**(586)**	**(10 355)**	**(6 659)**	**(20 794)**	**(7 204)**	**(1 850)**
Capital contribution from Government						
Proceeds from borrowings	0	7 754	13 109	21 536	12 990	4 799
Repayment of borrowings	(6 822)	(2 584)	(1 012)	0	0	0
Cash from financing activities	**(6 822)**	**5 170**	**12 097**	**21 536**	**12 990**	**4 799**
Net increase (decrease) in cash	**(3 109)**	**(3 707)**	**8 639**	**1 226**	**11 156**	**3 386**
Cash at the beginning of the year	4 932	8 639	0	14 541	3 385	0
Cash at end of the year	**1 823**	**4 932**	**8 639**	**15 767**	**14 541**	**3 386**

Movements between 2010-11 and 2009-10 were consistent with explanations provided in the previous sections of this Chapter.

FINANCIAL ANALYSIS

	Bench Mark	2010-11	2009-10	2008-09
Financial Performance				
Result from operations ($'000s)		8 817	3 844	1 721
Operating margin	>1.0	1.7	1.3	1.2
Return on assets	5.21%	10.9%	6.7%	4.8%
Total return to equity ratio		(20.2%)	1.4%	23.7%
Financial Management				
Debt to equity		34.5%	35.8%	59.8%
Debt to total assets		22.8%	23.7%	34.4%
Interest cover - EBIT	>2	6.2	3.2	2.0
Current ratio	>1	1.7	2.1	2.0
Returns to Government				
Dividends paid ($'000s)		0	0	0
Income tax paid ($'000s)		0	0	0
Other Information				
Average staff numbers (FTEs)		36	27	21
Average staff costs ($'000s)		111	110	86
Average leave balance per FTE ($'000s)		21	29	27

Comment

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

The decline in Debt to equity ratio in 2009-10 reflected the capital injections from the State and Commonwealth Governments, $12.127m and $8.663m, respectively, in that financial year. There was little change in this ratio in 2010-11, for two largely offsetting reasons:

- the State and Commonwealth Governments both provided further equity contributions in 2010-11 of $16.615m and $4.920m respectively
- offset by the Comprehensive loss for the year of $12.905m.

The movement in Interest cover ratio reflected movements in Earnings before interest and tax and the quantum of interest expenses charged to the Income Statement. The improved ratio in 2010-11 was a reflection of the improved Result from operations.

Current ratio remained above benchmark but declined mainly due to the reduction of Cash and deposits as discussed under the Statement of Cash Flows section of this Chapter.

The increase in staff numbers was due the Commission progressing new irrigation and water developments. This increase, combined with a slight decrease in actual benefits due, resulted in lower Average leave balance per FTE. Average staff costs have been consistent in the last two years. The increase from 2008-09 to 2009-10 can be attributed to the establishment of TIS and TIDB/TI in September 2008. This resulted in lower average staff costs because employee numbers were high relative to employee costs which were not for a full year.

TASMANIAN PUBLIC FINANCE CORPORATION

INTRODUCTION

The Tasmanian Public Finance Corporation (TASCORP or the Corporation) was established by the *Tasmanian Public Finance Corporation Act 1985*. The TASCORP Board comprises five members appointed by the Governor. Its functions include the development and implementation of borrowing and investment programs for participating authorities, including Local Government, Government Business Enterprises, Other State Authorities, State Owned Companies and inner budget agencies.

AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

Signed financial statements were received on 11 August 2011 and an unqualified audit report was issued on 12 August 2011. The audit was completed satisfactorily with no major items outstanding.

To enhance understanding in this report we note that:

- Credit Margin gains/(losses) means the fair value changes attributable to change in credit risk for investments
- Liability Margin gains/(losses) means the fair value attributable to the movement between the swap curve and the TASCORP yield curve as applied to the Corporation's borrowings and client loans prior to May 2009 and the semi government curve for loans post May 2009.

FINANCIAL RESULTS

Overview

TASCORP achieved a Net Profit before tax for the year of $9.604m (2009-10, $16.219m) and at 30 June 2011 it had Net Assets of $41.475m ($38.466m) comprising:

	June 2011 $m	**June 2010 $m**
Investments	4 127	2 421
Advances to State entities	2 971	2 931
Deposits received from State entities	(1 196)	(1 660)
Borrowings	(5 790)	(3 682)
Net derivatives	(79)	40
Other	8	(12)
Total	**41**	**38**

The increase in individual items on TASCORP's Statement of Financial Position resulted from investments and borrowings at 30 June 2010 being lower than expected (the issuance of the 2014 preferred stock was originally planned for June 2010) and June 2011 reflecting increased holdings of liquid assets. During 2010-11, TASCORP purchased a range and mixture of investments including a substantial volume of semi government bonds and bank investments, including term deposits. An objective was to increase its liquidity and to return investments to a more normal level.

Managing risk

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

Note 17(g) in TASCORP's financial statements shows its Value at Risk (VaR) analysis. The VaR risk measure estimates the potential loss in pre-tax profit due to a change in benchmark interest rates and TASCORP's liability risk margins over a given holding period for a specified confidence level. Note 17(g) discloses TASCORP's VaR during 2010-11 as follows:

	Average		Minimum		Maximum		Year end	
Historical VaR	2010-11	2009-10	2010-11	2009-10	2010-11	2009-10	2010-11	2009-10
(99% one-day)	A$'000	A$'000	A$'000	A$'000	A$'000	A$'000	A$'000	A$'000
Total VaR exposure	633	400	387	244	770	568	528	474

These VaR numbers reflect that TASCORP's risk profile is comparable to the position at 30 June 2010 and is relatively stable. However, it should be noted the numbers above reflect the one day VaR and TASCORP is subject to market volatility across its differing financial assets and liabilities that can have a significant impact on its profit. This is because TASCORP generates relatively small margins on its borrowing and lending activity compared to its Statement of Financial Position that it fully market values accounts.

STATEMENT OF COMPREHENSIVE INCOME

	2010-11	**2009-10**	**2008-09**	**2007-08**
	$'000s	$'000s	$'000s	$'000s
Interest revenue	348 184	290 819	362 739	434 875
Other operating revenue	673	759	260	452
Net gains/ losses from financial instruments	(6 434)	(5 753)	16 507	(39 352)
Total Revenue	**342 423**	**285 825**	**379 506**	**395 975**
Interest expense	327 000	264 802	354 434	394 617
Other operating expenses	5 819	4 804	4 413	4 064
Total Expenses	**332 819**	**269 606**	**358 847**	**398 681**
Profit (Loss) before:	**9 604**	**16 219**	**20 659**	**(2 706)**
Income tax expense (benefit)	2 881	4 866	6 198	(812)
Net Profit (Loss)	**6 723**	**11 353**	**14 461**	**(1 894)**
Other comprehensive income	0	0	0	0
Total comprehensive income	**6 723**	**11 353**	**14 461**	**(1 894)**

Comment

TASCORP's Total Comprehensive Income for the year ended 30 June 2011 was $6.723m (2009-10, $11.353m). The decline in Total Comprehensive Income was due to the fall in net interest revenue (being interest revenue less interest expense), $4.833m, ($17.712m increase) caused by a number of factors including:

- 2009-10 benefited from the claw back of unrealised market value losses incurred in 2007-08
- increased issuance and hedging costs for 2014 preferred stock totalling $750.000m issued in 2010-11, compared to the costs associated with the issue of 2020 preferred stock $100.000m in 2009-10
- higher operating expenses of $5.819m ($4.804m) caused by placement fees associated with the issuance of the 2014 preferred stock.

These factors were partly offset by lower income tax expense of $2.881m ($4.866m).

During the year, TASCORP reclassified financial information within the Statement of Comprehensive Income to present more useful information to users. This reclassification was completed for the years ended 30 June 2011 and 30 June 2010 only. It resulted in forward points on foreign exchange transactions being reclassified from net gains/losses from financial instruments to interest expense and up-front interest receipt/payment on bond swaps being reclassified from net gains/losses from financial instruments to interest expense. Overall this had nil impact on Total Comprehensive Income.

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

	2010-11 $'000s	2009-10 $'000s	2008-09 $'000s	2007-08 $'000s
Net Margin Income	19 755	15 686	20 430	11 854
Credit Margin Gains (Losses)	1 345	5 467	(11 867)	(9 039)
Liability Margin Gains (Losses)	(6 350)	(854)	16 332	(1 909)
Fee Income	673	724	177	452
Revenue from Operations*	**15 423**	**21 023**	**25 072**	**1 358**

* *Revenue from Operations is before accounting for other operating expenses of $5.819m (2009-10, $4.804m; 2008-09, $4.413m and 2007-08, $4.064m).*

Revenue from operations returned to more normal levels in 2010-11. Net margin income and credit margin gains in 2009-10 largely recovered the market value losses incurred in 2007-08, and market value losses on the liability margin resulted from relative movements in the revaluation curves. Net margin income in 2010-11 was affected by increased costs associated with the issuance of the 2014 preferred stock offset by an increase in yield income which largely reflects better investment returns.

STATEMENT OF FINANCIAL POSITION

	2010-11	2009-10	2008-09	2007-08
	$'000s	$'000s	$'000s	$'000s
Cash	974	866	681	11 453
Investments *	4 126 711	2 421 327	3 708 683	3 785 282
Advances *	2 970 648	2 930 616	3 084 483	2 643 182
Derivative instruments receivable	44 956	110 676	130 171	50 542
Property, plant and equipment	204	212	155	201
Intangibles and other	12 068	203	187	1 104
Total Assets	**7 155 561**	**5 463 900**	**6 924 360**	**6 491 764**
Payables	647	7 931	267 049	339 321
Deposits *	1 195 980	1 660 065	2 054 688	1 762 773
Borrowings *	5 790 389	3 681 903	4 439 802	4 257 165
Derivative instruments payable	123 747	70 219	125 951	115 470
Current tax liabilities	2 881	4 866	5 386	0
Provisions	442	450	371	383
Total Liabilities	**7 114 086**	**5 425 434**	**6 893 247**	**6 475 112**
Net Assets	**41 475**	**38 466**	**31 113**	**16 652**
Reserves	10 000	10 000	10 000	10 000
Retained earnings	31 475	28 466	21 113	6 652
Total Equity	**41 475**	**38 466**	**31 113**	**16 652**

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

Comment

During 2010-11 TASCORP continued to maintain its level of borrowings and investments in line with:

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

TASCORP's Total Equity increased by $3.009m in 2010-11, being its net profit after tax for the financial year less dividends paid.

Investments increased by 70%, or $1 705.384m (2009-10, $1 287.356m decrease), which occurred in part due to higher investments in term deposits ($nil) and an increase in semi-government bonds which were purchased to hedge surplus preferred stock. The increase in investments reflected a return to a more normal level of investment.

Advances to State owned entities increased by 1%, or $40.032m in 2010-11 ($153.867m decrease). This increase was primarily due to loans to Aurora Energy of $53.511m, Transend of $30.533m and to the Tasmanian Water and Sewerage Corporations of $15.288m. These increases were offset by the decrease in loans to Hydro Tasmania of $48.055m.

Deposits decreased by 28%, or $464.085m ($394.623m decrease) primarily due to lower levels of funds deposited with TASCORP by the State Government, $369.776m, and by Government Business Enterprises and State-owned companies, $80.461m.

TASCORP's borrowings increased by 57%, or $2 108.486m ($757.899m decrease) primarily due an increase in both domestic and overseas commercial paper to meet the fall in deposits of $464.085m, and fund the $1 705.384m increase in investments..

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

STATEMENT OF CASH FLOWS

	2010-11	2009-10	2008-09	2007-08
	$'000s	$'000s	$'000s	$'000s
Interest and other receipts	407 721	284 366	354 884	431 255
Interest payments	(310 390)	(340 723)	(406 506)	(398 295)
Payments to suppliers and employees	(5 749)	(4 707)	(4 113)	(4 404)
Taxation expense	**(4 866)**	**(5 386)**	**0**	**(1 654)**
Net increase (decrease) in deposits	(3 609)	(65)	(23 791)	(238 437)
Net (increase) decrease in advances	(39 199)	(71 596)	(427 849)	(56 768)
Net (increase) decrease in investments	(1 192 994)	203 374	203 068	60 299
Cash from (used in) operations	**(1 149 086)**	**65 263**	**(304 307)**	**(208 004)**
Payments for property, plant and equip.	(51)	(182)	(138)	(114)
Proceeds from sale of property, plant and equip.	3	50	25	18
Cash from (used in) investing activities	**(48)**	**(132)**	**(113)**	**(96)**
Receipts from other financial liabilities at fair value through profit and loss (borrowings)	2 133 103	(767 080)	183 493	(198 810)
Dividends paid	(3 714)	(4 000)	(3 500)	(1 846)
Cash from (used in) financing activities	**2 129 389**	**(771 080)**	**179 993**	**(200 656)**
Net increase (decrease) in cash	**980 255**	**(705 949)**	**(124 427)**	**(408 756)**
Cash at the beginning of the year	248 170	954 119	1 078 546	1 487 302
Cash at end of the year	**1 228 425**	**248 170**	**954 119**	**1 078 546**

Comment

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

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

The increase in cash from financing activities of $2 129.389m for 2010-11 (2009-10, $771.080m decrease) is reflective of the higher levels of borrowings during the year. The decrease in cash used by operating activities of $1 149.086m for 2010-11 ($65.263m increase) is reflective of higher investments during the year.

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

FINANCIAL ANALYSIS

	Bench Mark	2010-11	2009-10	2008-09	2007-08
Financial Performance					
Profit (Loss) ($'000s)		9 604	16 219	20 659	(2 706)
Return on equity		23.2%	42.2%	66.4%	(16.3%)
Returns to Government					
Dividends paid ($'000s)		3 714	4 000	3 500	1 846
Dividend payout ratio	50%	55.2%	35.2%	24.2%	(97.5%)
Dividend to equity ratio		9.0%	10.4%	11.2%	11.1%
Income tax paid ($'000s)		4 866	5 386	0	1 654
Effective tax rate	30%	50.7%	33.2%	0.0%	(61.1%)
Total return to the State ($'000s)		8 580	9 386	3 500	3 500
Total return to equity ratio		20.7%	24.4%	11.2%	21.0%
Other Information					
Average staff numbers (FTEs)		16	16	15	14
Average staff costs ($'000s)		149	133	130	120
Average leave balance per FTE ($'000s)		21	18	18	18

Comment

TASCORP is the banker to the government sector in Tasmania. Its role is to meet the non-transactional banking needs of Government and related bodies in Tasmania and to manage the market risks associated with those banking needs. As noted previously, TASCORP adopts risk management strategies to operate within its capital constraint and a correspondingly low appetite for risk. The objective is to structure the business so as to effectively deliver the core objective noted in the next paragraph.

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

PUBLIC TRUSTEE

INTRODUCTION

Public Trustee is a Government Business Enterprise (GBE) established by the *Public Trustee Act 1930*. Principal commercial activities undertaken include the provision to the general community of access to professional advice and service in relation to trustee services including:

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

Public Trustee collects fees and commissions for providing these services. In addition, it receives funding from the State Government to enable it to satisfy its community service obligations.

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

AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

Signed financial statements were received on 12 August 2011 with an unqualified audit report issued on the same day. The audit was completed with satisfactory results and there were no major issues outstanding.

Funds Held in Trust on Behalf of Clients

Public Trustee's financial statements only recognise funds controlled by it as a body corporate in accordance with Australian Accounting Standards. As part of its executor and trustee role, Public Trustee also holds funds in trust on behalf of clients during the course of estate and trust administrations. Note 23 to the financial statements disclosed the Common and two investment funds holding a total of $130.709m (2009-10, $123.882m) of client funds at 30 June 2011. Interest earned on these funds is not treated as income of Public Trustee.

FINANCIAL RESULTS

Public Trustee's Net profit after tax was $0.534m, an improvement of $0.633m, on the prior year loss, $0.099m, predominately the result of higher investment income.

Equity increased by $0.716m due to the Net Profit after tax of $0.534m and a net gain of $0.182m arising from the actuarial re-assessment of Public Trustee's defined benefit superannuation obligations.

COMPREHENSIVE INCOME STATEMENT

	2010-11	2009-10	2008-09	2007-08
	$'000s	$'000s	$'000s	$'000s
Commission and fees	5 170	5 032	5 447	4 907
Funding of community service obligations	1 260	1 215	1 127	1 070
Income from investments	1 043	465	517	536
Profit (Loss) on Sale of Assets	0	(3)	0	0
Total Revenue	**7 473**	**6 709**	**7 091**	**6 514**
Employee costs	3 989	3 667	3 458	3 179
Accommodation expenses	435	372	253	172
Administration expenses	1 558	1 542	1 583	1 453
Depreciation	79	77	77	42
Total Expenses	**6 061**	**5 658**	**5 371**	**4 846**
Net operating profit before finance costs and tax	**1 412**	**1 051**	**1 720**	**1 667**
Interest costs defined benefit superannuation plan	672	624	638	620
Net operating profit before tax	**740**	**427**	**1 082**	**1 047**
Change in value of investments	120	(575)	0	0
(Loss)Gain from asset revaluations	0	0	(132)	218
Net Profit (Loss) before tax	**860**	**(148)**	**950**	**1 265**
Income tax expense (benefit)	326	(49)	260	354
Net Profit (Loss)	**534**	**(99)**	**690**	**910**
Other Comprehensive Income				
Revaluation of land and buildings	0	0	(67)	123
Defined benefit plan actuarial gains (losses)	261	(1 078)	50	510
Transfer from RBF provision to subsequent employer	0	0	(134)	(103)
Income tax on other comprehensive income	(79)	323	45	(159)
Other Comprehensive Income	**182**	**(755)**	**(106)**	**371**
Total Comprehensive Profit (Loss)	**716**	**(854)**	**584**	**1 281**

Comment

In 2010-11, Public Trustee reported a Net operating profit before tax of $0.740m, an improvement of $0.313m or 73.3% on the previous year's result. This improvement was primarily due to higher income from investments, $0.578m, and comprised dividends received, $0.865m, from Public Trustee's managed funds partially offset by lower interest received, $0.287m. In 2009-10 the Murray Street building was sold and the proceeds of the sale, together with funds held in the Common Fund, were pooled and used to purchase managed investments.

Overall, Public Trustee reported a Net Profit of $0.534m. A significant non-operating item impacting on this result was unrealised gains on managed investments of $0.120m.

STATEMENT OF FINANCIAL POSITION

	2011	2010	2009	2008
	$'000s	$'000s	$'000s	$'000s
Cash	1 234	1 113	7 648	6 445
Receivables	934	568	545	429
Financial Assets	10 296	10 175	0	0
Assets held for sale	0	0	4 235	0
Income tax asset	31	0	0	0
Other	22	0	1	45
Total Current Assets	**12 517**	**11 856**	**12 429**	**6 920**
Payables	491	547	816	722
Provisions	923	1 075	754	1 928
Income tax liability	0	2	265	(52)
Total Current Liabilities	**1 414**	**1 624**	**1 835**	**2 597**
Working Capital	**11 103**	**10 232**	**10 594**	**4 322**
Property, plant and equipment	436	364	571	2 412
Investment property	0	0	0	3 100
Deferred tax asset	3 291	3 503	2 932	2 791
Total Non-Current Assets	**3 727**	**3 867**	**3 503**	**8 302**
Provisions	10 031	10 016	8 816	7 272
Deferred tax liability and tax payable	0	0	67	267
Total Non-Current Liabilities	**10 031**	**10 016**	**8 883**	**7 540**
Net Assets	**4 799**	**4 083**	**5 214**	**5 085**
Retained profits	4 799	4 083	4 990	4 793
Asset revaluation reserve	0	0	224	292
Total Equity	**4 799**	**4 083**	**5 214**	**5 085**

Comment

Total Equity increased by $0.716m, being the Comprehensive Profit reported in the Comprehensive Income Statement.

Corresponding to the increase in Total Equity, Net Assets also increased by $0.716m with major line item movements being:

- higher Cash, up $0.121m, which is discussed further in the Statement of Cash Flows section of this Chapter
- increased Receivables, $0.366m, mainly related to an accrual for dividend revenue, $0.508m
- lower Provisions, $0.137m, because of the decline in the provision for defined benefits and reduction of long service leave due to staff leaving
- decreased Deferred tax asset, $0.212m, reflecting timing differences between the calculation of tax and accounting profits.

STATEMENT OF CASH FLOWS

	2010-11	2009-10	2008-09	2007-08
	$'000s	$'000s	$'000s	$'000s
Receipts from clients, Government and Common Fund	7 076	6 365	6 989	6 506
Payments to suppliers and employees	(7 113)	(5 334)	(5 571)	(5 585)
Interest Received	34	321		
Taxation paid	(226)	(460)	(189)	(313)
Cash from (used in) operations	**(229)**	**892**	**1 229**	**608**
Returns from Financial Assets	502	0	0	0
Redemption of Financial Assets	0	6 535	(1 200)	0
Purchase of Financial Assets	0	(10 750)	0	0
Payments for property, plant and equipment	(152)	(68)	(429)	(129)
Proceeds from sale of property, plant and equipment	0	4 500	859	0
Cash from (used in) investing activities	**350**	**217**	**(770)**	**(129)**
Dividends paid	0	(345)	(455)	(464)
Cash (used in) financing activities	**0**	**(345)**	**(455)**	**(464)**
Net increase in cash	**121**	**764**	**4**	**14**
Cash at the beginning of the year	1 113	349	345	331
Cash at end of the year	**1 234**	**1 113**	**349**	**345**

Comment

During 2011 Cash increased $0.121m to $1.234m. This was predominately due to the inclusion of dividends received from managed funds, $0.502m, which was partly offset by Cash used in operations, $0.229m, and by Payments for property, plant and equipment of $0.152m.

2010-11 was the first time, of the four years under review, that Public Trustee generated negative cash from operations. There were three main reasons for this:

- disclosure in the Statement of Cash Flow of Returns from financial assets (dividends received) as investing rather than operating cash flows.
- the increase in Receivables by $0.366m meaning that at 30 June 2011, higher levels of current assets were tied up in non-cash assets
- lower Payables and Provisions compared to 30 June 2010 meaning that cash was applied to lowering these obligations compared to the position at 30 June 2010.

No Dividends were paid this year because of the loss in 2009-10.

FINANCIAL ANALYSIS

	Bench Mark	2010-11	2009-10	2008-09	2007-08
Financial Performance					
Net Profit (Loss) ($'000s)		534	(99)	690	910
EBIT ($'000s)		1 412	1 051	1 720	1 667
EBITDA ($'000s)		1 491	1 128	1 797	1 710
Operating margin	>1.0	1.23	1.19	1.32	1.34
Return on assets	5.21%	8.8%	6.6%	11.0%	11.0%
Return on equity		12.0%	(2.1%)	13.4%	19.5%
Financial Management					
Current ratio	>1	8.85	7.30	6.77	2.66
Creditor turnover	30 days	47	45	88	54
Returns to Government					
Dividends paid ($'000s)		0	345	455	464
Income tax paid ($'000s)		226	460	189	313
Total return to the State ($'000s)		226	805	644	778
Dividends payable ($'000s)		225	0	345	455
Dividend payout ratio	50%	50.0%	0.0%	58%	60%
Dividend to equity ratio	6%	1.3%	0.0%	1.7%	2.4%
Other Information					
Average Staff numbers (FTEs)		51	51	49	47
Average staff costs ($'000s)		78	72	71	67
Average leave balance per FTE ($'000s)		12	12	12	13

Comment

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

Creditor turnover was above benchmark in all years under review but reduced over the last two years. It was high in 2008-09 due to a number of software upgrade projects being undertaken, increased media advertising and larger than average purchases of fixed assets.

Total returns to the State comprise Dividends paid and the Income tax (equivalent) payments. No dividend was paid this year, but over the review period Public Trustee returned $2.453m to the State or an average of $0.613m per annum.

In 2010-11 the Dividend policy changed. Dividends paid are now calculated based on 50% of the Net Operating profit after tax compared to Net profit after tax, which excludes the gain on financial assets and applicable income tax. On this basis the Board has recommended a dividend of $0.225m for 2010-11.

Average staff costs, $0.078m, were higher than the average of $0.072m in 2009-10 reflecting general wage increases, annual increments and employment of a number of casual employees during the year.

STATE OWNED CORPORATIONS

AT A GLANCE

BACKGROUND

Government Businesses that may be subject to provisions of their enabling legislation, and also subject to the provisions of the *Corporations Act 2001*, are referred to as State Owned Corporations or State Owned Companies (SOCs).

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

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

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

This part of the Report provides financial information on all SOCs, being:

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

The shareholders for the Tasmanian Water and Sewerage Corporations, (Onstream, Southern Water, Cradle Mountain Water and Ben Lomond Water), are the respective local government councils. Summaries of financial performance are presented separately in the Chapter Tasmanian Water and Sewerage Corporations, followed by individual chapters. As a result, no further reference to them is made in this 'At a glance'.

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

- Audit of the 2010-11 Financial Statements
- Key Findings and Developments
- Financial Results:
  - Comprehensive Income Statement
  - Statement of Financial Position
  - Statement of Cash Flows
  - Financial Analysis.

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

KEY OUTCOMES, DEVELOPMENTS AND FINDINGS FROM AUDITS

Key outcomes from audits included:

- Audits of the financial statements of the eight SOC's, 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 except TOTE, submitted financial statements within the statutory deadline being 45 days following the end of the financial year.

Key developments and findings included:

AURORA ENERGY PTY LTD

On 1 July 2010 Aurora re-negotiated its agreements with Hydro Tasmania relating to its non-contestable electrical load within Tasmania. The agreement is for three years and is aimed at enabling Aurora's energy business to operate on a more sustainable basis.

In August 2010 the Office of the Tasmanian Economic Regulator released its report titled "Investigation of maximum prices for declared retail electrical services on mainland Tasmania". The final report, issued on 19 November 2010, proposed a rate of $73.50/MWh (in 2009-10 dollars) for the energy component of Aurora's non-contestable load, a cost to serve allowance of $94.00 (in 2010-11 dollars) per customer and a retail margin of 3.8%.

Without these initiatives Aurora faced the prospect of incurring significant losses in 2010-11 and future years, and having to impair certain infrastructure assets commencing 30 June 2010.

On 8 June 2011, the Energy Business moved to an 'Energy Expert' model which is intended to enable Aurora to remain committed to providing its customers with benefits they might otherwise receive from full retail contestability, while ensuring it is ready to compete should full competition arise. The model incorporates a new organisational structure based on functional rather than divisional lines. These functional areas are categorised as Business Development & Strategy, Sales & Marketing (which includes the Customer Service Centre), Wholesale Energy (which includes the power station), and Finance, Regulatory and Operations.

Prior to 2010-11, Aurora paid dividends based on a 5 year smoothed calculation of 50% of adjusted NPAT (adjusted for RBF superannuation movements, mark-to-market of derivatives and customer contributions received). As of June 2011, Aurora was requested to pay an annual dividend of 60% of underlying net profit after tax. Consequently, the Board recommended a dividend of $11.879m for this year, an increase of 202.96% on 2009-10.

METRO TASMANIA PTY LTD

Metro received additional funding of $3.250m (2009-10, $3.250m) from the State to improve its bus fleet, assist with its long-term capital replacement program and fund other passenger growth initiatives. This funding has been included in Metro's budget for the next three years. During 2010-11, Metro spent $5.969m on new capital equipment, primarily eight new buses. The buses were predominantly funded by the capital component of the additional funding provided, cash generated from operations and cash on hand brought forward from 2009-10, resulting in cash holdings declining by $2.569m to $2.866m at 30 June 2011.

Metro's low profitability raises concerns regarding its ability to internally generate sufficient cash to enable it to maintain and replace its buses. On the basis of capital expenditure invested in buses over the past four years, even with the additional funding of $3.250m per annum, Metro will have to curtail its bus replacement program from 1 July 2012.

TASMANIAN PORTS CORPORATION PTY LTD

Tasports adopted fair value measurement of infrastructure assets as at 30 June 2011 for the first time. Fair values were determined based on market values for land and a combination of depreciated replacement cost and value-in-use for the remaining infrastructure assets. The revaluation resulted in a net valuation increment of $73.111m, comprising an increase in asset values, $102.309m, (reported as Other comprehensive income) partly offset by a revaluation decrement, $29.198m (reported as a Non-operating expense).

Some major customers decided to withdraw from Bell Bay Port.

During 2010-11 Tasports made a decision to reduce staff numbers to better align its cost structure with a smaller revenue base. As a result, Tasports recognised a provision for restructure, in accordance with accounting standards, of $1.330m (included within Current Employee benefits in the Statement of Financial Position).

Last year the Company decided to divest its 50% equity share in Cargo and Port Operation Logistics. The sale was completed in 2010-11.

TASRACING PTY LTD

The funding deed with the State Government was signed in 2010-11. It provides base funding of $27.000m per annum plus CPI less 1% over 20 years commencing from 1 July 2009. This deed also allows for a $40m debt facility with the TASCORP for which the Government will provide servicing in the form of principle and interest payments, subject to certain conditions. This support from Government is essential without which Tasracing is unlikely to be able to service any borrowings drawn down from this facility.

Tasracing became entitled to collect race field fees following the introduction of legislation effective from November 2010. This meant that there was a period of five months in 2010-11 when Tasracing was unable to collect race field fees. The lost revenue caused by this delay was approximately $1.630m. Tasracing entered into a new $1.630m borrowing facility to fund this lost revenue. TOTE Tasmania provided Tasracing with operational funding until the legislation was passed. This amounted to $5.146m in 2009-10.

In April 2011, Tasracing commenced the $13.000m Spreyton Park track upgrade. This included upgrading the current facility with a new generation synthetic track aimed at accommodating higher training volumes, as well as providing extra race meetings if Tattersall's Park is unavailable, as well as an alternate venue in wet weather. This expenditure was funded from the debt facility previously referred to with $1.734m drawn down in 2010-11.

Audit identified procedural weaknesses surrounding payments which may increase the risk of material error or fraud. These weaknesses arose from Tasracing processing large volumes of payments but, because of limited staff numbers, was unable to undertake adequate review. Regular review of budget to actual expenditure by management mitigated the risks to some extent. Management has acknowledged the risks and are reviewing mitigation strategies.

Last year it was recommended that the Board develop impairment indicators and monitor them on a regular basis. Impairment indicators and triggers were discussed at the Audit and Risk Sub-committee during 2010-11 but have not yet been documented. For 2010-11 management advised that due to the nature of the Tasracing's funding and its key revenue generating assets being leased, when assessing impairment they would only consider significant events that may give rise to a loss of value or revenue generating capability. The likelihood of such events is considered low and there were none during the financial year. Management will develop and document impairment indicators by 31 December 2011.

TASMANIAN RAILWAY PTY LTD

During 2010-11, TasRail and the Department of Infrastructure, Energy and Resources signed the lease agreement to finalise the rail corridor lease. Under the terms of the lease, TasRail is responsible for remediation of any environmental obligations that may become apparent as a result of its operations, or past operations, of the network. While no environmental liabilities were identified at balance date, if significant environmental liabilities relating to past operations are identified in the future, TasRail will require financial support from the Tasmanian Government to fund remediation. TasRail is yet to clarify its responsibilities in relation to the maintenance of non-operational lines acquired under the terms of the lease.

TasRail generated operating losses totalling $29.357m in the first 19 months of its activities. This was despite receipt of operating grants of $14.590m in 2010-11. On-going operating losses are not sustainable and anticipated short-term funding arrangements include:

- Above ground operations - in 2011-12, the State Government will provide $13.500m as an equity contribution for the critical upgrade of the rail network infrastructure and rolling stock. A further $31.000m will be contributed by the Australian Government in 2011-12 for this purpose.
- The State Government also budgeted to spend $67.671m over the next four years to assist TasRail meet maintenance and administration costs. TasRail is heavily reliant on this support.
- Below ground operations - TasRail will continue to undertake capital works on upgrading the below rail network, with $52.939m budgeted in its capital expenditure program for 2011-12 and $49.360m in 2012-13, with these works funded through equity contributions. TasRail will continue to record material below ground losses into the near future.

Without this anticipated support from governments, and the financial support it has received since it commenced operations, TasRail is not a going concern.

TOTE TASMANIA PTY LTD

In December 2010, TOTE acquired a 25% share in Bet Worldwide Unit Trust (BWUT) for $5.000m. BWUT owns 100% of online bookmaker Sports Alive Pty Ltd, which was placed into voluntary liquidation on 26 August 2011 and its licence cancelled on the same day. A liquidator was appointed to recover all assets for the benefit of creditors. As at 30 June 2011, TOTE carried the investment at $3.880m and was owed $0.242m by Sports Alive Pty Ltd. The return on the investment and payment of the outstanding debts are uncertain. A note to this effect was included in the financial statements under the heading "Events Subsequent To Balance Date".

TOTE has a SuperTAB Pooling Agreement with Tabcorp Holdings Ltd until 14 August 2012. In July 2011, the Victorian Government announced that Tabcorp Wagering (Vic) Pty Ltd (a wholly owned subsidiary of Tabcorp Holdings Ltd) had been awarded the new wagering and betting licence in Victoria which runs until August 2024. Negotiations over future pooling arrangements between TOTE and the licence holder are expected to commence shortly. However, until a new pooling agreement is in place, TOTE's participation in that pool is at risk. The Directors have stated they have a number of strategies to mitigate that risk.

TRANSEND NETWORKS PTY LTD

In December 2010, all of Transend's Hobart based operations were consolidated into its Maria Street complex.

In June 2011, the shareholders issued a direction requiring additional dividends and returns of equity. Subsequently, Transend amended its dividend policy for the balance of the current regulatory period until 30 June 2014. The policy is now to pay an annual dividend of 60% of net profit, compared to 50% in previous years. Commencing 2011-12, Transend will make an annual return of equity of $20.000m, subject to its operating and expenditure requirements and borrowing capacity.

The directions to amend the dividend policy, and to return equity, has the likely potential to further deteriorate Transend's already negative working capital, which currently stands at negative $48.999m. In addition, these directions may impact Transend's capacity to service its debt obligations and to continue its capital works program at current levels. This will need to be closely monitored by the Board.

TT-LINE COMPANY PTY LTD

An independent valuation of the Company's two ships is sought annually from independent sources, being two internationally recognised shipping agents. As the prevailing market for these types of ships is predominately in Europe, the valuation is provided in Euros. The valuation of each vessel in Euros at 30 June 2011 remained the same as that at 30 June 2010 (78.000m Euro). However, due to the stronger Australian dollar at 30 June 2011, the value of each vessel decreased from $111.818m to $103.909m between 2010 and 2011. As a result the Company recorded a ship valuation decrement expense of $11.600m in its Statement of Comprehensive Income.

In response to high fuel costs incurred in late 2007-08, the Company in 2008-09 adopted a fuel-hedging strategy in order to gain long-term certainty over one of its largest expenditure items and limit the volatility on its financial results. At the time of entering the first hedge agreements in 2008-09 fuel prices had increased significantly and were approximately $815 per metric tonne, with an expectation of further price increases. Entering into the hedge agreements resulted in TT-Line being committed to future prices for fuel based on that expectation. However, the global fuel price decreased in 2008-09 and the Company's hedged price was higher than the market price. This resulted in the Company paying inflated fuel costs in 2008-09 and 2009-10 compared to the current market and also required it to recognise a significant fuel hedge liability in 2008-09 and 2009-10, as reported in the Statement of Financial Position at those dates. The hedge contract, which comprised the majority of the fuel hedge liability at 30 June 2010, $6.436m of the $7.422m, was settled in 2010-11. As a result the Company recorded a net fuel hedge asset at 30 June 2011 of $1.230m.

In accordance with the Government's stated dividend policy, the Company retained its annual surplus for the purposes of debt retirement and funding the replacement cost of its two vessels. By 30 June 2011 all of TT-Line's borrowings had been settled.

SUMMARY FINANCIAL PERFORMANCE

Tasmania's SOCs collectively had net assets of $1.795bn (2009-10, $1.600bn), employed 2 946 (3 050) people, and generated profits of $27.136m ($32.039m) after taxation in 2010-11.

Summary financial analysis at an entity level includes:

AURORA ENERGY PTY LTD

Aurora recorded an operating profit before tax and interest of $99.388m compared to $35.559m in 2009-10. The profit included earnings before interest and tax (EBIT) in AETV of $20.611m. The increase in Aurora's profitability was primarily caused by the renegotiation of electricity hedge purchase contracts with Hydro Tasmania and a higher non-contestable tariff rate.

Aurora's final Net Profit of $31.135m follows a number of transactions including contributions received from customers as part of distribution augmentation, financial instrument fair value movements, actuarial adjustments for superannuation, asset revaluations and results of its hedging transactions, which, while in some cases material, are difficult to draw meaningful comparisons about on an annualised basis.

At 30 June 2011, Aurora's Equity totalled $561.063m, an increase of $64.647m, 13.02%, from 2009-10. The net increase was due to:

- an equity injection of $4.900m from the State Government to support the TasGovNet Strategic Partnership to bring competition into the Tasmanian broadband network
- asset revaluation increases on distribution grid assets, $20.116m
- Aurora's consolidated profit after tax of $31.135m
- cash flow hedge reserve movement, being an increase of $8.496m.

METRO TASMANIA PTY LTD

Metro recorded a Net operating loss before tax of $3.323m, which is consistent with the prior year loss of $3.194m. This highlights the importance of the $3.250m additional funding referred to earlier in this Chapter, and raises the issue of sustainability beyond the three years this additional funding has been budgeted for. Without this funding, Metro may experience difficulties in achieving breakeven results.

In addition, Metro's current ratio continued to decline, to 0.62 from 0.80. A ratio of greater than one is accepted as being a minimum position in most industries. With a short-term Payables balance of $4.092m and a Cash position of $2.866m Metro will need to generate additional cash to meet short-term debts.

TASMANIAN PORTS CORPORATION PTY LTD

Tasport's reported an operating loss before tax of $0.856m for 2010-11 compared to a Net profit of $1.484m for 2009-10. The net loss resulted from a decline in net revenue, $5.750m, 8.1%, caused by the continued downturn in freight activity and a number of customers no longer utilising Bell Bay. Net loss before tax, $30.494m, was mainly a result of Revaluation decrement of infrastructure assets, $29.198m, and recognition of a Provision for restructure, $1.330m, planned to commence and be completed in 2011-12. The loss resulted in an income tax benefit, $6.710m, which led to Tasports reporting a Net Loss of $23.784m.

Total Comprehensive result for 2010-11 amounted to $58.130m, due to a net revaluation increment, $81.914m.

Total Equity increased from $123.337m to $180.768m during 2010-11. The increase of $57.431m comprised the Comprehensive profit of $58.130m less dividends paid, $1.284m, plus an equity contribution, $0.585m. The equity contribution related to first instalment of a $1.585m, two-year funding commitment by the State Government to upgrade port infrastructure at Lady Barron Port on Flinders Island. The remainder was received in July 2011.

TASRACING PTY LTD

Tasracing reported a Net operating loss before finance costs and tax of $3.902m, an increase of $3.268m on the previous year's result. The higher loss was primarily due to increased Prize money, benefits and incentives paid of $1.256m and the difference between operational funding from TOTE Tasmania and race field fees of $1.951m. For continued operations, and as previously noted, Tasracing is at present dependent upon a funding deed with the State Government providing base funding of $27.000m per annum plus CPI less 1% over 20 years and a $40m debt facility to be serviced by Government.

Tasracing's borrowings increased over the period from $1.500m at 30 June 2010 to $4.864m at 30 June 2011. These borrowings were needed to assist Tasracing with the Spreyton Park development and to support operating cash flows.

TASMANIAN RAILWAY PTY LTD

TasRail reported an Operating loss before tax of $4.632m, an improvement on the loss of $10.135m in 2009-10. Operating costs represented 157% (2009-10, 158%) of operating revenues with the lower loss in 2010-11 entirely due to receipt of an operating grant of $14.590m from DIER.
A Comprehensive loss of $27.869m was recorded in 2010-11, ($10.008m) primarily due to the impairment of capital works on below rail assets of $30.391m ($nil). The Company considers below rail assets will generate insignificant cash flows and consequently capital works were impaired to nil.

Funding for capital works, $38.064m, was provided to the Company by Government through equity contributions. This equity funding led to an improvement in the Company's equity position despite the 2010-11 Comprehensive loss.

At 30 June 2011, the Company held $16.491m in its bank account being unexpended equity, which will be used to fund further below rail infrastructure work and then, once again, impaired to nil leading to further losses and increases in accumulated losses.

Government funding eliminated the need for the Company to borrow from external sources to fund its capital projects.

TOTE TASMANIA PTY LTD

TOTE reported a Net operating profit before tax of $1.546m, a decrease of $13.648m or 89.8% on the previous year's result. The decrease in operating profit was a combination of income falling by $2.145m and operating expenditure increasing by $10.990m.

Overall, TOTE reported a Net profit of $3.141m. Significant non-operating items impacting on this result were sale of a FM licence by Tasradio, resulting in a net gain of $3.872m, and share of loss in associate Bet Worldwide Unit Trust, $0.970m.

TOTE's Equity totalled $8.540m, a slight decrease of $0.354m on 2010. The movement reflected Net Profit, $3.141m, and dividends paid during the year, $3.495m.

TRANSEND NETWORKS PTY LTD

Transend posted a profit after tax of $47.665m compared to $26.358m in 2009-10. The improved profit was due to higher revenues derived from its prescribed (regulated) electricity transmission services.

Transend's significant capital investment program contributed to a growth in net assets to $623.238m ($563.911m in 2009-10). This was funded through the use of cash generated from operations and borrowings.

TT-LINE COMPANY PTY LTD

TT-Line recorded an operating profit of $14.056m, a decline of $1.999m on the operating profit of $16.055m in 2009-10. This decline was driven by lower revenue from the sale of goods and provision of services, $1.444m and higher other operating expenses, $3.362m. On an after tax basis, the Company's Net Profit was $0.506m compared to $20.200m last year.

During the current financial year, TT-Line suffered a downward valuation of its two ships of $15.819m which arose largely as a result of the stronger Australian dollar at 30 June 2011 in comparison to 2010. The ships annual valuation is provided in Euros.

Net assets increased $6.562m to $255.874m during 2010-11. The Company's improved financial position mainly related to a reduction of net borrowings, $25.000m, and a $8.652m improvement in the derivative fuel hedge position from a net liability of $7.810m in 2009-10, to a net asset position of $1.230m in 2010-11.

Net cash from operating activities totalled $24.638m enabling TT-Line to meet debt repayments of $25.000m during the year reducing its borrowings to zero at 30 June 2011.

RESPONSIBLE MINISTER

The Ministers responsible for the various SOCs at 30 June 2011 were:

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

AURORA ENERGY PTY LTD

INTRODUCTION

Aurora Energy Pty Ltd (Aurora) was established on 17 June 1998 under the *Electricity Companies Act 1997* and is subject to the *Corporations Act 2001*. The Tasmanian Government through its two shareholders, the Treasurer and the Minister for Energy and Resources, owns Aurora on behalf of the State of Tasmania. The Office of the Tasmanian Economic Regulator regulates the revenue that Aurora receives for distribution services and also sets the maximum revenues that Aurora could receive from residential and non-contestable business customers which currently represents about 23% (by consumption) of Aurora's retail business. As of 1 July 2012, the Australian Energy Regulator will take over responsibility for distribution services regulation.

The parent company consisted of two core operating units:

- **The Distribution Business:** Responsible for the management, development and operation of the distribution system including poles, lines and substations, asset stewardship and network management. The Distribution Business includes the Network Services division which oversaw the distribution resource and response centres, designing and programming, including arranging contracts and service agreements for carrying out construction, operations and maintenance activities. The division also managed customers' connections, meter reading, transmission capabilities, the Bass Strait islands and the standards and compliance group, which included the electrical inspection team and the Aurora Training Centre. The Distribution Business was restructured during the year, refer to item 5 in the Key Findings and Developments section of this Chapter for further details.
- **Energy Business:** Responsible for the ongoing activities in retail customer service, including electricity sales to business and residential customers as well as significant new activities in generation of electricity through the Aurora Energy Tamar Valley power station, and wholesale energy activities, including contracting and risk management of electricity and gas. The Energy Business was restructured during the year, refer to item 4 in the Key Findings and Developments section of this Chapter for further details.

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

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

- **Ezikey Group Pty Ltd (Ezikey)**. This subsidiary is now responsible for the commercialisation of broken neutral detection technology owned by Aurora. For the year ended 30 June 2011 the company made a loss of $0.542m, and had net assets of $0.894m.
- **Auroracom Pty Ltd**. This subsidiary was created for the purpose of obtaining a Telecommunications Carrier Licence. To date, this subsidiary has not traded.
- **Aurora Energy (Tamar Valley) Pty Ltd.** Alinta Energy (Tamar Valley) Pty Ltd (Alinta) was purchased in August 2008 and its name changed to Aurora Energy (Tamar Valley) Pty Ltd (AETV). The company owns gas turbines that generate power which is sold into the National Energy Market (NEM), although contracts with Aurora effectively result in all of AETV's power being acquired by Aurora via a tolling fee, which is governed by a formal agreement established by the boards of both entities. AETV's financial results are summarised later in this Chapter.

In May 2005 Tasmania joined the NEM with Aurora purchasing wholesale electricity from the Australian Energy Market Operator (AEMO) (formerly the National Electricity Market Management Company Limited - NEMMCO). Aurora pays for energy at the market spot price and enters into hedge contracts with counterparties to manage the risks associated with fluctuations in the market spot price. Aurora continues to source the bulk of its electricity hedges from contracts with Hydro-Electric Corporation trading as Hydro Tasmania. See further comments under the Statement of Financial Position section.

During the year, Aurora submitted its distribution business pricing proposal for the period 2012 to 2017 to the Australian Energy Regulator – this was the first time that Aurora has made a submission to the national regulator.

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

AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

Signed financial statements were received on 12 August 2011 and an unqualified audit report was issued on the same day.

The audit was completed satisfactorily with no major items outstanding.

KEY FINDINGS AND DEVELOPMENTS

2010-11 saw an improved financial performance for Aurora as compared to the prior year. The achievement of a net profit after tax of $31.135m was primarily due to:

- increased revenue as a result of higher tariffs (most notably in relation to non-contestable customers, where the state government allowed for tariffs to be set by an independent Regulator in order that Aurora could earn revenues based on established benchmarks for retail services and electricity costs) and increased overall consumption (including a new major industrial customer), in addition to lower energy sourcing costs following a renegotiation of Aurora's hedge contracts with Hydro Tasmania (discussed further below)
- lower costs for the new customer care and billing system which was launched in February 2011
- actuarial gain of $4.660m on Aurora's superannuation plan (as opposed to a loss of $11.505m in 2010)

These gains were offset by a tax expense for 2011 of $8.393m, as compared to a tax benefit of $7.159m in 2010, the recognition of redundancy expenses of $12.304m as a result of the restructure and streamlining of the business and higher borrowing costs of $11.968m associated with the full year effect of new borrowings in 2009-10 and 2010-11.

The business was focussed on productivity and cost containment in 2011, following an increase in the scale and complexity of the business in previous years. This led to an increase in cash generated from operating activities as compared to the prior year.

A reduction in capital expenditure during the year (from $218.388m in 2010 to $147.230m this year), mainly as a result of final power station construction expenditure by AETV in the prior year and the timing of implementation and deferrals of projects, resulted in a lowering of the debt equity ratio to 193.4% (2009-10, 207.5%). Although Aurora had available to it funding sources to continue with its capital expenditure programs, it will need to continue to closely monitor the impact of additional debt on target debt and debt serviceability ratios (Refer to the Financial Performance section of this Chapter for further details).

This section summarises some major developments during 2010-11 and since year end.

1. Agreement with Hydro Tasmania re non-contestable hedge contracts

On 1 July 2010 Aurora re-negotiated its agreements with Hydro Tasmania relating to its non-contestable electrical load within Tasmania. The agreement is for three years and is aimed at enabling Aurora's energy business to operate on a more sustainable basis.

2. Regulator's report re non-contestable tariffs

In August 2010 the Office of the Tasmanian Economic Regulator (the Regulator) released its report titled "Investigation of maximum prices for declared retail electrical services on mainland Tasmania". This draft report (issued as final on 19 November 2010) proposed a rate of $73.50MWh (in 2009-10 dollars) for the energy component of Aurora's non-contestable load, a cost to serve allowance of $94.00 (in 2010-11 dollars) per customer and a retail margin of 3.8%.

Without these initiatives, Aurora faced the prospect of incurring significant losses in 2010-11 and future years, and having to impair certain infrastructure assets commencing 30 June 2010.

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

The AETV financial statements were signed by the directors on 4 November 2011. A separate audit opinion is not issued in relation to AETV, but the AETV results were audited as part of the group audit (and to group materiality).

Relevant details of AETV's financial position at 30 June 2011 were:

- The power station was fully operational for the entire year.
- AETV generated an after tax profit of $1.576m.
- At 30 June 2011 its net assets totalled $90.263m comprising assets of $387.085m less liabilities of $296.822m.

The following table summarises the financial transactions for AETV's operations for the year ended 30 June 2011:

	2010-11	2009-10	2008-09
Income Statement	$'000s	$'000s	$'000s
Total revenue	119 354	89 299	23 503
Energy purchases and operating costs	(84 796)	(64 752)	(35 948)
Depreciation and amortisation	(12 636)	(12 422)	(2 708)
Other expenses	(1 311)	(950)	(57)
Earnings Before Interest and Tax (EBIT)	**20 611**	**11 175**	**(15 210)**
Interest expense	(18 359)	(13 597)	(142)
Loss before tax	**2 252**	**(2 422)**	**(15 352)**
Income tax benefit	(676)	724	4 416
Net profit (loss)	**1 576**	**(1 698)**	**(10 936)**
Balance Sheet			
Current assets	25 608	47 174	48 656
Non-current assets	361 477	367 722	287 027
Current liabilities	(11 044)	(4 793)	(45 989)
Non-current liabilities	(285 778)	(311 416)	(199 292)
Equity	**90 263**	**88 687**	**90 402**

AETV's earnings before interest and tax was $20.611m. Its operations are governed by a formal tolling agreement between Aurora and AETV, the effects of which are eliminated on consolidation. As expected, depreciation was a major charge against profits with the amount approximating the carrying value of the power station divided by its expected future life of 30 years.

Revenue reflected the sale of electricity from the power station under tolling fee arrangements to Aurora. As the power station only started producing after its official opening in October 2009, the increase in revenue in 2010-11 is as a result of having a full 12 months of tolling fee.

The non-current assets of $361.477m primarily represented the cost of constructing the power station. The construction cost of generation assets as incurred by AETV to 30 June 2011 was $360.424m.

The finalisation of the construction of AETV was funded by new borrowings. Non-current liabilities include $233.200m in debt owing to Aurora who borrowed these funds from Tascorp before on-lending them to AETV. This additional debt resulted in a debt to equity ratio at the AETV level of 258.36%. This high exposure to debt has been a key focus of the directors and senior management and had led to strategies to reduce debt that have included reduced capital expenditure and cost containment.

4. Energy Business division restructure

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

On 8 June 2011, the Energy Business moved to an 'Energy Expert' model which is intended to enable Aurora to remain committed to providing its customers with the benefits they might otherwise receive from full retail contestability, while ensuring it is ready to compete should full competition arise. The model incorporates a new organisational structure based on functional rather than divisional lines. These functional areas are categorised as Business Development & Strategy, Sales & Marketing (which includes the Customer Service Centre), Wholesale Energy (which includes the power station), and Finance, Regulatory & Operations.

5. Distribution Business division restructure

During the year, the distribution business was restructured whereby the Network and Network Services Divisions were integrated into one business under a combined management team. This strategy is intended to improve the cost and operating efficiency of the network business as a whole.

6. Customer care and billing system

As a result of charges that were subsequently deemed not to be recoverable through the regulated pricing determination, $11.654m of costs were directly expensed in 2010-11 (2009-10, $20.643m). At 30 June 2011, $28.023m of costs incurred on this system remained capitalised within intangible assets, meaning a total of $60.047m was spent on this project over its construction.

7. National Broadband Network (NBN)

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

8. New contestable tranche of retail customers announced

Tranche 5a customers commenced full retail contestability as of 1 July 2011.

9. New dividend payment calculation

Previously, Aurora was requested to pay a dividend based on a 5 year smoothed calculation of 50% of adjusted NPAT (adjusted for RBF superannuation movements, mark-to-market of derivatives and customer contributions received). As of June 2011, Aurora was requested to pay an annual dividend of 60% of underlying net profit after tax. Consequently, the Board recommended a dividend of $11.879m for this year, an increase of 202.96% on 2009-10.

10. Response to questions raised by a member of the public

Commencing in July 2007 a member of the public has regularly written to us seeking audit attention in relation to allegations that Aurora had breached the terms of its distribution licence by failing to ensure compliance with AS2344-1997 *Limits of Electromagnetic Interference from overhead AC Power Lines and High Voltage Equipment in the Frequency Range 0.15 to 1000 MHz*, being a condition of its licence pursuant to section 8.6.12 of the Tasmanian Electricity Code.

Work has been carried out on these matters although no audit or review of the specific matters raised was initiated. However, work was conducted on these matters by other regulators including the Tasmanian Energy Regulator who concluded in a 29 July 2008 revised Statement of Findings that a breach had occurred. Existence of a breach can give rise to questions as to whether or not a contingent liability exists and if so whether such contingency is sufficiently material as to require inclusion in the notes to Aurora's annual financial statements.

Consideration as to whether or not a contingency exists needs to be assessed under Australian Accounting Standard AASB 137 'Provisions, Contingent Liabilities and Contingent Assets'. Such assessment must be made by Aurora which has asserted that no contingent liability exists. Audit's role is to attest to that assertion and we have similarly concluded. Therefore, it has not been necessary to disclose details of the breach in the notes to Aurora's annual financial statements.

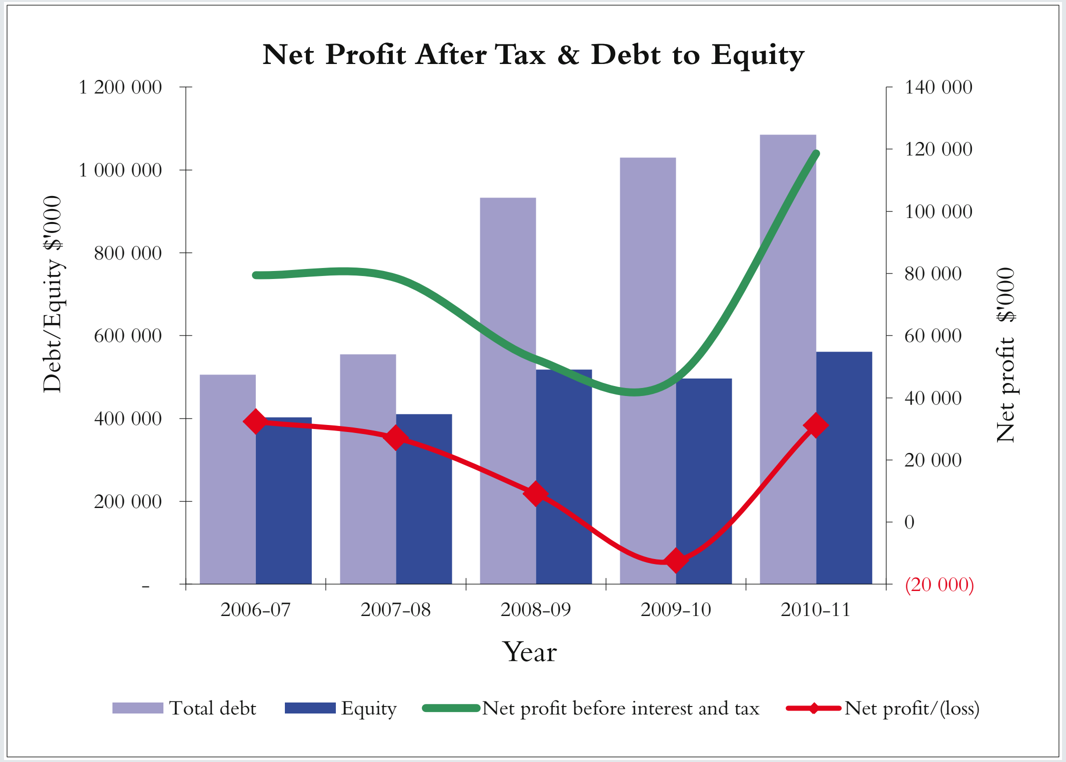
However, matters raised by this member of the public have had benefit in that Aurora has tightened relevant aspects of its internal representation and archiving processes.

FINANCIAL RESULTS

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

- All figures in the following tables and analysis are based upon the consolidated entity.
- Our analysis concentrates on the 2010-11 balances and movements compared to the 2009-10 figures. Balances for 2008-09 and 2007-08 are provided for information only and are prior to the impact of the AETV acquisition.

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



The impact of increased borrowings and fluctuating Net profits is summarised in this graph. The purchase of AETV had a significant effect on Aurora's consolidated result in 2009-10, with increased borrowing costs on additional debt. However, improved hedging arrangements with Hydro Tasmania as of 1 July 2010, more streamlined operations arising from the optimisation of the Energy Business portfolio activities and higher regulated prices, have assisted in generating sufficient revenue to adequately service the associated debt in 2010-11.

COMPREHENSIVE INCOME STATEMENT

	2010-11	2009-10	2008-09	2007-08
	$'000s	$'000s	$'000s	$'000s
Sales revenue	1 322 689	1 149 050	970 664	860 650
Other revenue	60 352	47 964	47 529	47 285
Total Revenue	**1 383 041**	**1 197 014**	**1 018 193**	**907 935**
Energy and transmission purchases	895 557	817 092	698 487	611 629
Renewable energy credit purchases	47 657	27 898	17 036	13 635
Employee benefits	108 493	94 665	79 695	67 857
Depreciation	101 204	90 418	78 427	71 301
Other expenses	119 088	110 739	74 465	74 693
Billing system direct expensing	11 654	20 643	0	0
Total Expenses	**1 283 653**	**1 161 455**	**948 110**	**839 115**
Profit before interest	**99 388**	**35 559**	**70 083**	**68 820**
Borrowing costs	67 118	54 150	37 843	33 141
Guarantee fee	6 315	6 756	2 214	1 498
Nominal interest on superannuation liability	5 644	5 013	4 626	4 230
(Loss) Profit before tax	**20 311**	**(30 360)**	**25 400**	**29 951**
Income tax (expense) benefit	(2 628)	10 381	(3 897)	(9 663)
Net Profit (Loss) after tax before customer contributions, financial instrument fair value movements and superannuation	**17 683**	**(19 979)**	**21 503**	**20 288**
Customer contributions	9 084	8 923	10 002	10 819
Superannuation liability movement	4 660	(11 505)	(5 996)	1 724
Financial Instrument fair value movements	5 473	13 321	(21 724)	(2 853)
Income tax (expense) benefit	(5 765)	(3 222)	5 315	(2 907)
Net Profit (Loss) for the year	**31 135**	**(12 462)**	**9 100**	**27 071**

Comment

Aurora generated earnings before tax and interest of $99.388m, an improvement of $63.829m, compared to 2009-10. The profit included earnings in AETV. The increase in Aurora's profitability was primarily caused by the renegotiation of electricity hedge purchase contracts with Hydro Tasmania and a higher non-contestable tariff rate, as noted previously.

Reasons for individual line item movements in the Income Statement included the following:

- increased margins on sales (2% increase compared to the prior year) driven by higher revenues and lower energy sourcing costs
- $13.828m, or 14.6%, additional employee benefits of which approximately $12.267m relates to redundancy costs as a result restructuring
- $10.786m, or 11.9%, additional depreciation charges, as a result of the completion of significant capital projects
- $4.944m, or 14.0%, additional contract services costs, primarily associated with AETV maintenance contracts
- $3.574m, or 73.0%, less customer service level charges associated with better weather conditions in Tasmania which led to less outages across the state
- $8.989m lower direct expense associated with Aurora's billing system project. Had it not been necessary to incur or expense this cost, Aurora's profit before interest would have been $111.042m (2009-10, $56.202m).

On an earnings after interest expenses (commented upon previously in this Chapter) basis, Aurora generated a profit of $20.311m.

Aurora's profitability after tax remained steady between 2007 and 2009, with a decline in the 2010 year. Action was taken by management to reverse the 2010 reduction in profitability, which included the re-negotiated agreements with Hydro Tasmania relating to its non-contestable electrical load within Tasmania. This agreement is for three years and is aimed at enabling Aurora's energy business to operate on a more sustainable basis. This has had a positive impact on profitability in 2011.

Aurora's final Net Profit of $31.135m follows a number of transactions including contributions received from customers as part of distribution augmentation, financial instrument fair value movements, actuarial adjustments for superannuation, asset revaluations and the results of its hedging transactions, which, while in some cases material, are difficult to draw meaningful comparisons about on an annualised basis.

Revenue

Aurora's revenue in 2010-11 increased by $186.027m, 15.5%, due to increases in:

- the regulated tariff for 2010-11
- mainland and major industrial load consumption
- AEMO pool income as a result of the generation income earned by AETV on the spot market. Generation income increased by $20.298m, 53%, in 2010-11 following a full year of operations at the Tamar Valley Power Station
- telecommunications gross income resulting from wholesale telecommunication activities and the contract for services in relation to the provision of NBN services in Tasmania.

Expenditure

Aurora's major operating expense, Energy and transmission purchases, increased by $78.465m, 9.6%, in 2010-11. As noted previously, Aurora settles for the majority of its electricity from AEMO, with electricity derivatives in place to manage the spot price volatility. The higher costs reflect increased load purchased during the year to service customers and additional transmission costs associated with this load.

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

As a wholesale purchaser Aurora is required to annually purchase and surrender Renewable Energy Certificates under the *Commonwealth Government's Renewable Energy (Electricity) Act 2000*. Pursuant to this Act, increasing targets are being phased in over the period of 2001 – 2011. From 1 January 2011, the Renewable Energy Target was split into the Large-scale Renewable Energy Target (LRET) and Small-scale Renewable Energy Scheme (SRES). The value of renewable energy certificates required to match the electricity load purchased totalled $47.657m in 2010-11 (2009-10, $27.898m), the increase being driven by higher load supplied to Aurora's customers. In the main the renewable energy certificate costs are passed on to consumers and therefore included in energy purchases.

STATEMENT OF FINANCIAL POSITION

	2011	2010	2009	2008
	$'000s	$'000s	$'000s	$'000s
Cash	53 662	37 584	128 790	3 172
Receivables	203 745	175 781	184 635	155 395
Inventories	28 639	27 204	21 526	14 857
Financial assets	40 935	48 598	169 252	3 371
Current tax asset	7 610	9 895	2 162	0
Other (including held for sale)	20 560	26 618	17 235	1 382
Total Current Assets	**355 151**	**325 680**	**523 600**	**178 177**
Payables	159 075	143 954	244 726	108 707
Borrowings	25 000	39 682	252 482	0
Provisions	30 718	28 315	24 808	28 956
Current tax payable	0	0	0	2 009
Financial liabilities	70 657	75 548	111 396	2 305
Other	19 908	18 321	20 826	16 084
Total Current Liabilities	**305 358**	**305 820**	**654 238**	**158 061**
Working Capital	**49 793**	**19 860**	**(130 638)**	**20 116**
Property, plant and equipment	1 697 295	1 609 393	1 450 046	1 065 413
Deferred tax asset	115 374	128 779	176 407	25 619
Intangible assets	68 810	54 372	47 421	33 836
Financial assets	170 678	192 650	371 732	9 523
Other	19 802	21 882	17 044	0
Total Non-Current Assets	**2 071 959**	**2 007 076**	**2 062 650**	**1 134 391**
Borrowings	1 060 246	990 235	680 223	555 212
Provisions	87 967	87 534	69 300	52 574
Provisions - decommissioning costs	23 251	22 007	1 057	0
Deferred tax liability	222 869	220 750	278 548	135 451
Financial liabilities	163 021	206 104	380 210	788
Other	3 335	3 890	4 446	0
Total Non-Current Liabilities	**1 560 689**	**1 530 520**	**1 413 784**	**744 025**
Net Assets	**561 063**	**496 416**	**518 228**	**410 482**
Capital	314 255	309 355	301 555	201 555
Reserves	141 095	112 483	119 509	110 933
Retained earnings	105 713	74 578	97 164	97 994
Total Equity	**561 063**	**496 416**	**518 228**	**410 482**

Comment

At 30 June 2011, Aurora's Equity totalled $561.063m, an increase of $64.647m, 13.02%, from 2009-10. The net increase includes the following major movements:

- issue of $4.900m new equity from the State Government as an equity injection to support the TasGovNet Strategic Partnership to bring competition into the Tasmanian broadband network
- asset revaluation increases on distribution grid assets, $20.439m,
- Aurora's consolidated profit after tax of $31.135m,
- cash flow hedge reserve movement, being an increase of $8.496m.

Cash balances increased by $16.078m in 2010-11. This increase is analysed under the Statement of Cash Flows commentary later in this Chapter.

The increase in Receivables of $27.964m, 15.91%, was attributed to an increase in accrued income of $8.036m, of $7.431m in unbilled energy and $13.834m in trade receivables as a result of increased tariffs and customers as noted previously. The doubtful debt provision remained relatively constant.

Unbilled energy, $71.927m, is an estimate of unbilled power sales to 30 June 2011, where meters, generally read quarterly, were still to be read.

As noted previously, Aurora is required to annually purchase and surrender renewable energy certificates under the *Commonwealth Government's Renewable Energy (Electricity) Act 2000*. Renewable energy certificates were purchased and held as inventory until February each year, when they are surrendered. Pursuant to this Act, increasing targets are being phased in over the period of 2001–2010 and from 1 January 2011, the Renewable Energy Target was split into the Large-scale Renewable Energy Target (LRET) and Small-scale Renewable Energy Scheme (SRES) with the remittance dates remaining constant. At 30 June 2011, renewable energy certificates totalled $18.147m (2009-10, $16.864m), which contributed to the inventory balance increasing by $1.435m in 2010-11.

Aurora had arrangements with derivative counterparties where differences in the spot price set by AEMO and the agreed contract price will be settled. The amount payable to Tasmanian derivative counterparties for power purchases over the AEMO settlement period to 30 June 2011 was $15.670m (2010, $12.826m) which was included in Payables. The overall derivative balance (financial assets less financial liabilities) remains as a payable due to the fact that the spot price of electricity remained low over the last two years (30 June 2011 average of $29.45/MWh compared to 30 June 2010 average of $29.37/MWh and 30 June 2009 average of $58.48/MWh). The overall liability position indicates that at 30 June 2011 Aurora's hedge position was an unrealised liability of $22.065m. However, the balance fluctuates from year-to-year depending on contracts outstanding at balance date and movements in the market.

Property, plant and equipment increased by $87.902m, 5.46%, from 2009-10. Major movements in the balance included:

- capital works and additions completed by Aurora, $150.353m, mostly in relation to feeders on the distribution network, but also including vehicle purchases, IT expenditure and property projects
- revaluation of Aurora's grid assets, $27.689m

Offset by:

- depreciation expense of $89.718m.

Payables, which includes general creditors and accruals and the REC liability, increased by $15.121m in 2010-11. Other items impacting the Payables balance included an increase in the derivatives balance (as noted earlier), a $2.000m higher transmission fee creditor to Transend based on additional load distributed this year, and an incentive accrual of $2.364m.

Total Borrowings (current and non-current) increased by $55.329m, 5.4%, from 2009-10. The increase in debt was attributable to Aurora's capital expenditure program, as shown by its investment of a further $171.231m in capital expenditure ($150.353m of tangible fixed assets and $20.878m of intangible assets), which is discussed further in the Statement of Cash Flows section of this Chapter.

The additional borrowings did not impact Aurora's Debt to equity ratio. However, this was because the equity balance increased at a greater rate leading to a reduction in the Debt to equity ratio to 193.40% (2009-10, 207.50%).

The additional borrowings were classified as non-current at 30 June 2011 which had an impact on Aurora's Working Capital position which improved to a positive $49.793m as at 30 June 2011 (2010, $19.860m).

STATEMENT OF CASH FLOWS

	2010-11	2009-10	2008-09	2007-08
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	1 450 717	1 314 916	1 061 292	974 214
Payments to suppliers and employees	(1 250 713)	(1 204 132)	(882 699)	(865 548)
Interest received	2 250	1 450	1 514	1 844
Borrowing costs and guarantee fee paid	(72 980)	(55 162)	(39 508)	(32 510)
Taxation paid	(2 846)	(7 733)	(14 119)	(14 363)
Cash from operations	**126 428**	**49 339**	**126 480**	**63 637**
Payments for intangible assets	(24 001)	(15 420)	(24 284)	(14 821)
Payments for property, plant and equipment	(147 230)	(218 388)	(432 380)	(120 102)
Payment for purchase of gas contracts and generation dispatch rights	0	0	(15 000)	0
Proceeds from sale of property, plant and equipment	652	1 276	939	1 319
Cash (used in) investing activities	**(170 579)**	**(232 532)**	**(470 725)**	**(133 604)**
Proceeds from borrowings	55 329	464 693	452 993	368 800
Repayment of borrowings	0	(367 482)	(75 500)	(318 800)
Dividends paid	0	(10 124)	(9 930)	(10 733)
Funds received pending issue of equity	0	0	2 900	0
Proceeds from issue of equity	4 900	4 900	100 000	0
Cash from financing activities	**60 229**	**91 987**	**470 463**	**39 267**
Net increase (decrease) in cash	**16 078**	**(91 206)**	**126 218**	**(30 700)**
Cash at the beginning of the year	37 584	128 790	2 572	33 272
Cash at end of the year	**53 662**	**37 584**	**128 790**	**2 572**

Comment

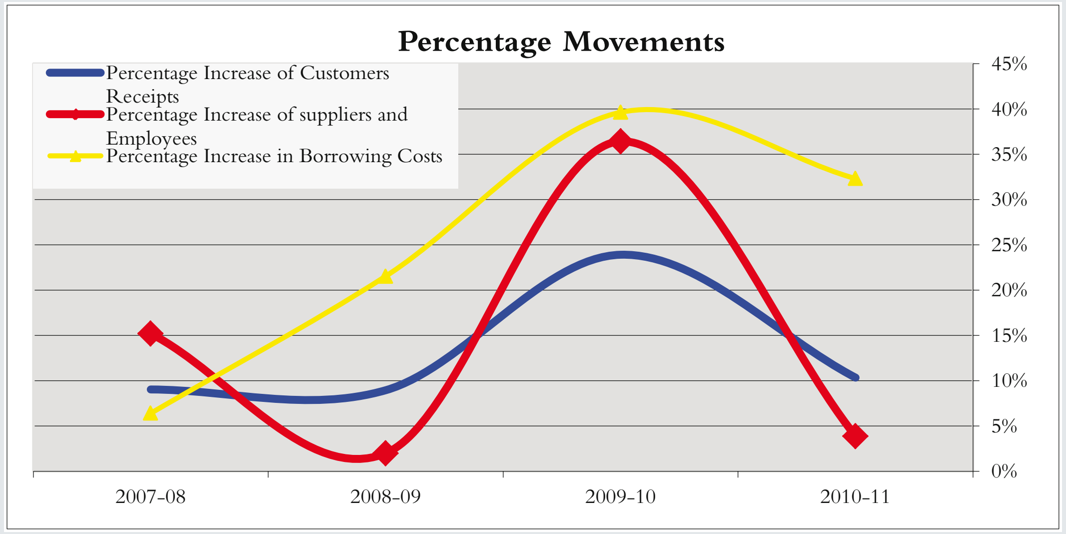
Aurora's Cash from operations improved significantly from the prior year, increasing by $77.089m, 156.24%. Cash from operations was back above its average level of the four years under review. The increase in Cash from operations was mainly driven by:

- increased receipts from customers of $135.801m, 10.3%, reflecting increased tariffs, higher consumption, a full year of operations from AETV and new major industrial customers (as noted previously)

offset by:

- increased Payments to suppliers and employees, $46.581m, 3.87%, reflecting additional operational costs as previously noted under the Comprehensive Income Statement section of this Chapter
- increased Borrowing costs as a result of higher debt and higher interest rates, $17.818m, or 32.3%.

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



This graph shows that receipts from customers increased at a greater rate than payments to suppliers (including energy sourcing costs), employees and borrowing costs in 2010-11 leading to the higher cash generated from operations.

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

Aurora had a key strategic focus of meeting customer needs at the lowest sustainable cost and is undertaking significant operating and capital cost reductions. This will also assist in managing debt levels. Generally sufficient levels of Cash from operations to fund investing activities will continue to prove challenging for Aurora in the current environment.

However, Aurora has a clear focus to limit debt increases. The re-negotiated agreements with Hydro Tasmania relating to the non-contestable electricity load within Tasmania and the retail price determination had assisted the business to operate on a more sustainable basis during 2010-11.

As at 30 June 2010, Aurora had significant unused borrowing facilities available totalling $174.474m (2010, $179.066m). Therefore, Aurora has available to it funding sources to continue with its capital expenditure programs although it will need to continue to closely monitor the impact of additional debt on target debt and debt serviceability ratios.

FINANCIAL ANALYSIS

	Bench Mark	2010-11	2009-10	2008-09	2007-08
Financial Performance					
Net (loss) profit after tax ($'000s)		31 135	(12 462)	9 100	27 071
EBIT ($'000s)		118 605	46 298	52 365	78 510
EBITDA ($'000s)		219 809	136 716	130 792	149 811
Operating margin	>1.0	1.03	0.98	1.01	1.05
Return on assets	5.21%	5.0%	1.9%	2.7%	6.0%
Return on equity		5.9%	(2.5%)	2.0%	6.7%
Financial Management					
Debt to equity	<203%	193.4%	207.5%	180.0%	135.3%
Debt to total assets		44.7%	44.2%	36.1%	42.3%
Interest cover - EBIT	>2	1.5	0.7	1.2	2.0
Interest cover - cash from operations	>2	2.5	1.6	3.7	2.5
Current ratio	>1	1.16	1.06	0.80	1.13
Cost of debt	6.9%	7.5%	6.7%	6.0%	7.3%
Debt collection	30 days	51	51	63	92
Creditor turnover	30 days	20	73	89	34
Asset Management					
Investment gap %	>100%	169%	259%	582%	189%
Returns to Government					
Dividends paid ($'000s)		0	10 124	9 930	10 733
Income tax paid ($'000s)		8 620	0	9 948	12 194
Government guarantee fees		6 315	6 756	2 214	1 498
Total return to the State ($'000s)		14 935	16 880	22 092	24 425
Dividends payable ($'000s)		11 879	0	10 124	9 930
Dividend payout ratio	50%	38.2%	-	111.3%	36.7%
Dividend to equity ratio	6%	2.2%	-	2.2%	2.4%
Other Information					
Average staff numbers (FTEs)		1 294	1 292	1 144	1 063
Average staff costs ($'000s)		84	73	70	64
Average leave balance per FTE ($'000s)		26	25	23	22

Comment

Net Profit after tax in 2010-11 totalled $31.135m, resulting in a positive Operating margin of 1.03%, above the Benchmark. For the reasons noted previously, the Financial Performance ratios show that Aurora's profit improved in the 2010-11 year.

Return on assets of 5.0% improved significantly during the year, but was still below the target of 5.21%, while return on equity returned to positive territory during 2010-11 and exceeded Aurora's internal target.

Debt to equity ratio decreased to 66:34 following the cost containment work and reduced capital expenditure during 2010-11. In the previous year, the ratio was above the target of 67:33 with a debt/equity ratio of around 68:32, 207.5%, due to increased debt associated with the construction of TVPS and reduced equity. In 2010-11 Aurora kept the level of debt relatively constant in relation to an increasing equity balance by reducing capital expenditure and looking to contain other operating costs, as noted in the Statement of cash flows section of this Chapter.

Aurora recorded Interest cover ratios better than the benchmark in each of the four years under review including 2010-11, except for 2009-10 when it was 1.6. Aurora applies an internal benchmark of 1.9.

Creditor turnover days reduced significantly to below the benchmark in 2010-11, however it was higher than the benchmark in each of the previous years under review.

Aurora's Total capital expenditure/depreciation ratio (Investment gap) was well above 100% in each of the years under review reflecting its significant investment in Property, plant and equipment. The reduction in the ratio in 2010-11 from 259% to 169% reflected the reduced expenditure on capital works for distribution assets and the fact that the construction of the TVPS was completed in 2009-10.

Over the four year period, Aurora returned $78.332m to the State or an average of $19.583m per year, comprising dividends of $35.854m, income taxation equivalents (paid) of $30.762m and guarantee fees of $16.783m. As of June 2011, Aurora was requested to pay an annual dividend of 60% of underlying net profit after tax. Consequently, the Board recommended a dividend of $11.879m for this year, an increase of 202.96% on 2009-10.

Prior to 2010-11 Aurora's average staff costs and Average leave balances had remained reasonably constant since 30 June 2008. In 2010-11, average staff costs (including restructuring costs) increased to $84 000 as a result of one-off redundancy payments included in employee expenses for the year.

(Internal benchmarks come from Aurora's corporate plan and are not subject to audit)

METRO TASMANIA PTY LTD

INTRODUCTION

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

Metro was incorporated on 2 February 1998 under the *Metro Tasmania Act 1997*. This company is a successor in law of the Metropolitan Transport Trust.

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

Metro receives approximately 78% of its revenue from DIER. As a result of this level of Government contribution Metro remains economically dependent on the State for its continued operations. In 2010-11 the contribution was $33.909m (2009-10, $32.969m), an increase of 2.9% over the period.

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

AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

Signed financial statements were received on 11 August 2011 and an unqualified audit report was issued on the same day.

The audit was completed satisfactorily with no major items outstanding.

KEY FINDINGS AND DEVELOPMENTS

Metro implemented a new financial management system, Transport Integrated Management Systems (TIMS) on 1 July 2010. The system streamlined reporting procedures and facilitated integration of the general ledger with other transport related applications used by Metro.

Metro received additional funding of $3.250m (2010, $3.250m) from the State to improve its bus fleet, assist with its long-term capital replacement program and fund other passenger growth initiatives. This funding has been included in Metro's budget for the next three years. During 2010-11, Metro spent $5.969m on new capital equipment, primarily eight new buses. The buses were predominantly funded by the capital component of the additional funding provided, cash generated from operations and cash on hand brought forward from 2009-10 resulting in cash holdings declining at 30 June 2011.

Overall, since 1 July 2007, Metro's cash position had declined by $10.580m. In summary, over the four years to 30 June 2011, Metro:

- generated $12.158m in cash from operations and $0.687m from asset sales
- received $5.204m in capital funding from the State
- applied these funds, along with the $10.580m in cash holdings, to acquire new buses and other assets, $25.837m, and to repay debt, $2.792m.

Regarding Metro's profitability, Net losses were incurred in three out of the four years, and a loss in Earnings before interest and income tax was made in each period, increasing significantly in 2009-10 and 2010-11. This caused a negative return on assets ratios which is not sustainable. However, Earnings before interest, income tax and depreciation basis, the results are positive highlighting the impact of the annual depreciation charges on buses and the importance of additional funding received from the State.

Metro's low profitability raises concerns regarding its ability to internally generate sufficient cash to enable it to maintain and replace its buses. On the basis of capital expenditure invested in buses over the past four years, even with the additional funding $3.250m per annum, Metro will have to curtail its bus replacement program from 1 July 2012.

FINANCIAL RESULTS

Metro recorded a Net operating loss before tax of $3.323m, which is consistent with prior year deficit of $3.194m. This highlights the importance of the $3.250m additional funding, and raised the issue of sustainability beyond the three years this additional funding has been budgeted. Without this funding, Metro may experience difficulties in achieving break even results.

In addition, Metro's current ratio continued to decline, to 0.62 from 0.80. A ratio of greater than one is acceptable as being a minimum position in most industries. With a short-term Payables balance of $4.092m and a Cash position of $2.866m Metro will need to generate additional cash to meet their short-term debts.

COMPREHENSIVE INCOME STATEMENT

	2010-11	2009-10	2008-09	2007-08
	$'000s	$'000s	$'000s	$'000s
Government contribution	30 659	29 719	29 148	27 845
Fare revenue	10 886	10 289	10 647	10 301
Other revenue	1 595	1 232	1 791	1 661
Gain on sale of non-financial assets	64	42	28	57
Total Revenue	**43 204**	**41 282**	**41 614**	**39 864**
Depreciation	4 260	3 964	3 565	3 067
Administration	3 699	2 997	2 102	2 014
Employee expenses	28 460	27 474	26 371	24 455
Other expenses	8 747	8 695	10 087	10 504
Total Expenses	**45 166**	**43 130**	**42 125**	**40 040**
Net operating profit (loss) before finance costs and tax	**(1 962)**	**(1 848)**	**(511)**	**(176)**
Finance costs*	1 361	1 346	0	124
Net operating profit (loss) before tax	**(3 323)**	**(3 194)**	**(511)**	**(300)**
Non-operating items				
Additional government funding	3 250	3 250	0	0
Net profit (loss) before tax	**(73)**	**56**	**(511)**	**(300)**
Income tax expense	22	133	365	41
Net profit (loss)	**(51)**	**189**	**(146)**	**(259)**
Revaluation of property, plant and equipment	0	1 503	2 593	0
Net change in fair value of available-for-sale financial assets	(18)	(9)	(78)	0
Defined benefit plan actuarial gains (losses)	1 115	(1036)	83	0
Income tax on other comprehensive income	(327)	(140)	41	0
Other comprehensive income	**770**	**318**	**2 639**	**0**
Total comprehensive profit (loss)	**719**	**507**	**2 493**	**(259)**

**Information not available for 2008-09 and 2007-08 periods*

Comment

In 2010-11, Metro reported a Net operating loss before tax of $3.323m a slight increase of $0.129m, 4.0%, on the previous year's result. This small increase was caused by increased operating expenditure of $2.036m offset by higher operating revenue of $1.922m.

Overall Metro made a Net loss for the period of $0.051m. This improved result, compared to the operating loss of $3.323m was due to additional funding of $3.250m received from DIER in 2010-11. In 2010-11 the funding was used for capital replacement of buses, and other passenger growth initiatives, which contributed to the $0.702m increase in administration expenditure.

STATEMENT OF FINANCIAL POSITION

	2011	2010	2009	2008
	$'000s	$'000s	$'000s	$'000s
Cash	2 866	5 435	4 327	9 000
Receivables	504	341	809	713
Inventories	1 237	1 046	917	919
Assets classified as held for sale	204	261	511	861
Other	901	854	1 017	696
Total Current Assets	**5 712**	**7 937**	**7 581**	**12 189**
Payables	4 092	4 836	2 575	3 649
Provisions - leave and other	4 390	4 201	4 209	3 977
Provisions - superannuation	793	890	1 097	4 441
Total Current Liabilities	**9 275**	**9 927**	**7 881**	**12 067**
Working Capital	**(3 563)**	**(1 990)**	**(300)**	**122**
Property, plant and equipment	51 147	49 469	45 604	38 702
Intangible assets	124	143	254	346
Deferred tax assets	10 227	10 467	10 201	9 848
Total Non-Current Assets	**61 498**	**60 079**	**56 059**	**48 896**
Provisions - leave and other	629	582	601	560
Provisions - superannuation	18 601	19 586	18 017	13 757
Deferred tax liabilities	5 447	5 382	5 109	5 162
Total Non-Current Liabilities	**24 677**	**25 550**	**23 727**	**19 479**
Net Assets	**33 258**	**32 539**	**32 032**	**29 539**
Capital	15 503	15 503	15 503	15 503
Retained earnings	4 178	3 442	3 942	3 967
Reserves	13 577	13 594	12 587	10 069
Total Equity	**33 258**	**32 539**	**32 032**	**29 539**

Comment

Total Equity increased by $0.719m, being the Comprehensive result for the year. Corresponding to the increase in Total Equity, Net Assets also increased $0.719m with main movements being:

- lower Cash and cash equivalents, down $2.569m, which is discussed further in the Statement of Cash Flows section of this Chapter
- increased Property, plant and equipment, $1.678m, mainly due to additions for the period, $6.007m, (predominately made up of buses purchased, $4.501m) offset by Depreciation and amortisation of $4.158m
- lower Payables, down by $0.744m primarily due to amounts owing on the ticketing system from prior year that were paid off this year
- lower Provisions - superannuation by $1.081m. This was due to the Defined benefit plan actuarial gain of $1.115m (discussed in the Comprehensive Income Statement section), Employer contributions for the period of $1.526m, offset by Actuarial expense of $1.560m.

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

STATEMENT OF CASH FLOWS

	2010-11	2009-10	2008-09	2007-08
	$'000s	$'000s	$'000s	$'000s
Receipts from Government	30 659	29 719	29 148	27 845
Receipts from other customers	14 501	14 212	14 448	12 862
Payments to suppliers and employees	(43 465)	(38 440)	(41 118)	(37 215)
Interest received	386	207	315	925
Finance costs	(1 361)	(1 346)	0	(124)
Cash from operations	**720**	**4 352**	**2 793**	**4 293**
Bus replacement funding*	2 527	2 677	0	0
Payments for property, plant and equipment	(5 969)	(6 252)	(7 566)	(6 050)
Proceeds from sale of property, plant and equipment	153	331	100	103
Cash (used in) investing activities	**(3 289)**	**(3 244)**	**(7 466)**	**(5 947)**
Repayment of borrowings	0	0	0	(2 792)
Cash (used in) financing activities	**0**	**0**	**0**	**(2 792)**
Net increase (decrease) in cash	**(2 569)**	**1 108**	**(4 673)**	**(4 446)**
Cash at the beginning of the year	5 435	4 327	9 000	13 446
Cash at end of the year	**2 866**	**5 435**	**4 327**	**9 000**

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

Comment

During 2010-11 Cash decreased $2.569m to $2.866m as a result of a sharp decrease in Cash from operations of $3.632m

The decrease in cash from operations 2010-11 was mainly due to higher Payments to suppliers and employees, $5.025m, as a result of total expenditure increasing by $2.036m (discussed in the Comprehensive Income Statement section) and creditors at 30 June 2010 related to the smartcard ticketing system, paid during 2010-11. These were partially off set by increased receipts of $1.229m, consistent with higher revenue of $1.922m. This was predominately due to higher Government contribution, $0.940m, and increased Fare revenue resulting from focused promotional initiatives by Metro, $0.597m.

Metro invested $5.969m in assets, primarily additional buses as discussed in the Key Findings and Developments section.

FINANCIAL ANALYSIS

	Bench Mark	2010-11	2009-10	2008-09	2007-08
Financial Performance					
Net Profit (Loss) ($'000s)		(51)	189	(146)	(259)
EBIT ($'000s)		(1 962)	(1 848)	(511)	(176)
EBITDA ($'000s)		2 298	2 116	3 054	2 891
Operating margin	>1.0	0.96	0.96	0.99	1.00
Return on assets	5.21%	(2.9%)	(2.8%)	(0.8%)	(0.1%)
Return on equity		(0.2%)	0.2%	(1.7%)	(1.0%)
Financial Management					
Current ratio	>1	0.62	0.80	0.96	1.01
Debt collection	30 days	6	4	7	6
Creditor turnover	30 days	38	60	22	37
Other Information					
Average staff numbers (FTEs)		390	388	377	369
Average staff costs ($'000s)		73	71	70	66
Average leave balance per FTE ($'000s)		13	12	13	12

Comment

The Financial Performance indicators are consistent over the four year period, showing results below the break even target.

Net losses occurred in three out of the four years, and a loss in Earnings before interest and income tax was made in each period, increasing significantly in 2009-10 and 2010-11. This caused the negative return on assets ratios which is not sustainable. However, on Earnings before interest, income tax and depreciation basis, the results are positive highlighting the impact of the annual depreciation charges on buses and the importance of additional funding received from the State. It also raises concerns regarding Metro's ability to internally generate sufficient cash to enable it to maintain and replace its buses.

Current ratio, a measure of working capital, decreased from 0.80 to 0.62 in 2010-11. A ratio of greater than one is acceptable as being a minimum position in most industries.

Average staff costs rose during the four years, primarily because of general wage increases. Average employee leave balances remained constant over the period.

No dividends or guarantee fees were paid throughout the period.

TASMANIAN PORTS CORPORATION PTY LTD

INTRODUCTION

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

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

- King Island Ports Corporation Pty Ltd (refer last section in this Chapter)
- Flinders Island Ports Company Pty Ltd (did not trade in 2010-11).

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

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

AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2011 and an unqualified audit report was issued on the same day.

KEY FINDINGS AND DEVELOPMENTS

The audit was completed with no major items outstanding.

Tasports adopted a fair value measurement of infrastructure assets as at 30 June 2011 for the first time. Fair values were determined based on market values for land and a combination of depreciated replacement cost and value-in-use for the remaining infrastructure assets. The revaluation resulted in a net valuation increment of $73.111m, comprising an increase in asset values, $102.309m, (reported as Other comprehensive income) partly offset by a revaluation decrement, $29.198m (reported as a Non-operating expense).

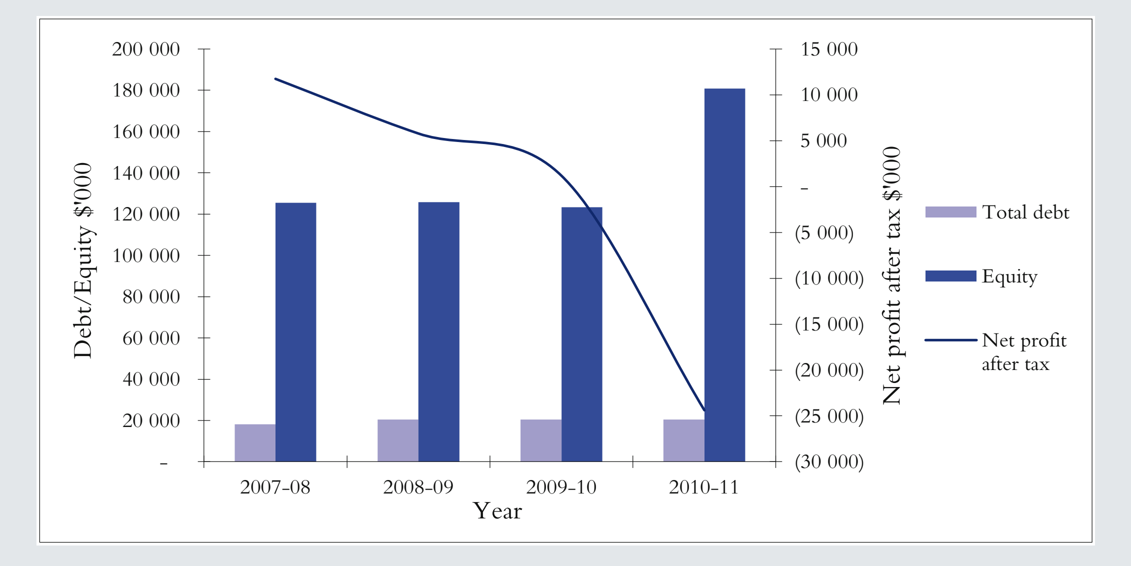
Some major customers decided to withdraw from Bell Bay Port. AAA Consortium discontinued using the port in April 2011 and Agility Shipping in August 2011. During 2010-11 Tasports made a decision to reduce staff numbers to better align its cost structure with smaller revenue base. As a result, Tasports recognised a provision for restructure, in accordance with accounting standards, of $1.330m (included within Current Employee benefits in the Statement of Financial Position).

Last year the Company decided to divest its 50% equity share in Cargo and Port Operation Logistics (CPOL).The sale to P&O Automotive and General Stevedoring Pty Ltd was completed in 2010-11.

Operations of King Island Ports Corporation Pty Ltd were integrated into Tasports from 1 July 2011.

FINANCIAL RESULTS

The graph below shows the trend in performance, debt levels and equity for the past four years, excluding the impact of the profit, $293.339m, on the sale of Hobart International Airport Pty Ltd (HIAPL) in 2007-08 and the refund of stamp duty from that sale, $0.600m in 2010-11.



In 2007-08 and 2008-09 Tasports produced solid results, however 2009-10 and 2010-11 were challenging years for Tasports as a result of the downturn in shipping activity and the loss of income from HIAPL. Since late 2008 there has been a reduction in bulk exports, including woodchip shipments, and further reductions in revenue caused by lower activity from the Bell Bay Port as a result of a number of clients no longer utilising the facilities, including ANL, MSC, Nyrstar and Norske Skog, and more recently the AAA Consortium. The significant deficit in 2010-11 of $23.784m was predominately due to downward revaluation of some infrastructure assets, $29.198m.

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

COMPREHENSIVE INCOME STATEMENT

	2010-11	2009-10	2008-09	2007-08
	$'000s	$'000s	$'000s	$'000s
Trade revenue	61 092	67 139	70 807	72 163
Airport revenue	1 715	1 514	1 540	10 091
Interest revenue	612	317	483	0
Other revenue	24	122	1 288	2 035
Total Revenue	**63 443**	**69 092**	**74 118**	**84 289**
Sale of goods	12 496	11 489	13 156	12 747
Cost of goods sold	(10 923)	(9 815)	(11 307)	(11 227)
Net Revenue	**65 016**	**70 766**	**75 967**	**85 809**
Employee expenses	29 549	33 498	32 397	31 701
Operating expenses	26 851	26 480	26 904	27 100
Depreciation	8 049	8 063	7 888	7 635
Total Expenditure	**64 449**	**68 041**	**67 189**	**66 436**
Net operating profit before finance cost and tax	**567**	**2 725**	**8 778**	**19 373**
Finance costs	1 423	1 241	1 174	3 422
Net operating profit (loss) before tax	**(856)**	**1 484**	**7 604**	**15 951**
Stamp duty recovered from sale of HIAPL	600	0	0	0
Gain on sale of shares in HIAPL	0	0	0	293 339
Gain on sale of shares in associate	290	0	0	0
Provision for restructure	(1 330)	0	0	0
Revaluation decrement of infrastructure assets	(29 198)	0	0	0
Net profit (loss) before tax	**(30 494)**	**1 484**	**7 604**	**309 290**
Income tax benefit (expense)	6 710	(298)	(1 822)	(4 208)
Net Profit (Loss)	**(23 784)**	**1 186**	**5 782**	**305 082**
Revaluation of infrastructure assets	102 309	0	0	0
Income tax expense on revaluation	(20 395)	0	0	0
Total Comprehensive Profit	**58 130**	**1 186**	**5 782**	**305 082**

Comment

Tasport reported a Net operating loss before tax of $0.856m in 2010-11, compared to a profit of $1.484m last year. This turnaround of $2.340m was a result of a continuing decline in freight volumes passing through Tasports' facilities. Customers utilised alternative services, which resulted in a shift of container shipping services from Bell Bay to Burnie and Devonport. The sale of CPOL impacted on movements in Trade revenue, $6.599m, Other revenue, $0.012m, Employee expenses, $4.608m, Depreciation, $0.208m, Other expenses, $1.884m and Income tax benefit, $0.025m. As a result, Net Revenue dropped by $5.750m, 8.1%, to $65.016m due predominantly to lower revenue from seaport operations.

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

	2010-11	**2009-10**	**2008-09**	**2007-08**
	$'000s	$'000s	$'000s	$'000s
Maintenance	10 391	7 576	8 525	6 842

Net loss before tax, $30.494m, was mainly a result of Revaluation decrement of infrastructure assets, $29.198m, and recognition of a Provision for restructure, $1.330m, planned to commence and be completed in 2011-12. The loss resulted in an Income tax benefit, $6.710m, which led to Tasports reporting a Net Loss of $23.784m.

Total Comprehensive result for 2010-11 amounted to $58.130m, due to a net revaluation increment, $81.914m.

STATEMENT OF FINANCIAL POSITION

	2011	2010	2009	2008
	$'000s	$'000s	$'000s	$'000s
Cash	16 488	11 674	10 161	13 665
Receivables	7 476	7 283	10 203	10 293
Assets classified as held for sale	205	3 046	0	0
Other	2 461	2 447	2 518	3 008
Total Current Assets	**26 630**	**24 450**	**22 882**	**26 966**
Payables	8 712	9 613	10 461	11 060
Borrowings	1 555	5 615	17 398	5 773
Tax payable	(227)	(163)	548	1 542
Employee benefits	5 945	4 567	5 004	4 761
Deferred revenue	83	83	1 283	1 200
Liabilities classified as held for sale	0	1 022	0	0
Total Current Liabilities	**16 068**	**20 737**	**34 694**	**24 336**
Working Capital	**10 562**	**3 713**	**(11 812)**	**2 630**
Property, plant and equipment	200 770	132 582	138 544	133 752
Goodwill	2 800	2 801	2 855	2 848
Deferred tax asset	0	0	296	574
Total Non-Current Assets	**203 570**	**135 383**	**141 695**	**137 174**
Borrowings	18 829	14 770	2 989	12 387
Deferred tax liabilities	13 626	117	0	0
Employee benefits	722	601	772	795
Deferred revenue	187	271	354	1 200
Total Non-Current Liabilities	**33 364**	**15 759**	**4 115**	**14 382**
Net Assets	**180 768**	**123 337**	**125 768**	**125 422**
Capital	114 297	113 712	113 712	113 712
Retained earnings/(Accumulated losses)	(17 587)	7 481	9 722	9 376
Reserves	84 058	2 144	2 334	2 334
Total Equity	**180 768**	**123 337**	**125 768**	**125 422**

Comment

Total Equity increased from $123.337m to $180.768m during 2010-11. The increase of $57.431m comprised the Comprehensive profit of $58.130m less dividends paid, $1.284m, plus an equity contribution, $0.585m. The equity contribution related to first instalment of a $1.585m, two-year funding commitment by the State Government to upgrade port infrastructure at Lady Barren Port on Flinders Island. The remainder was received in July 2011.

The corresponding growth in Net Assets of $57.431m related to:

- increased Cash, $4.814m, including proceeds from the sale of CPOL and equity contribution
- lower Assets and Liabilities classified as held for sale, $2.824m and $1.022m respectively, following the sale of CPOL in 2010-11
- decreased Payables, $0.901m,mainly due to the timing of invoices received from suppliers
- overall, Borrowings remained at $20.384m, but Current Borrowings decreased as maturing loans, $4.060m, were refinanced long term
- higher Employee benefits, $1.499m, mainly due to the provision for restructure, $1.330m
- decreased Liabilities classified as held for sale, $1.022m, following the sale of CPOL
- increased Property, plant and equipment, $68.188m, comprising net additions, $3.126m plus net revaluation increment, $73.111m, less depreciation, $8.049m,
- increased Deferred tax liability, $13.509m, due primarily to temporary differences arising from the revaluation of property, plant and equipment in the current year.

STATEMENT OF CASH FLOWS

	2010-11	2009-10	2008-09	2007-08
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	83 088	90 559	91 747	112 105
Payments to suppliers and employees	(75 784)	(79 996)	(77 124)	(75 195)
Interest received	593	292	506	1 680
Finance costs	(1 363)	(1 249)	(1 286)	(3 905)
Income tax	(241)	(724)	(2 537)	(2 596)
Net cash from operating activities	**6 293**	**8 882**	**11 306**	**32 089**
Payments for assets	(3 436)	(3 972)	(14 464)	(31 869)
Proceeds from sale of assets	257	605	3 077	4 583
Recovery of investments	2 400	0	169	2 631
Net cash (used in) investing activities	**(779)**	**(3 367)**	**(11 218)**	**(24 655)**
Net proceeds from (repayments of) borrowings	(1)	(3)	1 844	2 112
Dividends paid	(1 284)	(3 617)	(5 436)	(17 746)
Equity contribution received	585	0	0	0
Net cash (used in) financing activities	**(700)**	**(3 620)**	**(3 592)**	**(15 634)**
Net increase (decrease) in cash	**4 814**	**1 895**	**(3 504)**	**(8 200)**
Cash at the beginning of the year	11 674	10 161	13 665	30 864
Effect of cash included in assets classified as held for sale	0	(382)	0	(8 999)
Cash at end of the year	**16 488**	**11 674**	**10 161**	**13 665**

Comment

Despite a decline in cash generated from operating activities, the Company reported a positive cash flow of $4.814m for 2010-11 compared to $1.895m in 2009-10. There were four main reasons for this – receipt of $1.800m from the sale of the investment in CPOL (including a repayment of loan, $0.400m), $0.600 refund of stamp duty from the sale of HIAPL and $2.333m less dividend paid, off set by lower cash from operations.

The decrease in cash from operations reflected comments made previously in the Comprehensive Income Statement section of this Chapter and revolved around declining trading activity and associated cost saving measures.

Dividends paid, $1.284m, included a special dividend of $0.600m, which represented a refund of stamp duty on the sale of HIAPL.

FINANCIAL ANALYSIS

	Bench Mark	2010-11	2009-10	2008-09	2007-08*
Financial Performance					
Net Profit (Loss) ($'000s)		(23 784)	1 186	5 782	11 743
EBIT ($'000s)		567	2 725	8 778	19 373
Operating margin	>1.0	1.01	1.04	1.11	1.25
Return on assets	5.21%	0.3%	1.7%	5.3%	9.4%
Return on equity		(15.6%)	1.0%	4.6%	8.4%
Financial Management					
Debt to equity		11.3%	16.5%	16.2%	14.5%
Debt to total assets		8.7%	12.5%	12.4%	11.1%
Interest cover	>2	0.40	2.20	7.48	5.66
Interest cover - operating cash flows	>2	4.42	7.16	9.63	9.38
Current ratio	>1	1.66	1.18	0.66	1.11
Cost of debt	6.9%	7.0%	6.1%	6.1%	13.3%
Debt collection	30 days	45	40	53	52
Creditor turnover	30 days	28	50	41	50
Asset management					
Asset investment ratio	>100%	42.7%	49.3%	183.4%	417.4%
Asset renewal ratio	100%	30.7%	N/A	N/A	N/A
Consumption ratio (infrastructure assets)	40%-80%	53.1%	50.6%	N/A	N/A
Returns to Government					
Dividends paid ($'000s)		684	3 617	5 436	2 745
Special dividends paid ($'000s)		600	0	0	15 001
Income tax paid ($'000s)		241	724	2 537	2 596
Total return to the State ($'000s)		1 525	4 341	7 973	20 342
Dividends paid or payable ($'000s)		0	684	3 617	5 436
Dividend payout ratio	50%	0.0%	57.7%	62.6%	46.3%
Dividend to equity ratio	6%	0.0%	0.5%	2.9%	3.9%
Other information					
Average staff numbers (FTEs)		258	257	249	242
Average staff costs ($'000s)		113	111	111	126
Average leave balance per FTE ($'000s)		21	23	23	23

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

Comment

The decline in Financial Performance ratios since 2007-08 reflected the downturn in revenue from shipping operations caused by the global economic slowdown and the restructure of container shipping services by major customers.

Tasport's operating margin was just above the break-even point this year and both the Return on assets and Return on equity ratios were below what would be regarded as commercial returns and below the projected returns budgeted for in its 2010-14 Strategic Plan.

The decrease in the Debt to equity and Debt to total assets ratios reflected the increase in Total assets and Total equity following the adoption of fair values, as the level of borrowings remained the same between 2009-10 and 2010-11. The decline in the interest cover ratios reflected the weakened financial performance of the Company in recent years.

In most industries a Current ratio of one or better is good practice. The increase in the ratio indicated improved liquidity as a result of higher cash, lower payables and refinancing of debt.

Asset investment and renewal ratios had shown a decline in investment in new, replacement or existing assets since 2008-09, when Tasports underwent a security upgrade and acquired land at Bell Bay. In the year prior to that, Tasports acquired the assets of North Western Shipping. Both Asset investment and renewal ratios reflected the Tasports strategy to focus on maintaining essential infrastructure assets, rather than investing in new or upgrading existing assets. This was evident from the increase in Maintenance expenditure from $6.842m in 2007-08 to $10.391m in the current year, which was not factored into our Asset investment and renewal ratio calculations.

Consumption ratio showed that, on average, Tapsorts assets have reached the half way mark of their useful lives.

Total return to the State declined over the past four years in line with lower profits. There was no dividend payable for the 2010-11.

Average staff costs increased slightly due to an annual indexation of salaries and wages and other increments, offset by savings in other components. Average staff costs include employee benefits, on-costs, directors fees, travel and accommodation, training, salary continuance insurance and organisational health and safety expenditure, but exclude redundancies.

KING ISLAND PORTS CORPORATION PTY LTD

King Island Ports Corporation (KIPC) is a wholly owned subsidiary of Tasports. Its principal activity is the provision of wharf and petroleum services as port owners and operators at Grassy and Currie on King Island, and petroleum services on Flinders Island.

	2010-11	2009-10	2008-09	2007-08
	$'000s	$'000s	$'000s	$'000s
Total Revenue	13,525	12,650	13 984	14 182
Total Expenses	13,137	12,239	13 356	13 906
Profit before taxation	**388**	**411**	**628**	**276**
Income tax expense	118	100	179	85
Net Profit	**270**	**311**	**449**	**191**

KIPC reported a 2010-11 Profit after tax of $0.270m (2009-10, $0.311m) on revenue of $13.525m (2009-10, $12.650m). Net Profit dropped by $0.041m with Total Revenue and Total Expenditure increasing by $0.875m and $0.898m, respectively. The fall in Net Profit was mainly caused:

- lower gross margin on trade revenues, $0.054m,
- reduced other income, $0.059m,
- higher employee and property costs, $0.030m ,
- loss on disposal of non-current assets, $0.082m,
- higher taxation expense, $0.018m, despite the lower profit.

These were partly offset by reduced costs for maintenance and administration, $0.187m.

	2011	2010	2009	2008
	$'000s	$'000s	$'000s	$'000s
Total Current Assets	1 801	2 206	2 057	2 329
Total Current Liabilities	1 194	1 606	1 256	1 693
Total Non-Current Assets	3 521	3 415	3 281	3 245
Total Non-Current Liabilities	355	356	510	663
Net Assets	**3 773**	**3 659**	**3 572**	**3 218**
Total Equity	**3 773**	**3 659**	**3 572**	**3 218**

Total Equity increased by $0.114m being the Net Profit, $0.270m, less dividend paid, $0.156m. Net Assets of $3.773m (2009-10, $3.659m) also rose by $0.114m with major movements being:

- decreased current assets, $0.405m, mainly cash
- decreased current liabilities, $0.412m, mainly trade and other payables, $0.271m, and short-term provisions, 0.072m,
- increased non-current assets, $0.106m, predominately property, plant and equipment.

TASRACING PTY LTD

INTRODUCTION

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

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

AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2011. Following the audit, the financial statements were re-signed on 30 September 2011 and an unqualified audit report was issued on the same day.

The financial statements were prepared on the basis that Tasracing is a going concern although it is dependant on financial support from the State government. Without this support, it may have been necessary to impairment test Tasracing's assets. In this regard attention is drawn to Note 2c in Tasracing's financial statements as to assessments of impairment of tangible and intangible assets:

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

KEY FINDINGS AND DEVELOPMENTS

Large volume payments

Audit identified procedural weaknesses surrounding payments which, may increase the risk of material error or fraud. These weaknesses arose from Tasracing processing large volumes of payments but, because of limited staff numbers, it was unable to undertake adequate review. Regular review of budget to actual expenditure by management mitigated the risks to some extent. Management had acknowledged the risks and are reviewing mitigation strategies.

Impairment indicators

Last year it was recommended that the Board develop impairment indicators and monitor them on a regular basis. Impairment indicators and triggers were discussed at the Audit and Risk Sub-committee during 2010-11 but have not yet been documented. For 2010-11 management advised that due to the nature of the Tasracing's funding and its key revenue generating assets being leased with leasehold improvements, they would only consider significant events that may give rise to a loss of value or revenue generating capability. The likelihood of such events is considered low and there have been none during the financial year. Management will develop and document impairment indicators by 31 December 2011.

Financial dependence on the State government

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

Race field Fees

Tasracing became entitled to collect race field fees following the introduction of legislation effective from November 2010. There was therefore a period of five months in 2010-11 when Tasracing was unable to collect race field fees. The lost revenue caused by this delay was approximately $1.630m. Tasracing entered into a new $1.630m borrowing facility to fund this lost revenue. TOTE Tasmania provided Tasracing with operational funding until the legislation was passed. This amounted to $5.146m in 2009-10.

Spreyton Park Racecourse

In April 2011, Tasracing commenced the $13.000m Spreyton Park track upgrade. This included upgrading the current facility with a new generation synthetic track aimed at accommodating higher training volumes, as well as providing extra race meetings if Tattersall's Park is unavailable, as well as an alternate venue in wet weather. This expenditure was funded from the debt facility previously referred to with $1.734m drawn down in 2010-11.

Tasracing's corporate plans

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

- Tasracing anticipated incurring net losses each year over the next five years ranging from $2.100m to $3.300m per annum.
- Going concern assumptions based on ongoing financial support from government.
- Tasracing's financial strategy is based around it being able to report an accounting loss on the basis that it is not funded for non-cash charges (for example, depreciation) but that its funding will enable it to service interest payments and for equipment replacement and minor works.
- Large capital projects will need to be funded from the $40m debt facility and Tasracing's ability to service any loans drawn down will be supported by the State.

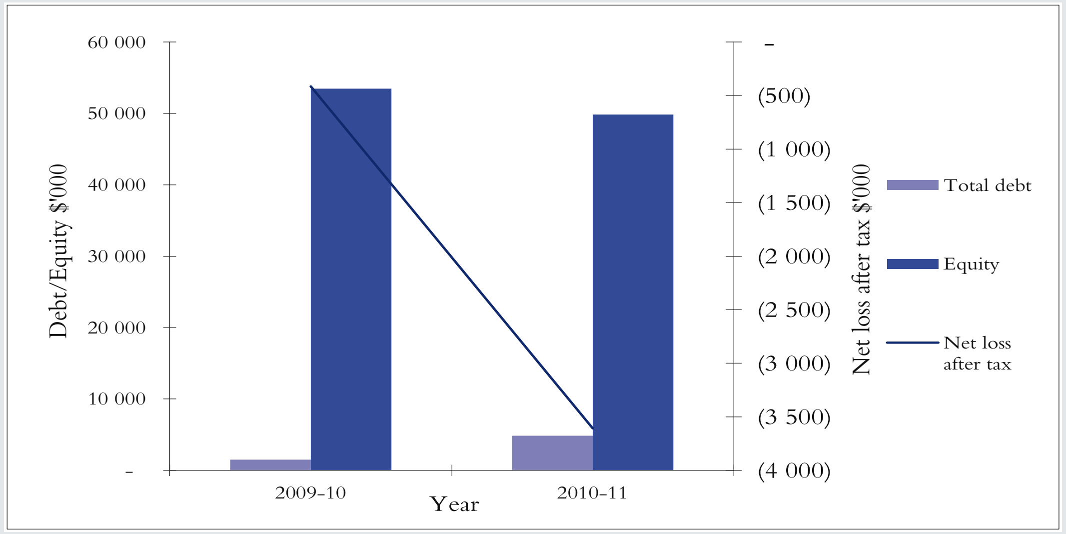
This strategy, while reporting an accounting loss, essentially aims at achieving a cash neutral position.

In addition to the CPI adjusted $27.000m annual contribution, Tasracing will generate additional revenue from race field fees and overseas income from promotion of Tasmanian races. However, overseas income is not anticipated until 2012-13.

We note that without all of these strategies, there is doubt that Tasracing will be able to continue as a going concern, particularly if it is unable to generate overseas income.

FINANCIAL RESULTS

The analysis in this Chapter is for two years as Tasracing was incorporated on 1 July 2009. The graph below shows the trend in financial performance, debt levels and equity for the past two years.



Tasracing's borrowings increased over the period from $1.500m at 30 June 2010 to $4.864m at 30 June 2011. These borrowings were needed to assist Tasracing for the Spreyton Park development and cash flow funding for the 2010-11 mentioned earlier.

The Net loss worsened, primarily due to less than a full year's race field fees and higher prize money, benefits and incentives paid in 2010-11.

COMPREHENSIVE INCOME STATEMENT

	2010-11	**2009-10**
	$'000s	$'000s
Revenue from Government	27 510	27 089
Operational funding - TOTE Tasmania	0	5 146
Race field fees	3 195	0
Other income including TOTE Tasmania funding	2 264	2 378
Total Revenue	**32 969**	**34 613**
Employee benefits expense	4 779	4 756
Prizemoney, benefits and incentives	23 346	22 090
Depreciation and amortisation expense	2 603	2 285
Raceday and racing expenses	3 799	3 586
Other expenses	2 344	2 530
Total Expenses	**36 871**	**35 247**
Net operating (loss) before finance costs and tax	**(3 902)**	**(634)**
Interest income	938	764
Finance and leasing costs	(461)	(374)
Interest cost on defined benefit superannuation plan	(182)	(170)
Net operating (loss) before tax	**(3 607)**	**(414)**
Net (loss) before tax	**(3 607)**	**(414)**
Income tax expense	0	0
Net Profit (Loss)	**(3 607)**	**(414)**
Other comprehensive income	0	0
Total Comprehensive Profit (Loss)	**(3 607)**	**(414)**

Comment

In 2010-11, Tasracing reported a Net operating loss before finance costs and tax of $3.902m, an increase of $3.268m on the previous year's result. The higher loss was primarily due to increased Prize money, benefits and incentives paid of $1.256m and the difference between operational funding from TOTE Tasmania and race field fees of $1.951m. In addition, Depreciation and amortization expense increased by $0.318m over the prior year due to the full impact of the investment in the Tote Racing Centre lights.

No tax expense was recognised because of Tasracing's accumulated losses and tax effect entries were not recognised because it was not anticipated that future taxable profits would be available to offset current and anticipated tax losses.

STATEMENT OF FINANCIAL POSITION

	2011	2010
	$'000s	$'000s
Cash and cash equivalents	4 900	8 038
Trade and other receivables	1 940	607
Prepayments	369	268
Total Current Assets	**7 209**	**8 913**
Trade and other payables	1 887	1 154
Employee benefits	504	423
Other financial liabilities	13	163
Total Current Liabilities	**2 404**	**1 740**
Working Capital	**4 805**	**7 173**
Non Current Assets		
Property, plant and equipment	53 117	50 851
Intangibles	6	11
Total Non-Current Assets	**53 123**	**50 862**
Non-Current Liabilities		
Borrowings	4 864	1 500
Employee benefits	3 211	3 075
Total Non-Current Liabilities	**8 075**	**4 575**
Net Assets	**49 853**	**53 460**
Contributed equity	53 874	53 874
Accumulated losses	(4 021)	(414)
Total Equity	**49 853**	**53 460**

Comment

Total Equity decreased by $3.607m, being the Comprehensive Loss for the year.

Corresponding to the decrease in Total Equity, Net Assets decreased by the same amount with the main movements being:

- lower Cash and cash equivalents, down $3.138m, which is discussed further in the Statement of Cash Flows section of this Chapter
- increased Receivables of $1.333m, mainly due to race field fees due in 2010-2011 and not in the prior year
- increased Property plant and equipment, $2.266m, comprised of:
  - $4.864m asset additions relating to Spreyton Park
  - offset by depreciation expense of $2.603m,
- higher Trade and other payables of $0.733m due to the Spreyton Park development
- higher borrowings of $3.364m, due to Spreyton Park development and the cash flow funding for 2010-11, mentioned earlier.

STATEMENT OF CASH FLOWS

	2010-11	2009-10
	$'000s	$'000s
Receipts	33 903	36 164
Payments to suppliers and employees	(36 206)	(34 180)
Interest received	930	758
Interest and other costs of finance	(130)	(110)
Cash from operations	**(1 503)**	**2 632**
Proceeds from sales of property, plant and equipment	15	19
Payments for property, plant and equipment	(4 863)	(6 831)
Cash (used in) investing activities	**(4 848)**	**(6 812)**
Proceeds transferred from Tasmanian Racing Board	0	11 206
Equity transfer from Tasmanian Government	0	861
New borrowings raised	3 364	0
Cash from financing activities	**3 364**	**12 067**
Net increase (decrease) in cash	**(2 987)**	**7 887**
Cash on 1 July 2010	7 887	0
Cash at end of the year	**4 900**	**7 887**

Comment

During 2010-11 cash fell $2.987m to $4.900m mainly as a result of the need to fund from cash reserves operating activities to the extent of $1.503m and capital expenditure to the extent of $1.484m.

Negative Cash from operations was due to higher Prize money, benefits and incentives paid of $1.256m and lower receipts due to delays associated with the introduction of race field fees. To overcome this one-off delay, Tasracing entered into a $1.630m borrowing facility which is included as a financing cash flow. Tasracing advises that with a full year's race field revenue it projects a positive operating cash flow of $0.800m in 2011-12.

Tasracing invested, $4.848m, in 2010-2011, mainly for the upgrade of the track at Spreyton Park.

Borrowings of $3.364m were drawn down to assist in payment for the Spreyton Park development, as well as funding the cash shortfall mentioned earlier.

FINANCIAL ANALYSIS

	Bench Mark	2010-11	2009-10
Financial Performance			
Net Profit (Loss) ($'000s)		(3 607)	(414)
EBIT ($'000s)		(3 902)	(634)
EBITDA ($'000s)		(1 299)	(1 651)
Operating margin	>1.0	0.89	0.98
Financial Management			
Current ratio	>1	3.00	5.12
Debt collection	30 days	18	12
Creditor turnover	30 days	11	7
Asset Management			
Investment gap %	>100%	187%	299%
Capital replacement ratio	100%	187%	57%
Other Information			
Average staff numbers (FTEs)		63	61
Average staff costs ($'000s)		82	82
Average leave balance per FTE ($'000s)		7	7

Comment

As noted previously, the decline in Financial Performance indicators reflected the increased Prize money, benefits and incentives paid of $1.256m and the difference between operational funding from TOTE Tasmania and race field fees of $1.951m.

Tasracing continued to operate with positive working capital as indicated by the Current ratio being above benchmark. Debt collection and Creditor turnover days remained better than benchmark.

Capital replacement ratio, also referred to as the asset renewal ratio, which was lagging in 2009-10, improved in 2010-11 due to the State’s support of funding for replacement of, or improvement of, existing racing assets.

TASMANIAN RAILWAY PTY LTD

INTRODUCTION

Tasmanian Railway Pty Ltd (TasRail or the Company), was established under the *Rail Company Act 2009* for the purpose of acquiring, owning and operating the rail business in Tasmania. The Company commenced operations on 1 December 2009.

TasRail has two primary roles, being to:

- provide rail freight services to customers, own and operate the Burnie bulk storage and ship loader facility including all associated maintenance and capital programs – also referred to as the above rail function
- manage and operate rail network infrastructure including all maintenance and capital programs - also referred to as the below rail function.

These roles include managing the previously privately operated Melba line.

The joint shareholders of the Company are the Treasurer and the Minister for Infrastructure, who hold their shares on behalf of the State of Tasmania.

The Board comprised five non-executive directors.

AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2011, and an unqualified audit report was issued on 17 August 2011.

The 2010-11 audit was completed satisfactorily with no major matters outstanding.

KEY FINDINGS AND DEVELOPMENTS

Rail corridor lease and environmental obligations

On 30 June 2010, TasRail commenced negotiations with Department of Infrastructure, Energy and Resources (DIER) to finalise a rail corridor lease. The lease agreement was signed on 2 December 2010. Under the terms of the lease, the Company is responsible for remediation of any environmental obligations that may become apparent as a result of its operations, or past operations, of the network. While no environmental liabilities were identified at balance date, if significant environmental liabilities relating to past operations are identified in the future, the Company will require financial support from the Tasmanian Government to fund remediation.

The Company is also required under the lease to maintain non-operational lines acquired under the terms of the lease in the same condition as existed at the lease commencement date. The Company is seeking clarification of this obligation with DIER.

Brighton Transport Hub

During the year, the State Government advised the Company that it will become the operator of the Brighton Transport Hub. At 30 June 2011 the relevant leases had not come into operation as some conditions precedent had not been met. It is expected this will occur in 2011-12.

Financial results and the Company's short-term future

As will be seen from the remainder of this Chapter, the Company generated operating losses before tax totalling $14.767m in the first 19 months of its activities. This was despite receipt of operating grants of $14.590m in 2010-11. On-going operating losses are not sustainable and anticipated short term funding arrangements include:

- Above rail operations - in 2011-12, the State Government through Transend will provide $20.000m as an equity contribution for the critical upgrade of the above rail network infrastructure and rolling stock and equipment.

  The State Government has also budgeted to spend $64.825m over the next four years to assist the Company to meet maintenance and administration costs. The Company is heavily reliant on this support.
- Below ground operations - the Company will continue to undertake capital works on upgrading the below rail network, with $36.237m budgeted in its Capital Expenditure Program for 2011-12 and $39.507m in 2012-13, with these works funded by the Australian Government. The Company will continue to record material below ground losses into the future in relation to maintenance activities.

Without this anticipated support from governments, and the financial support it has received since it commenced operations, TasRail would not be a going concern.

FINANCIAL RESULTS

TasRail reported an Operating loss before tax of $4.632m, an improvement on the loss of $10.135m in 2009-10. Operating costs represented 157% (2009-2010, 158%) of operating revenues with the lower loss in 2010-11 assisted by receipt of an operating grant of $14.590m from the State Government. A Comprehensive loss of $27.869m was recorded in 2010-11, ($10.008m) primarily due to the impairment of capital works on below rail assets of $30.391m ($nil). The Company considers below rail assets will generate insignificant cash flows and consequently capital works were impaired to nil.

Funding for capital works, $38.064m, was provided to the Company by the Australia Government and State Governments. The funding was received as an equity contribution from the State Government. This equity funding led to an improvement in the Company's equity position despite the 2010-11 Comprehensive loss.

At 30 June 2011, the Company held $17.700m in unexpended equity, which will be used to fund further below rail infrastructure work and then, once again, impaired to nil leading to further losses and increases in accumulated losses.

Government funding eliminated the need for the Company to borrow from external sources to fund its capital projects.

COMPREHENSIVE INCOME STATEMENT

	1 July 2010 to 30 June 2011*	1 December 2009 to 30 June 2010*
	$'000s	$'000s
Revenue from freight services	28 916	15 843
Grant income	14 590	0
Other revenue	4 987	1 696
Total Revenue	**48 493**	**17 539**
Finance costs	0	49
Depreciation and amortisation expense	5 556	3 562
Other expenses	47 569	24 063
Total Expenses	**53 125**	**27 674**
Operating loss before taxation	**(4 632)**	**(10 135)**
Tax equivalent expense	6 971	87
Operating loss after tax	**(11 603)**	**(10 222)**
Transfer of land for nil consideration	0	(1 725)
Gain on acquisition of business	0	1 852
Recognition of inventory	7 154	0
Impairment expense	(30 391)	0
Taxation equivalent benefit	6 971	87
Net loss for period	**(27 869)**	**(10 008)**
Other comprehensive income	0	0
Total comprehensive (loss)	**(27 869)**	**(10 008)**

* *Current year information represents a twelve months period, in comparison to the prior period of seven months.*

Comment

In 2010-11, TasRail recorded an Operating loss before tax of $4.632m, an improvement of $5.503m on the operating result for the seven months to 30 June 2010. The improvement was primarily due to the receipt of $14.590m State grant funding in 2010-11 for maintenance and administration costs.

The Company generated the majority of its revenue through freight services which increased by $13.073m as the Company traded for a full year.

Other revenue consisted of:

- rental income, $1.056m (2009-10, $0.529m),
- interest income, $2.909m ($0.683m),
- sundry sales, $1.023m ($0.484m).

The majority of the Depreciation and amortisation expense related to rolling stock (locomotives and wagons). The useful lives of these and other assets were determined as part of the initial valuation of assets on acquisition. The increase noted was due to the current year representing 12 months depreciation compared to seven months in the prior period.

The increase in Other operating expenses was largely the result of 2010-11 being the first full year of operations, with these expenses including:

- salaries and wages, $20.960m, which increased from $9.991m in 2009-10. The increase included an increase in full time equivalent staff from 161 to 210 including 8 senior positions

- maintenance and consumables, $12.495m (2009-10, $5.716m), which included maintenance of infrastructure assets, locomotives and wagons. In addition, the Company incurred $0.395m in incident costs associated with derailments
- fuel and oil, $4.945m ($2.621m), the majority of which related to locomotive fuel
- administration, $5.188m ($3.752m), being insurance costs, directors' fees, security, power, rates and, water and sewerage charges
- other expenses, $3.980m ($1.981m), included consultants and information technology (IT) costs. The Company outsourced its payroll and IT services.

The Company recorded a Tax equivalent expense of $6.971m. The expense is directly related to, and offsets, the tax benefit recorded for the tax impact of the Impairment expense and Recognition of inventory items. The net impact of the tax entries in the Comprehensive Income Statement is nil. The Company do not record taxation balances because it is not considered probable that there will be any future taxable profits available against which any accumulated tax losses may be utilised.

The Company recorded a Comprehensive loss of $27.869m, which included:

- impairment of below rail capital works, $30.391m, as detailed in the Financial Results section of this Chapter, offset by
- recognition of inventory consisting of railway sleepers, $7.154m, that was not identified when the Company was established, when inventory was transferred to it by DIER for no consideration.

The Company has determined it operates two reportable segments:

- above rail – provision of rail freight services, which recorded a segment profit of $0.040m
- below rail – management and operation of the rail network and related infrastructure, which recorded a segment loss of $27.909m.

These results include a management fee (inter-entity pricing) of $2.638m for the use of the rail network by TasRail's above ground operations. The impact of this internal fee is noted in the following table:

	Above Rail	Below Rail	Total
	$'000s	$'000s	$'000s
Operating result before tax and management fee	2 678	(7 310)	(4 632)
Management fee	(2 638)	2 638	0
Total	40	(4 672)	(4 632)

STATEMENT OF FINANCIAL POSITION

	30-Jun-11	**30-Jun-10**
	$'000s	$'000s
Cash	37 768	32 705
Receivables	6 351	3 624
Inventories	9 682	1 527
Total Current Assets	**53 801**	**37 856**
Payables	9 237	4 641
Employee benefits	4 111	2 816
Total Current Liabilities	**13 348**	**7 457**
Working Capital	**40 453**	**30 399**
Property, plant and equipment	41 716	41 523
Total Non-Current Assets	**41 716**	**41 523**
Employee benefits	117	65
Total Non-Current Liabilities	**117**	**65**
Net Assets	**82 052**	**71 857**
Capital	119 929	81 865
Accumulated losses	(37 877)	(10 008)
Total Equity	**82 052**	**71 857**

Comment

TasRail's Equity increased by $10.195m due to Equity contributions for capital projects, totalling $38.064m, offset by the Comprehensive loss of $27.869m.

The corresponding increase in Net Assets was represented by the following:

- higher Cash balance at 30 June 2011, $5.063m. This increase is explained within the Statement of Cash Flows section of this Chapter
- higher year end receivables, $2.727m, mainly due to a large debt due at 30 June 2011 related to the construction at the Brighton Transport Hub
- increased inventories, $8.155m, with the recognition of $7.154m in railway sleepers mentioned previously
- increased Payables, $4.596m, due to the timing of invoices and large capital projects in progress at year end
- higher employee benefits, $1.347m, due to additional employee numbers and an EBA increase.

Property, plant and equipment remained fairly static, with asset additions and capital works for the year $36.321m, offset by disposals $0.182m, impairment losses $30.391m and depreciation expenses of $5.556m.

STATEMENT OF CASH FLOWS

	1 July 2010 to 30 June 2011*	1 December 2009 to 30 June 2010*
	$'000s	$'000s
Receipts from customers	27 580	15 481
Grants from operating activities	14 590	0
Payments to suppliers and employees	(42 612)	(21 477)
Finance costs	0	(49)
Interest received	2 909	683
Cash from operations	**2 467**	**(5 362)**
Consideration acquisition rail assets	0	(30 449)
Proceeds from sale of plant and equipment	229	0
Payments for property, plant and equipment	(35 697)	(13 349)
Cash (used in) investing activities	**(35 468)**	**(43 798)**
Proceeds from equity contributions	38 064	81 865
Cash from financing activities	**38 064**	**81 865**
Net increase in cash	**5 063**	**32 705**
Cash at the beginning of the year	32 705	0
Cash at end of the year	**37 768**	**32 705**

** Current year information represents a twelve months period, in comparison to the prior period of seven months.*

Comment

TasRail recorded a net increase in its cash balance of $5.063m and at 30 June held $37.768m. The strong cash position was primarily due to operating grant funding and equity contributions received, but not yet expended.

An analysis of the year end cash balance of $37.768m identified:

- approximately $16.491m related to equity contributions committed to ongoing capital projects
- the remaining balance included approximately $11.510m equity contributions related to operating activities received in 2009-10 that had not yet been expended, with cash generated through operations in 2010-11 of $2.467m.

The Company achieved positive Cash from operations of $2.467m in 2010-11 which improved by $7.829m on the $5.362m deficit in 2010. The main reason for the improvement was that operational grant funding for the seven months to 30 June 2010, $8.211m of the total $81.865m, was treated as an equity contribution and therefore financing activity, rather than as operational cash flows. In comparing, operating receipts and payments between the periods, the increases are all consistent with 2010-11 representing a full 12 months of operations.

Cash used in investing activities consisted primarily of capital purchases including upgrades to the Hobart to Western Junction to Burnie lines, $11.523m, rail rescue package projects, $9.612m, hi-rail vehicle replacements, $3.478m, and improvements to the Melba line, $5.451m.

The net cash outflows from investing activities were funded by Federal and State Governments. The funding was received as an equity contributions of $38.064m ($73.654m in 2010 being $81.865m less $8.211m spent on operating costs).

FINANCIAL ANALYSIS

	Bench Mark	1 July 2010 to 30 June 2011*	1 December 2009 to 30 June 2010*
Financial Performance			
Operating Loss ($'000s)		(4 632)	(10 135)
EBIT ($'000s)		(4 632)	(10 184)
Operating margin	>1.0	0.91	0.63
Return on assets	5.21%	(5.3%)	(12.8%)
Return on equity		(36.2%)	(13.9%)
Financial Management			
Current ratio	>1	4.03	5.08
Debt collection	30 days	28	66
Creditor turnover	30 days	45	48
Returns to Government **			
Asset Management			
Total capital expenditure/depreciation	>100%	642%	375%
Other Information			
Average staff numbers (FTEs)		190	170
Average staff costs ($'000s) *		100	91
Average employee benefits ($'000s)		22	17

** 2010 adjusted for part year of operations*
*** No dividends or tax equivalent payments have been made.*

Comment

Financial Performance ratios show operating margin well below benchmark due to operating losses in the periods under review. The 2010-11 ratio improved significantly due to operating grant income of $14.590m. As noted previously, TasRail below rail segment will not be profitable in the near future and will continue to be heavily reliant on Government support. This is illustrated in the negative Return on assets and equity ratios.

Current ratio was well above benchmark due to the Company's significant cash holdings, which will be used for capital projects in future years.

Debt collection ratio moved to better than benchmark in 2010-11, with the 2009-10 ratio affected by the Company only operating for seven months. Period not relevant – were there some long outstanding receivables at 30 June 2010 – see last year's chapter.

Creditor turnover improved slightly, but was above benchmark in both periods. The ratio was impacted by a high level of capital payables outstanding at year end. The Company is paying its creditors within agreed credit terms.

No dividends were paid or declared during both periods and no income tax was payable due to TasRail recording operating losses. It is not envisaged there will be any returns to the Government in the foreseeable future.

Total capital expenditure to depreciation ratio for both periods was high which reflected the Company's investments in the below rail network. However, this ratio is significantly influenced by the fact that the below ground assets are recorded at nil whereas their replacement cost is material.

Average staff costs increased to $0.100m in 2010–11 primarily due to higher employee numbers, including eight senior positions. In addition, three senior positions were filled during the second half of 2010 thus having a full year impact in 2010–11.

TOTE TASMANIA PTY LTD

INTRODUCTION

The former Totalizator Agency Board was incorporated as TOTE Tasmania Pty Ltd (TOTE or the Company) on 5 March 2001. On 1 January 2009 the 'racing' component of TOTE was transferred to what is now Tasracing Pty Ltd (Tasracing), leaving TOTE to manage the wagering business. The shares in the Company are held by the Treasurer and the Minister for Racing, who hold these shares on behalf of the State of Tasmania.

TOTE is licenced under the *Gaming Control Act 1993*. Its principal activities are conducting pari-mutuel (totalizator) and fixed odds wagering on thoroughbred, harness and greyhound racing and sport events. This is done via a variety of channels, including the telephone, internet, on-course and through a network of almost 120 hotel and retail outlets throughout Tasmania.

At 30 June 2011 the Board comprised four directors who were appointed by the shareholder Ministers. One director resigned on 19 April 2011 but was not replaced.

AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

Audit completion

Financial statements were approved by the Board and certified on 15 August 2011. The signed financial statements were received on 17 August 2011, which was two days after the statutory reporting deadline, and an unqualified audit report was issued the following day. However, on 26 August 2011, Sports Alive Pty Ltd, a company in which TOTE had a 25% indirect interest, reported in the financial statements at $3.880m, was placed into voluntary liquidation. As a result, the financial statements were:

- amended to include a subsequent event note describing this event and
- re-signed on 19 September 2011.

The audit report dated 18 August 2011 was withdrawn and a revised unqualified audit report was issued on 19 September 2011. This report contained an emphasis of matter paragraph drawing attention to the subsequent events note within the amended financial statements. Under accounting standards, and because Sports Alive was placed into liquidation after 30 June 2011, this fact was regarded as a 'disclosing' rather than an 'adjusting' event.

Payment of dividends

The 2010-11 State Budget anticipated dividend and income tax equivalent receipts of $15.972m from TOTE. The actual total return to the state was $6.462m, comprising a dividend of $3.495m and income tax equivalents of $2.967m both of which were paid from TOTE's 2009-10 profit. The TOTE's Board is yet to determine its position with respect to payment of a dividend from its 2010-11 profits.

Investment in Wholly-Owned Subsidiaries

The financial information presented in this Chapter represents the consolidated results and financial position of the Company and its subsidiaries, which were:

- *Tasradio Pty Ltd* (Tasradio), a radio licence operator broadcasting racing and sport content across the State. In 2010-11, Tasradio reported a Net profit of $3.872m following the sale of its FM broadcasting licence. This profit is reported in the Statement of Comprehensive Income as a 'non' operating source of revenue.

- *Agility Interactive Pty Ltd* (Agility), a software development company. In 2010-11, Agility reported a Net Loss of $0.993m. The majority of its $5.958m revenue was generated from providing services to TOTE.

Investment in Bet Worldwide Unit Trust

In December 2009, TOTE acquired a 25% share in Bet Worldwide Unit Trust (BWUT) for $5.000m. BWUT owns 100% of online bookmaker Sports Alive Pty Ltd which, as previously noted, was placed into voluntary liquidation on 26 August 2011 and its licence cancelled on the same day. A liquidator was appointed to recover all assets for the benefit of creditors. As at 30 June 2011, TOTE carried the investment at $3.880m and was owed $0.242m by Sports Alive Pty Ltd. The return on the investment and payment of the outstanding debts are uncertain.

Membership in SuperTAB Pooling Agreement

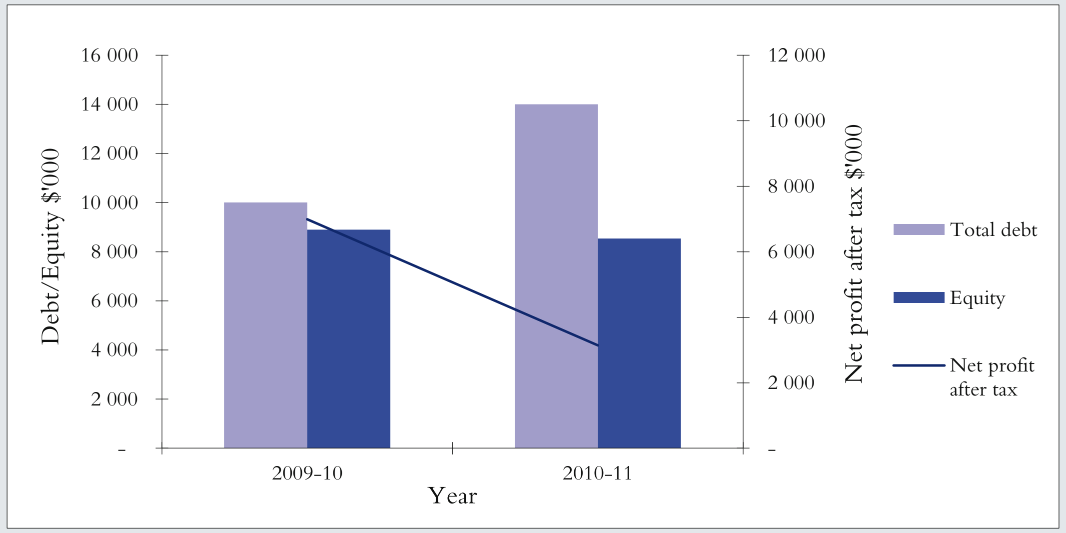
TOTE has a SuperTAB Pooling Agreement with Tabcorp Holdings Ltd until 14 August 2012. In July 2011, the Victorian Government announced that Tabcorp Wagering (Vic) Pty Ltd (a wholly owned subsidiary of Tabcorp Holdings Ltd) had been awarded the new wagering and betting licence in Victoria which runs until August 2024. Negotiations over future pooling arrangements between TOTE and the licence holder are expected to commence shortly. However, until a new pooling agreement is in place the participation in that pool is at risk. The Directors have stated they have a number of strategies to mitigate that risk.

Other than late completion and submission of the financial statements, the audit was completed satisfactorily with no major items outstanding.

FINANCIAL RESULTS

The analysis in this Chapter is for two years only as 2008-09 and 2007-08 incorporated Racing activities thus creating inconsistencies not beneficial for meaningful analysis.

The graph below shows the trend in financial performance, debt levels and equity for the past two years. The profit line is after tax, but before non-operating items such as gain on disposal of assets in 2010-11 or one-off distributions to Tasracing in 2009-10.



TOTE's debt increased over the two year period from nil at 1 July 2009 to $10.000m at 30 June 2010 and by a further $4.000m by 30 June 2011. These borrowings were needed to assist TOTE to:

- meet its commitment to replace its current wagering system and in this respect TOTE is undertaking a significant capital expenditure program to develop a new platform to meet its licencing obligations and to be able to respond quickly to market opportunities and provide better reporting capacity
- satisfy the requirement of the Tasmanian Licensing and Gaming Board to maintain cash investments to match telephone betting account liabilities.

These commitments result in TOTE operating within a tight cash position.

Net profit decreased, primarily due to higher operating costs and lower wagering income as competition to attract clients drove down profit margins and at the same time forced TOTE to explore new products and markets. Equity decreased slightly in 2010-11 after the payment of the 2009-10 dividend.

COMPREHENSIVE INCOME STATEMENT

	2010-11	2009-10
	$'000s	$'000s
Investments from customers (wagering)	961 027	756 423
Settlements from other TABs	69 139	54 760
Dividends, commissions, rebates and taxes	(949 064)	(734 941)
Gross wagering income	**81 103**	**76 242**
Wagering and pooling fees	(17 079)	(13 942)
Race fields fees	(12 843)	(9 068)
Net wagering income	**51 181**	**53 232**
Other income from operating activities	3 619	3 713
Total Income	**54 800**	**56 945**
Employee benefits	(17 468)	(12 628)
Depreciation and amortisation	(5 404)	(3 268)
Licence fee	(6 392)	(6 255)
Other expenses	(23 030)	(19 153)
Total Expenses	**(52 294)**	**(41 304)**
Net operating profit before finance cost and tax	**2 506**	**15 641**
Finance costs	(960)	(447)
Net operating profit before tax	**1 546**	**15 194**
Net gain/(loss) on disposal of assets	3 872	0
Share of loss of associate	(970)	(150)
Distributions to Tasracing	0	(5 126)
Net profit before tax	**4 448**	**9 918**
Income tax expense	(1 307)	(2 928)
Net Profit	**3 141**	**6 990**
Other Comprehensive Income	0	0
Total Comprehensive Profit	**3 141**	**6 990**

Comment

In 2010-11, TOTE reported a Net operating profit before tax of $1.546m, a decrease of $13.648m, 89.8% on the previous year's result. The decrease in operating profit was a combination of income falling by $2.145m and operating expenditure increasing by $10.990m.

The fall in Net wagering income of $2.051m to $51.181m was despite TOTE's wagering income increasing by $204.604m, 27.0%, to $961.027m during the year. However, at the same time TOTE paid $214.123m, 29.1%, more in dividends, commissions and rebates. TOTE operates in a very competitive environment and its profit margins are being eroded with payments of rebates and commissions to attract or retain lucrative customers. Increased participation in the TABCORP Superpool resulted in higher Settlements from other TAB's, up $14.379m, and to a degree this offset lower profit margins. However, the increase in both Wagering and pooling fees and Racefield fees, by 30.0% or $6.912m in total, contributed largely to the fall in Net wagering income.

The increase in Total Expenses of $10.990m, 26.6%, was primarily due to:

- Employee benefits, up $4.840m, due to additional positions, mainly in sales, marketing and IT, increased use of casual and contract labour and higher salaries to attract talented staff to Agility
- Depreciation and amortisation, up $2.136m, due to accelerated depreciation on the soon to be redundant wagering platform
- Other expenses, up $3.877m, attributable to exploration of overseas business opportunities, additional software licensing costs, loyalty program prizes and sponsorships.

Overall, TOTE reported a Net profit of $3.141m. Significant non-operating items impacting on this result were:

- sale of a FM licence by Tasradio which resulted in a net gain of $3.872m
- share of loss in associate Bet Worldwide Unit Trust, which own Sports Alive Pty Ltd, $0.970m.

STATEMENT OF FINANCIAL POSITION

	2011	2010
	$'000s	$'000s
Current Assets		
Cash and cash equivalents	11 633	10 300
Receivables	6 819	2 664
Other current assets	915	628
Total Current Assets	**19 367**	**13 592**
Current Liabilities		
Payables	10 771	8 709
Borrowings	14 000	10 000
Telephone betting deposits	10 093	7 709
Bonds on deposit	306	285
Employee benefits	1 130	955
Income tax payable	1 555	2 382
Total Current Liabilities	**37 854**	**30 040**
Working Capital	**(18 487)**	**(16 448)**
Non-Current Assets		
Property, plant and equipment	5 126	6 022
Intangibles	17 171	14 358
Investments	3 980	4 950
Deferred tax assets	1 172	340
Total Non-Current Assets	**27 449**	**25 670**
Non-Current Liabilities		
Employee benefits	398	307
Other liabilities	24	21
Total Non-Current Liabilities	**422**	**328**
Net Assets	**8 540**	**8 894**
Equity		
Retained earnings	8 235	8 590
Asset revaluation reserve	305	304
Total Equity	**8 540**	**8 894**

Comment

At 30 June 2011 TOTE's Equity totalled $8.540m, a slight decrease of $0.354m on 2010. The movement reflected Net Profit, $3.141m, and dividends paid during the year, $3.495m.

Corresponding to the decrease in Total Equity, Net Assets decreased $0.354m due to:

- higher Cash and cash equivalents, up $1.333m, which is discussed further in the Statement of Cash Flows section of this Chapter
- increased Receivables, up $4.155m, primarily due to settlements with Tabcorp rising over the year
- higher Payables, up $2.062m, due to increased activity and turnover
- additional Borrowings of $4.000m drawn down during the year to fund capital expenditure
- higher Telephone betting deposits, up $2.384m corresponding with increased turnover and non-retail clients
- Property, plant and equipment falling $0.896m due to accelerated depreciation on infrastructure supporting the soon to be redundant wagering platform
- Intangibles increasing $2.813m as a result of capital expenditure on new applications and upgrades to the existing wagering platform, $7.783m, largely offset by accelerated amortisations on the existing wagering system
- a write-down of Investments by $0.970m, which represented TOTE's share of loss in associate Bet Worldwide Unit Trust, which own Sports Alive Pty Ltd
- a favourable net movement in income tax items of $1.659m comprising less income tax payable, because of the lower net profit this year, and an increase in deferred tax assets arising from temporary differences attributable to intangibles.

STATEMENT OF CASH FLOWS

	2010-11	2009-10
	$'000s	$'000s
Receipts from customers and other TABs	385 311	336 035
Payments to customers	(282 625)	(239 829)
Payments to suppliers and employees	(101 977)	(86 291)
GST receipt	5 041	5 472
Income tax paid	(2 967)	(3 522)
Borrowing costs	(951)	(453)
Interest received	632	404
Other receipts	1 974	4 304
Cash from operations	**4 438**	**16 120**
Payments for assets	(8 367)	(5 664)
Proceeds from sale of assets	4 756	0
Investment in associate	0	(5 100)
Cash (used in) investing activities	**(3 611)**	**(10 764)**
Proceeds from borrowing	4 000	10 000
Payments to Tasracing	0	(5 126)
Dividends paid	(3 495)	(3 000)
Cash (used in) financing activities	**505**	**1 874**
Net increase (decrease) in cash	**1 332**	**7 230**
Cash at the beginning of the year	10 300	3 071
Cash at end of the year	**11 633**	**10 300**

Comment

During 2010-11 Cash increased by $1.332m to $11.633m, despite a sharp drop in Cash from operations, $11.682m, mitigated by no payments to Tasracing (2009-10, $5.126m) and no new investments during the year ($5.000m for the purchase of shares in BWUT in 2009-10).

The decrease in operating cash flow of $11.682m was primarily due to:

- higher Payments to suppliers and employees, up $15.686m as a result of increased staff numbers and operating expenditure
- a fall in Other receipts of $2.330m attributable to one-off revenue received in 2009-10
- a net increase in wagering receipts over settlements of $6.481m.

TOTE invested $8.367m in its assets mainly for the development of new wagering applications by Agility and upgrades to the existing system to ensure compliance with regulatory requirements. This was up $2.703m compared to 2009-10. The cost of TOTE's capital program was funded partly by additional borrowings, $4.000m, and proceeds from the sale of Tasradio's FM licence, $4.756m. In addition, TOTE paid $3.495m in dividends related to 2009-10.

FINANCIAL ANALYSIS

	Bench Mark	2010-11	2009-10
Financial Performance			
Net Profit (Loss) ($'000s)		3 141	6 990
EBIT ($'000s)		2 506	15 641
EBITDA ($'000s)		7 909	18 909
Operating margin	>1.0	1.00	1.02
Return on assets	5.21%	5.8%	47.3%
Return on equity		36.0%	78.6%
Financial Management			
Current ratio	>1	0.51	0.45
Creditor turnover	30 days	65	51
Returns to Government			
Dividends paid ($'000s)		3 495	3 000
Income tax paid ($'000s)		2 967	3 523
Total return to the State ($'000s)		6 462	6 523
Dividends paid or payable ($'000s)		0	6 495
Dividend payout ratio	50%	0%	93%
Dividend to equity ratio	6%	0%	73%
Other Information			
Average staff numbers (FTEs)		110	101
Average staff costs ($'000s)		161	139
Average leave balance per FTE ($'000s)		14	13

Comment

The decline in Financial Performance indicators reflected the sharp drop in TOTE's operating result for the year due to a lower income and higher operating costs.

TOTE continued to operate with negative working capital as indicated by the Current ratio, which stayed below benchmark.

Debt collection was not measured as TOTE's receivables comprise mainly wagering settlements associated with the pooling arrangements with Tabcorp. Obligations are settled by Tabcorp monthly within two weeks of the end of the month.

Creditor turnover also worsened over the two year period. On average, it took TOTE 65 days to settle its liabilities in 2010-11, compared to 51 days last year. This increase is indicative of tighter cash position discussed earlier.

Total return to the State decreased as no dividends were paid in the current year. Dividends paid, $6.495m, comprised a dividend of $3.495m on prior year's profit and a special dividend of $3.000m paid in 2009-10. Total return to the State was consistent throughout the two year period.

Dividend paid or payable in respect of 2010-11 is nil because the Board is yet to determine its position with respect to payment of a dividend from its 2010-11 profits.

Average staff numbers increased in 2010-11 with additional employees for marketing and software development. Average staff costs rose substantially due to an increase in the use of contract and casual labour which is not included in the average FTE and an increase in salaries in an effort to attract and retain talent at TOTE.

TRANSEND NETWORKS PTY LTD

INTRODUCTION

Transend Networks Pty Ltd (Transend - or the Company) was established under the *Electricity Companies Act 1997* and incorporated under the *Corporations Act 2001* on 17 June 1998. Two shares have been issued to each of its two shareholders – the Treasurer and the Minister for Energy and Resources, who hold these shares on behalf of the State of Tasmania.

Transend owns and operates the electricity transmission system in Tasmania. It transmits electricity from power stations in Tasmania and on the mainland via Basslink to its customers around the State.

Transend currently has four generation, ten major industrial and two network connection customers (Aurora Energy and Basslink).

Transend is a participant in Australia's National Electricity Market (NEM). The NEM operates on an interconnected power system that extends from Queensland to South Australia. Tasmania is connected to the NEM via Basslink.

In November 2008, Transend acquired a telecommunications business from Hydro Tasmania. This business serves customers in the electricity supply industry and other industries.

The Board currently comprises six non-executive directors. The Board appoints the CEO. Directors are appointed by the two shareholder Ministers. In November 2010, two directors retired from their positions. The shareholders Ministers subsequently appointed three new directors, covering the retirements and to fill an existing vacancy. In January 2011 the Board appointed a new CEO, who is not a director.

AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

Signed financial statements were received on 12 August 2011 and an unqualified audit report was issued on the same day.

KEY FINDINGS AND DEVELOPMENTS

The audit was completed satisfactorily with no major issues outstanding.

During the audit we noted the Company will undertake a full revaluation of its network assets during 2011-12. We support this as it will ensure that there is not a divergence from fair values given the last formal independent valuation of the Company's network assets was performed at 30 June 2006. Since that date, so as to ensure annual financial statements report current values, the carrying amounts of network assets have been adjusted by appropriate indexation factors relevant to asset components. However, periodic revaluations are essential to avoid an extended period of reliance on annual indexation.

In December 2010, all of Transend's Hobart based operations were consolidated into its Maria Street complex. This involved moving the Communications Service personnel and the Customer and Asset Management group from leased premises in Moonah.

In June 2011, the shareholders issued a direction requiring additional dividends and returns of equity. Subsequently, Transend amended its dividend policy for the balance of the current regulatory period until 30 June 2014. The policy is now to pay an annual dividend of 60% of net profit, compared to 50% in previous years. Commencing 2011-12, Transend will make an annual return of equity of $20.000m, subject to its operating and expenditure requirements and borrowing capacity.

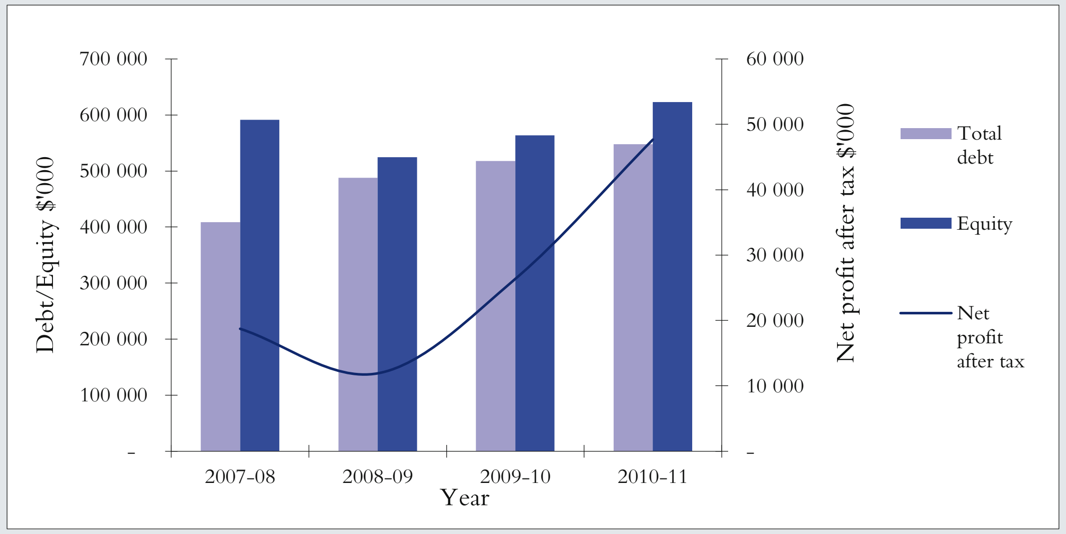
The directions to amend the dividend policy, and to return equity, has the likely potential to further deteriorate Transend's already negative working capital, which currently stands at $(48.999)m. In addition, these directions may impact Transend's capacity to service its debt obligations and to continue its capital works program at current levels. This will need to be closely monitored by the Board.

In order to meet its operating demands, maintain its capital program, service borrowings and at the same time meet the requirements of the amended dividend policy and decision to return equity, Transend plans to increase its borrowings by $68.000m in 2011-12 and by a further $100.000m for the remainder of the current regulatory period. As a result, the Company's projected debt to equity ratio, which currently stands at 87.9%, will increase to 99.6% next year and to 115.1% by the end of 2014. In our view the revised dividend policy and requirement for it to return equity may place pressure on Transend's cash resources.

However, we understand that Transend is subject to externally imposed prudential requirements, which accept a financial leverage ratio (total debt divided by equity plus interest bearing debt) of up to 60%. As at 30 June 2011 Transend's financial leverage ratio was 46.8%. We anticipate that the plan to borrow additional funds will increase the leverage ratio to 49.9% next year and to 53.5% by the end of 2014. This is within the existing prudential requirements.

FINANCIAL RESULTS

Transend's financial performance and financial position over the past four years were significantly impacted by the timing of regulated price increases and the change in the debt/equity structure that occurred in 2007-08. This restructure together with Transend's capital expenditure program resulted in significantly higher finance costs. Over the next three years, Transend is forecasting a capital program worth $377.000m. The graph below shows the trend in performance, debt levels and equity for the past four years.



Changes in Equity over the period reflected retained after tax profits, revaluation movements and the debt for equity swap with Hydro Tasmania in 2007-08.

Transend's Total revenue increased by $36.535m in 2010-11, due primarily to a 21.3% increase in revenue from prescribed (regulated) electricity transmission services leading to an increase in Net profit after tax of $21.307m. Transend was able to contain expenditure, other than depreciation which increased by approximately $8m, allowing most of the increased revenue to flow through to profit. On a Profit before interest and tax basis, Transend's net earnings grew strongly in 2009-10 and 2010-11.

COMPREHENSIVE INCOME STATEMENT

	2010-11	**2009-10**	**2008-09**	**2007-08**
	$'000s	$'000s	$'000s	$'000s
Transmission use of system (TUOS)	201 181	165 848	144 223	130 120
Other revenue	18 949	17 747	14 396	6 554
Total Revenue	**220 130**	**183 595**	**158 619**	**136 674**
Depreciation and amortisation	(65 959)	(58 031)	(58 552)	(51 495)
Other expenses	(54 006)	(55 953)	(51 747)	(48 143)
Total Expenses	**(119 965)**	**(113 984)**	**(110 299)**	**(99 638)**
Profit before finance costs and tax	**100 165**	**69 611**	**48 320**	**37 036**
Finance costs	(29 698)	(29 982)	(30 571)	(8 856)
Interest cost on defined benefit superannuation plan	(2 997)	(2 607)	(1 842)	(1 643)
Net profit before tax	**67 470**	**37 022**	**15 907**	**26 537**
Gain on acquisition of business	0	0	664	0
Net profit before tax	67 470	37 022	16 571	26 537
Income tax expense	(19 805)	(10 664)	(4 660)	(8 001)
Net Profit	**47 665**	**26 358**	**11 911**	**18 536**
Gain on revaluation of property, plant and equipment	35 700	29 641	(91 364)	132 024
Superannuation actuarial gains (losses)	(307)	(6 250)	(6 684)	273
Income tax equivalent on items of other comprehensive income	(10 531)	(7 018)	29 515	(39 086)
Total other comprehensive income	**24 862**	**16 373**	**(68 533)**	**93 211**
Comprehensive Profit (Loss)	**72 527**	**42 731**	**(56 622)**	**111 747**

Comment

In 2010-11, Transend recorded a Net profit before tax of $67.470m, compared to $37.022m in 2009-10. The increase of $30.448m was primarily due to higher TUOS (transmission use of system) revenue, up $35.333m in line with the revenue determination by the Australian Energy Regulator (AER) set in the Transmission Determination for 2009-10 to 2013-14. The increase in revenue was partially offset by an increase in Depreciation and amortisation of $7.928m as a result of additions to Property, plant and equipment, $240.232m, and a net revaluation increment, $35.869m.

STATEMENT OF FINANCIAL POSITION

	2011	2010	2009	2008
	$'000s	$'000s	$'000s	$'000s
Cash	2 213	4 632	23 775	21 499
Receivables	20 449	17 575	24 970	22 943
Inventories	4 651	3 567	3 606	423
Current tax assets	0	0	4 939	0
Other	9 453	4 463	3 461	811
Total Current Assets	**36 766**	**30 237**	**60 751**	**45 676**
Payables	42 000	44 256	35 681	24 825
Borrowings	0	0	0	408 677
Employee benefits	6 141	6 874	6 114	4 680
Superannuation	1 332	1 009	1 035	4 613
Current tax liability	12 621	1 178	0	2 436
Income received in advance	23 248	23 318	33 037	31 026
Customer deposits and other	423	2 839	0	813
Total Current Liabilities	**85 765**	**79 474**	**75 867**	**477 070**
Working Capital	**(48 999)**	**(49 237)**	**(15 116)**	**(431 394)**
Property, plant and equipment	1 453 135	1 355 476	1 239 780	1 259 312
Other	1 905	2 525	4 266	1 514
Total Non-Current Assets	**1 455 040**	**1 358 001**	**1 244 046**	**1 260 826**
Borrowings	548 000	518 000	488 000	0
Employee benefits	1 880	1 761	1 322	1 004
Superannuation	45 314	43 157	34 116	18 492
Deferred tax liability	187 609	181 935	180 696	218 390
Total Non-Current Liabilities	**782 803**	**744 853**	**704 134**	**237 886**
Net Assets	**623 238**	**563 911**	**524 796**	**591 546**
Capital	66 549	66 549	66 549	66 549
Retained earnings	127 360	91 677	70 613	72 625
Reserves	429 329	405 685	387 634	452 192
Total Equity	**623 238**	**563 911**	**524 796**	**591 366**

Comment

Total Equity increased from $563.911m to $623.238m during 2010-11. The increase of $59.327m comprised:

- Net Profit, $47.665m (2010, $26.358m), less dividends paid during the year of $13.200m ($3.616m),
- Gain on revaluation of property, plant and equipment, $35.700m,
- Superannuation actuarial loss, $0.307m,
- net tax effect of the above, expense of $10.531m.

The corresponding increase in Net Assets of $59.327m related to:

- higher Property, plant and equipment, $97.659m, attributable to:
  - revaluation of network assets, which resulted in a net increment of $35.869m (2010, $29.789m). Transend's network assets are indexed annually, based on long-term average annual network asset cost escalation rates. Network assets were last independently valued in 2007. The next full revaluation is due to take place in 2012
  - additions to capital work in progress, $128.806m (explained below)
  - Depreciation and amortisation expense, $65.959m
- higher Receivables, $2.874m, due primarily to Transend's pricing determination and prescribed revenue increase in 2010-11, which caused an increase in TUOS debtors
- increased Other assets, $4.990m, mainly due to higher TUOS under-recoveries, up from $3.231m to $8.342m. Annual TUOS charges are set in line with the revenue determination by the AER and represent the maximum allowed revenue for prescribed services. Any amounts less than this allowance are recovered from customers at large in future periods. Similarly, any amounts in excess of the allowance are effectively returned through future pricing
- lower Customer deposits, $2.416m, due to repayments of those deposits.

These were offset in part by:

- increased Borrowings, $30.000m to fund capital expenditure
- higher Current tax liability, $11.443m, due mainly to the increased Income tax expense in 2010-11, up from $10.664m to $19.805m
- increased Deferred tax liability, $5.674m, due primarily to temporary differences for depreciation expense arising from the additions to, and revaluation of, property, plant and equipment in the current year.

During 2010-11 capital works in progress decreased from $169.809m to $58.383m. The movement of $111.426m reflected additional capital expenditure incurred during the year, $128.806m less completed projects recorded at $240.232m, including:

- transmission lines, $116.741m,
- transmission substations, $95.561m,
- buildings, $17.870m,
- easements, $3.141m,
- communication assets, $2.292m.

Despite Transend's profitability, working capital continued to be negative, $48.999m at 30 June 2011 (2009-10, $49.237m).

STATEMENT OF CASH FLOWS

	2010-11	2009-10	2008-09	2007-08
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	230 962	200 789	170 986	166 711
Payments to suppliers and employees	(76 742)	(74 426)	(74 897)	(67 933)
Interest received	22	455	0	0
Finance costs	(21 878)	(22 577)	(28 551)	(8 108)
Guarantee Fees Paid	(6 860)	(5 998)	(1 263)	(268)
Taxation paid	(13 218)	(10 326)	(18 610)	(19 271)
Cash from operations	**112 286**	**87 917**	**47 665**	**71 131**
Proceeds from sale of property and plant	1 100	422	531	279
Payments for property, plant and equipment	(132 605)	(133 866)	(113 755)	(55 708)
Payments for business	0	0	(13 889)	0
Cash (used in) investing activities	**(131 505)**	**(133 444)**	**(127 113)**	**(55 429)**
Proceeds from borrowings	30 000	30 000	749 261	115 639
Repayment of borrowings	0	0	(658 177)	(45 000)
Return of shareholder's capital	0	0	0	(50 000)
Dividends paid	(13 200)	(3 616)	(9 360)	(15 000)
Cash from financing activities	**16 800**	**26 384**	**81 724**	**5 639**
Net increase (decrease) in cash	(2 419)	(19 143)	2 276	21 341
Cash at the beginning of the year	4 632	23 775	21 499	158
Cash at end of the year	2 213	4 632	23 775	21 499

Comment

Cash at the end of the year decreased by $2.419m to $2.213m mainly due to Transend funding the majority of its capital expenditure projects out of Cash from operations, with only 22.6% being funded through borrowings. Furthermore, Dividends paid increased by $9.584m as a result of higher profit.

The increase in Cash from operations, up $24.369m, was predominantly due to higher TUOS revenue.

FINANCIAL ANALYSIS

	Bench Mark	2010-11	2009-10	2008-09	2007-08
Financial Performance					
Net Profit (Loss) ($'000s)		47 665	26 358	11 911	18 536
EBIT ($'000s)		100 165	69 611	48 320	37 036
EBITDA ($'000s)		166 124	127 642	106 872	88 531
Operating margin	>1.0	1.83	1.61	1.44	1.37
Return on assets	5.21%	7.0%	5.2%	3.7%	3.0%
Return on equity		8.0%	4.8%	2.1%	2.7%
Financial Management					
Debt to equity		87.9%	91.9%	93.0%	69.1%
Debt to total assets		36.7%	37.3%	37.4%	31.3%
Interest cover - EBIT	>2	2.4	1.8	1.4	2.8
Interest cover - Funds from operations	>2	3.7	3.3	2.3	6.4
Current ratio	>1	0.43	0.38	0.80	0.10
Cost of debt	6.9%	7.8%	7.6%	8.0%	*4.4%
Debt collection	30 days	4	6	34	31
Creditor turnover	30 days	0	10	11	28
Asset Management					
Investment gap %	>100%	201%	231%	194%	98%
Returns to Government					
Dividends paid ($'000s)		13 200	3 616	9 360	15 000
Income tax paid ($'000s)		13 218	10 326	18 610	19 271
Total return to the State ($'000s)		26 418	13 942	27 970	34 271
Dividends paid or payable ($'000s)		28 600	13 200	3 616	9 360
Dividend payout ratio	50%	60.0%	50.1%	30.4%	50.5%
Dividend to equity ratio	6%	4.6%	2.3%	0.7%	1.6%
Other Information					
Average staff numbers (FTEs)		284	274	245	210
Average staff costs ($'000s)		116	116	114	100
Average leave balance per FTE ($'000s)		28	32	30	27

**Lower borrowing rate due to significant debt incurred as at 30 June 2008 and hence not incurring interest for 2007-08.*

Comment

Net Profit in 2010-11, $47.665m, resulted in a positive Operating margin of 1.83% which was above bench mark. The Financial Performance ratios reflected Transend's improved profit in 2010-11. The higher Net Profit was previously commented on in the Comprehensive Income Statement section of this Chapter.

In 2010-11 the Return on assets and Return on equity ratios were mainly affected by the increased Net Profit.

Interest cover – EBIT increased due to EBIT rising from $69.611m to $100.165m while the interest expense remained relatively constant.

Interest cover – Funds from operations was higher due primarily to Cash from operations increasing, from $87.917m to $112.286m, and interest expense remaining relatively constant.

The strong capital investment program is being funded predominantly by cash generated from operations, with the remaining program funded through borrowings.

Credit turnover reduced to nil in 2010-11, due to a conscious decision to pay all creditors prior to 30 June 2011. This was due to the upgraded general ledger system going live on 1 July 2011.

Returns to Government increased primarily due to improved results and are expected to increase further as a result of the annual dividend policy increasing from 50% to 60% of net profit after tax.

Average staff numbers (FTEs) increased over the four years under review. The increase in 2010-11 was primarily due to the higher level of capital works undertaken on network assets.

TT-LINE COMPANY PTY LTD

INTRODUCTION

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

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

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

The Company's board consists of seven directors, appointed by the Government, and the Chief Executive Officer.

AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

The board signed the Company's financial statements on 10 August 2011 and an unqualified audit report was issued on the same day.

The audit was completed satisfactorily with no major items outstanding.

KEY FINDINGS AND DEVELOPMENTS

An independent valuation of the Company's two ships is sought annually from independent sources, being two internationally recognised shipping agents. As the prevailing market for these types of ships is predominately in Europe, the valuation is provided in Euros. The valuation of each vessel in Euros at 30 June 2011 remained the same as that at 30 June 2010 (78.000m Euro). However, due to the stronger Australian dollar at 30 June 2011, the value of each vessel decreased from $111.818m to $103.909m between 2010 and 2011. As a result the Company recorded a ship valuation decrement expense of $11.600m in its Statement of Comprehensive Income.

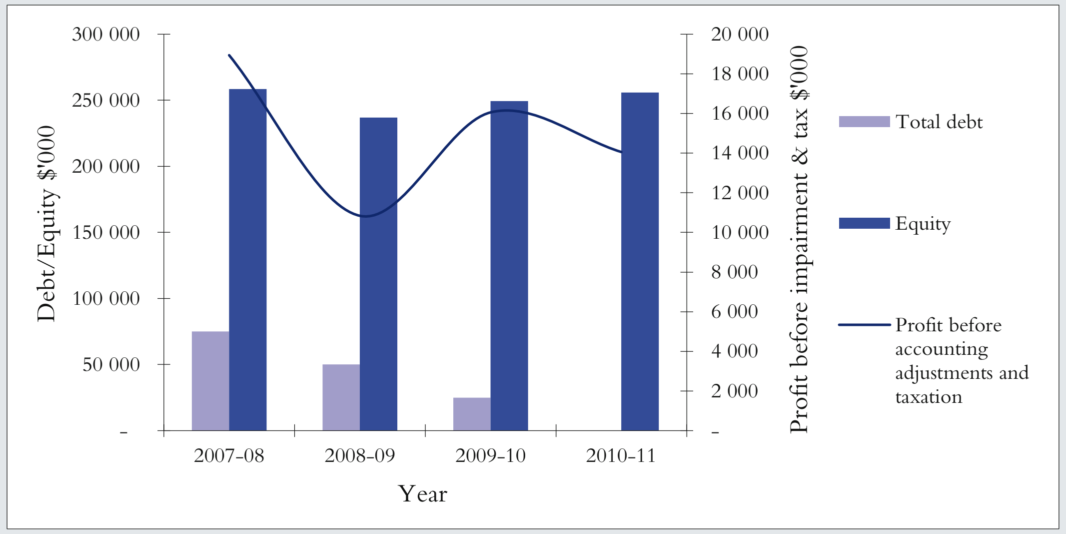
In response to high fuel costs incurred in late 2007-08, the Company in 2008-09 adopted a fuel-hedging strategy in order to gain long-term certainty over one of its largest expenditure items and limit the volatility on its financial results. At the time of entering the first hedge agreements in 2008-09 fuel prices had increased significantly and were approximately $815 per metric tonne, with an expectation of further price increases. Entering into the hedge agreements resulted in TT-Line being committed to future prices for fuel based on that expectation. However, the global fuel price decreased in 2008-09 and the Company's hedged price was higher than the market price. This resulted in the Company paying inflated fuel costs in 2008-09 and 2009-10 compared to the current market and also required it to recognise a significant fuel hedge liability in 2008-09 and 2009-10, as reported in the Statement of Financial Position at those dates. The hedge contract, which comprised the majority of the fuel hedge liability at 30 June 2010, $6.436m of the $7.422m, was settled in 2010-11. As a result the Company recorded a net fuel hedge asset at 30 June 2011 of $1.230m.

During 2009-10 the Company recorded a net tax benefit in its Statement of Comprehensive Income of $28.471m which comprised previously unrecognised tax losses, $31.420m less temporary differences, $2.949m. The tax balances were recognised as it was determined there was sufficient evidence to demonstrate probable recoupment of prior year tax losses against future taxable income. This change also resulted in the Statement of Financial Position reporting a deferred tax asset of $38.329m as at 30 June 2010 for the first time.

In accordance with the Government's stated dividend policy, the Company retained its annual surplus for the purposes of debt retirement and funding the replacement cost of its two vessels. By 30 June 2011 all of TT-Line's borrowings had been settled.

FINANCIAL RESULTS

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



The graph illustrates the level of debt reduced over the four year period reflecting loan repayments of $25.000m in each year since 30 June 2008. The final repayment of $25.000m in the 2010-11 financial year resulted in the Company being debt free at 30 June 2011.

Movement in Equity over the period predominately represents after tax profits, ship valuation adjustments and movements in the cash flow hedge reserve.

As can be seen from the graph, the Company's Profit before accounting adjustments and tax was between $12.000m and $14.000m in all years under review apart from 2008-09 when it dropped to $6.789m. Higher bunker fuel and oil costs reduced profitability in that financial year. Despite ongoing high levels of expenditure on bunker fuel and oil in 2009-10, increased revenue resulted in profitability improving in that year. This situation continued in 2011, albeit with a slight decline in revenues.

COMPREHENSIVE INCOME STATEMENT

	2010-11 $'000s	2009-10 $'000s	2008-09 $'000s	2007-08 $'000s *
Revenue from the sale of goods and provision of services	**181 233**	**182 677**	**173 608**	**164 047**
Total Cost of Sales	**112 296**	**112 228**	**111 391**	**81 640**
Gross Profit	**68 937**	**70 449**	**62 217**	**82 407**
Gross profit %	**38.0**	**38.6**	**35.8**	**50.2**
Investment revenue	1 450	886	1 978	2 816
Other gains and (losses)	66	(13)	1	5
Depreciation and amortisation	(12 458)	(14 690)	(14 648)	(13 526)
Other operating costs	(43 939)	(40 577)	(38 710)	(52 763)
Total Other Expenditure	**(56 397)**	**(55 267)**	**(53 358)**	**(66 289)**
Total Costs	**168 693**	**167 495**	**164 749**	**147 929**
Net operating profit before finance costs, taxation and Other accounting adjustments	**14 056**	**16 055**	**10 838**	**18 939**
Finance costs (including interest cost on superannuation provision) **	2 098	2 684	4 358	5 449
Net operating profit before taxation and Other accounting adjustments	11 958	13 371	6 480	13 490
Other Accounting Adjustments:				
Ship valuation adjustment	(11 600)	(24 995)	0	0
Defined benefits superannuation adjustment	295	(233)	(656)	208
Net profit (loss) before tax	**653**	**(11 857)**	**5 824**	**13 698**
Income tax benefit/ (expense)	(147)	32 057	(8 260)	2 834
Net profit (loss)	**506**	**20 200**	**(2 436)**	**16 532**
Other Comprehensive Income - net of taxation				
Asset revaluation reserve	0	(14 733)	(7 067)	0
Cash flow hedge reserve	6 056	7 010	(12 206)	0
Total Comprehensive Profit (Loss)	**6 562**	**12 477**	**(21 709)**	**16 532**

** The presentation of expenditure for 2007-08 has not been updated to reflect the expenditure reclassifications reported within TT-Line's financial statements in subsequent years.*
*** Finance costs for 2010-11 comprise interest expense $1.743m and interest cost on superannuation provision, $0.355m.*

Comment

For the year ended 30 June 2011 TT-Line generated a Profit before accounting adjustments and taxation of $11.958m, a decrease of $1.413m, (10.6)%, from 2009-10. This decrease was primarily due to the following:

- lower Revenue from the sale of goods and provision of services, $1.444m, explained further below
- higher Other operating costs, $3.362m, which was mainly due to an increase in employee benefits expense of $3.107m, partly attributable to:
  - higher termination benefits as a result of redundancies offered to telephone sales centre staff
  - accrued back-pays for estimated payments due under an enterprise agreement subject to negotiations at balance date.

The above movements were offset by:

- reduced Depreciation and amortisation expense, $2.232m, due to the lower ship valuation at 1 July 2010.

The lower revenue from the sale of goods and provision of services was mainly due to:

- lower passenger revenue, $3.534m or 6.3%. Despite an increase in passenger numbers of 0.52% (refer table below), passenger yield decreased by 6.70%
- lower freight revenue, $0.995m or 1.6%, which reflected a 2.67% decrease in freight volume.

These revenue decreases were offset by:

- an overall increase in revenue from the sale of goods of $1.042m, which included increased food sales of $0.488m
- higher vehicle revenue, $1.012m or 2.0%. Despite a decrease in vehicle numbers of 2.34% (refer table below), the yield from transporting vehicles increased by 4.76%
- higher freight surcharge revenue $0.818m, 32.9%.

The table below provides a further breakdown of the movements in the main drivers of the key revenue streams.

	2010-11	2009-10	2008-09	2007-08
Voyages	825	822	800	804
Passenger Numbers	407 660	405 554	390 746	385 028
% Increase (decrease)	0.52%	3.79%	1.49%	(0.76%)
Vehicle Numbers	182 892	187 274	182 595	177 265
% Increase (decrease)	(2.34%)	2.56%	3.01%	1.12%
Freight (TEU)	91 856	94 371	85 288	85 594
% Increase	(2.67%)	10.65%	(0.36%)	11.01%

**TEU = Twenty foot equivalent units*

The Net Profit after taxation of $0.506m (2009-10, $20.200m) included the Ship valuation decrement, $11.600m ($24.995m) and a net income tax expense of $0.147m (net income tax benefit, $32.057m). Both these items have been explained within the Key Findings and Development section of this Chapter.

STATEMENT OF FINANCIAL POSITION

	2011	2010	2009	2008
	$'000s	$'000s	$'000s	$'000s
Cash	16 184	24 881	38 724	50 160
Receivables	13 124	13 063	10 588	12 274
Inventories	1 957	1 670	1 839	2 247
Derivative Asset - Fuel Hedge	1 162	68	1	0
Prepaid expenses	623	1 018	511	451
Total Current Assets	**33 050**	**40 700**	**51 663**	**65 132**
Payables	11 710	11 346	12 076	15 180
Borrowings	0	25 000	25 000	25 000
Provisions	7 892	7 411	7 860	7 443
Revenue received in advance	9 046	9 365	8 701	8 102
Derivative Liability - Fuel Hedge	471	7 913	10 233	0
Total Current Liabilities	**29 119**	**61 035**	**63 870**	**55 725**
Working Capital	**3 931**	**(20 335)**	**(12 207)**	**9 407**
Property, plant and equipment	16 906	16 744	12 942	13 243
Ships at fair value	207 817	223 636	274 278	290 446
Deferred tax asset	35 191	38 329	0	0
Derivative Asset - Fuel Hedge	731	983	175	0
Major cyclical maintenance dry dock at cost	0	0	0	1 060
Amortisation	0	0	0	(1 060)
Total Non-Current Assets	**260 645**	**279 692**	**287 395**	**303 689**
Borrowings	0	0	25 000	50 000
Provisions	5 943	6 523	5 884	4 552
Deferred tax liability	2 567	2 962	0	0
Derivative Liability - Fuel Hedge	192	560	7 379	0
Other	0	0	90	0
Total Non-Current Liabilities	**8 702**	**10 045**	**38 353**	**54 552**
Net Assets	**255 874**	**249 312**	**236 835**	**258 544**
Capital	328 981	328 981	328 981	328 981
Cash flow hedge reserve	860	(5 196)	(12 206)	0
Accumulated losses	(73 967)	(74 473)	(94 673)	(92 237)
Asset revaluation reserve	0	0	14 733	21 800
Total Equity	**255 874**	**249 312**	**236 835**	**258 544**

Comment

The Company's Equity increased by $6.562m during 2010-11 due to:

- the after tax profit of $0.506m
- a favourable increase in the fuel hedge reserve, $6.056m after tax. The Cash flow hedge reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges net of income tax. The deferred gain or loss on the hedge is recognised in profit or loss at the date of the fuel purchases and corresponding hedge settlement.

The corresponding increase in Net Assets was the result of the following factors:

- reduced net borrowings, $25.000m
- a $8.652m improvement in the derivative fuel hedge position from a net liability of $7.810m in 2009-10, to a net asset position of $1.230m in 2010-11. Refer Key Findings and Development section of this Chapter for additional explanations
- lower Cash balance at 30 June 2011, $8.697m. This decrease is explained within the Statement of Cash Flows section of this Chapter
- a decline in the ships' value, $15.819m which is the net of the decline in the valuation of the ships, $11.600m, and the net of current year capital expenditure and depreciation, $4.219m, relating to the ships. Capital expenditure incurred on the ships included dry-dock costs of $4.578m (2010, $5.031m) and acquisitions, $1.765m ($3.297m)
- lower deferred tax asset, $3.138m, due mainly to the tax impact of the decrease in the derivative fuel hedge liability.

STATEMENT OF CASH FLOWS

	2010-11	2009-10	2008-09	2007-08
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	199 218	199 065	193 489	181 311
Payments to suppliers and employees	(174 163)	(172 324)	(169 470)	(147 128)
Interest received	1 423	919	2 160	2 646
Finance costs	(1 840)	(2 599)	(4 341)	(5 169)
Cash from (used in) operations	**24 638**	**25 061**	**21 838**	**31 660**
Payments for property, plant and equipment	(8 520)	(14 041)	(8 318)	(9 201)
Proceeds from sale of property, plant and equipment	185	137	44	93
Cash from (used in) investing activities	**(8 335)**	**(13 904)**	**(8 274)**	**(9 108)**
Repayment of borrowings	(25 000)	(25 000)	(25 000)	0
Cash from (used in) financing activities	**(25 000)**	**(25 000)**	**(25 000)**	**0**
Net increase in cash	**(8 697)**	**(13 843)**	**(11 436)**	**22 552**
Cash at the beginning of the year	24 881	38 724	50 160	27 608
Cash at end of the year	**16 184**	**24 881**	**38 724**	**50 160**

Comment

The Company reported Net cash from operating activities of $24.638m for 2010-11 which was consistent with the $25.061m reported in 2009-10. The slight reduction in Cash from operations, $0.423m, was due to increased payments to suppliers and employees, $1.839m. This was offset by:

- higher interest receipts, $0.504m,
- lower borrowing costs, $0.759m, which reflected the repayment of borrowings of $25.000m in 2009-10.

Cash generated from operating activities, $24.638m, and part of the opening cash balance as at 1 July 2010, $38.724m, funded:

- loan debt repayments, $25.000m
- capital purchases, $8.520m. Of this amount, $4.578m (2009-10, $5.031m) related to the capitalisation of major cyclical maintenance dry dock expenditure. Dry dock scheduled maintenance and marine safety inspections are performed on the vessels every two years on an alternating basis. The remainder of capital purchases included:
  - capital additions on the vessels, $1.671m
  - Internet Booking Project, including development to allow amendments and cancellations on-line, $0.711m
  - motor vehicles, tractors and a forklift $0.514m
  - further costs on the Company's new reservation system, $0.314m.

FINANCIAL ANALYSIS

	Bench Mark	2010-11	2009-10	2008-09	2007-08
Financial Performance					
Net profit (loss)		506	20 200	(2 436)	16 532
EBIT ($'000s)		14 056	16 055	10 838	18 939
Operating margin	>1.0	1.08	1.10	1.07	1.13
Return on assets	5.21%	4.6%	4.9%	3.1%	5.3%
Return on equity		0.2%	8.3%	(1.0%)	6.7%
Financial Management					
Debt to equity		-	10.0%	21.1%	29.0%
Debt to total assets		-	7.8%	14.7%	20.3%
Interest cover - EBIT	>2	8.06	6.89	2.68	3.67
Current ratio	>1	1.13	0.67	0.81	1.17
Debt collection	30 days	27	27	22	27
Creditor turnover	30 days	20	15	25	31
Other information					
Average staff numbers (FTEs)		456	469	477	501
Average staff costs ($'000s)		93	83	85	79
Average leave balance per FTE ('$000)		19	17	16	13

Comment

Movements in the Net profit (loss), EBIT and Operating margin are consistent with variance explanations provided earlier in this Chapter.

Return on assets ratio for both 2009-10 and 2010-11 was affected by the decrease in the valuation of the vessels in those years. The Return on equity ratio is based on results after taxation. Therefore, the ratio for 2009-10 was impacted by the Company bringing to account its deferred tax assets for the first time.

Refer to the Financial Results section of this Chapter for comments regarding the Company's Debt to Equity ratio.

The Current ratio declined in 2008-09 and 2009-10 as the Company used cash to repay Borrowings and entered into unfavourable fuel hedges. Following the extinguishment of Borrowings and an improved position in remaining fuel hedges, the ratio improved to be above the benchmark of one in 2010-11.

Average staff costs increased to $0.093m in 2010-11 due to the higher Employee benefits expense referred to in the Comprehensive Income Statement section.

No income tax payments were made in the past four years as the Company had carried forward tax losses, which at 30 June 2011 totalled $29.344m (2009-10, $29.960m).

During the period under review, no dividend payments were recommended. The Directors noted in their Directors' Report that, in accordance with the Government's dividend policy for TT-Line, the Company will:

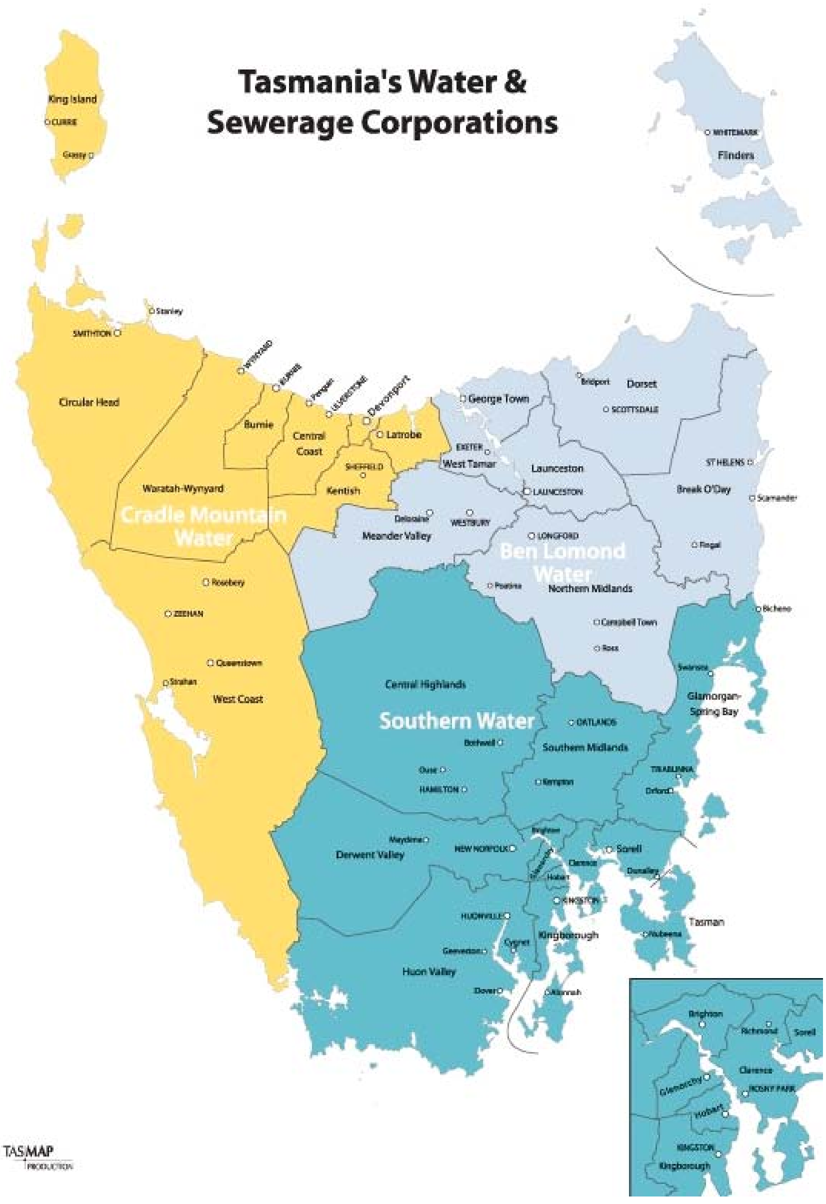
> '….retain its annual profit for the purpose of debt repayment and funding the replacement cost of its two vessels….'

WATER AND SEWERAGE CORPORATIONS 2010-11

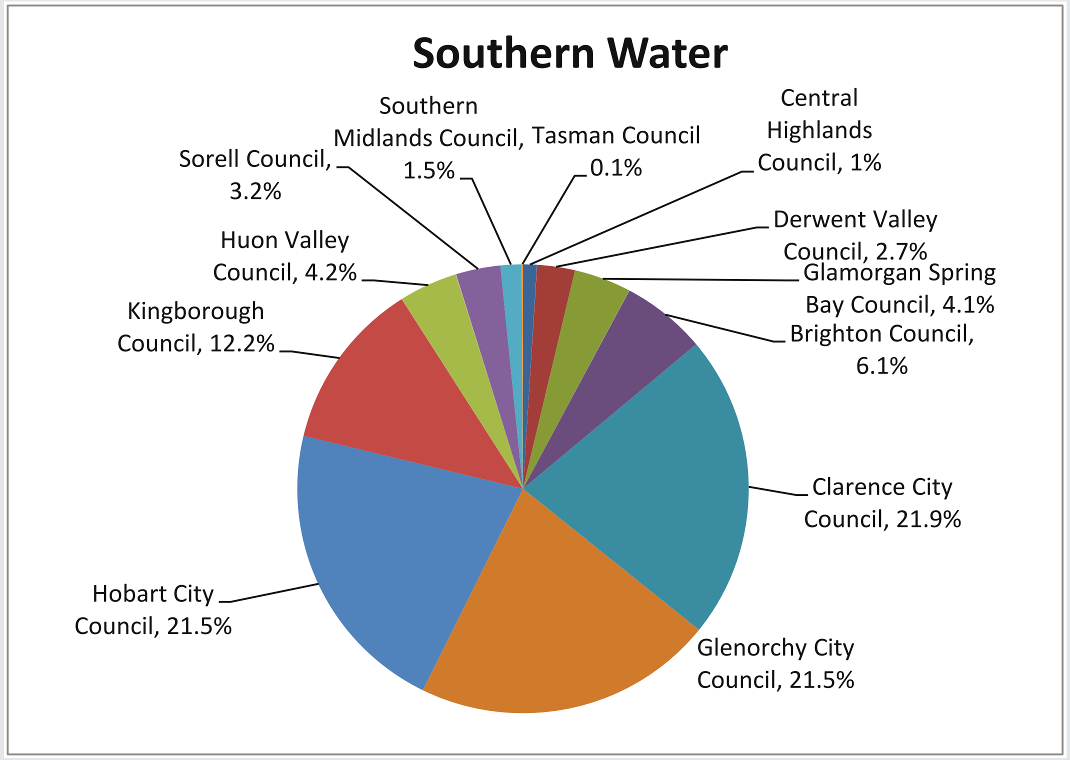
INTRODUCTION

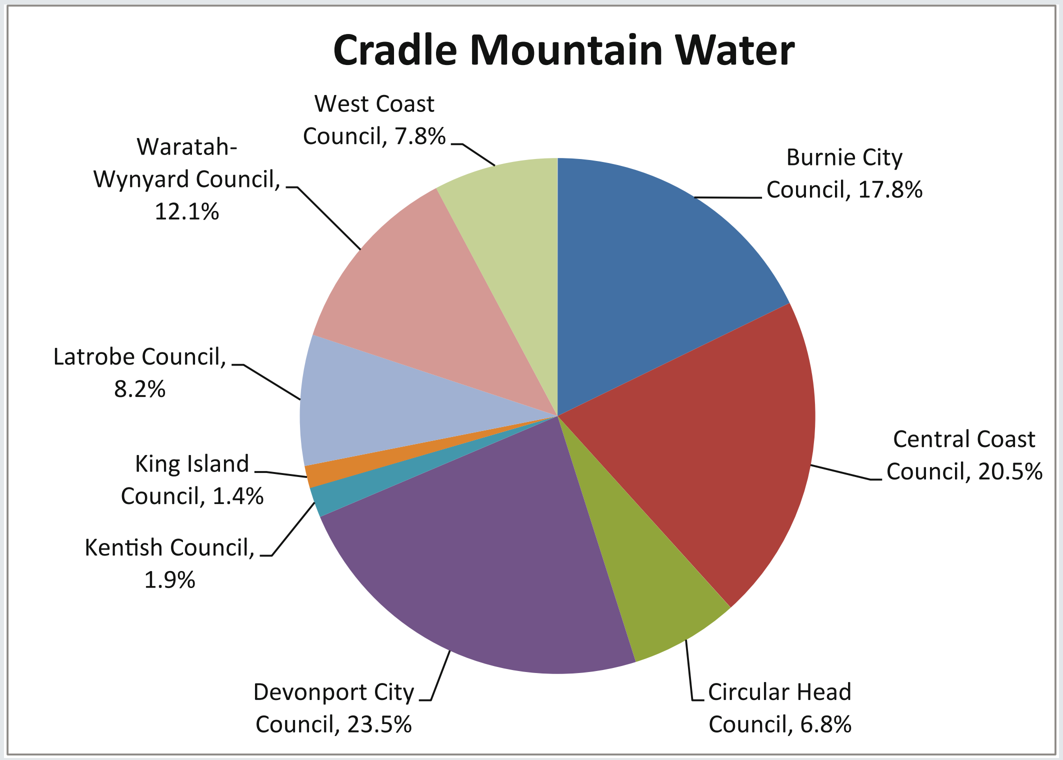
Tasmania's three regional water and sewerage corporations (the Regional Water Corporations) were established in 2008 under the *Water and Sewerage Corporations Act 2008* (the Act). The Corporations are separate legal entities each responsible for its financial performance. The information provided in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

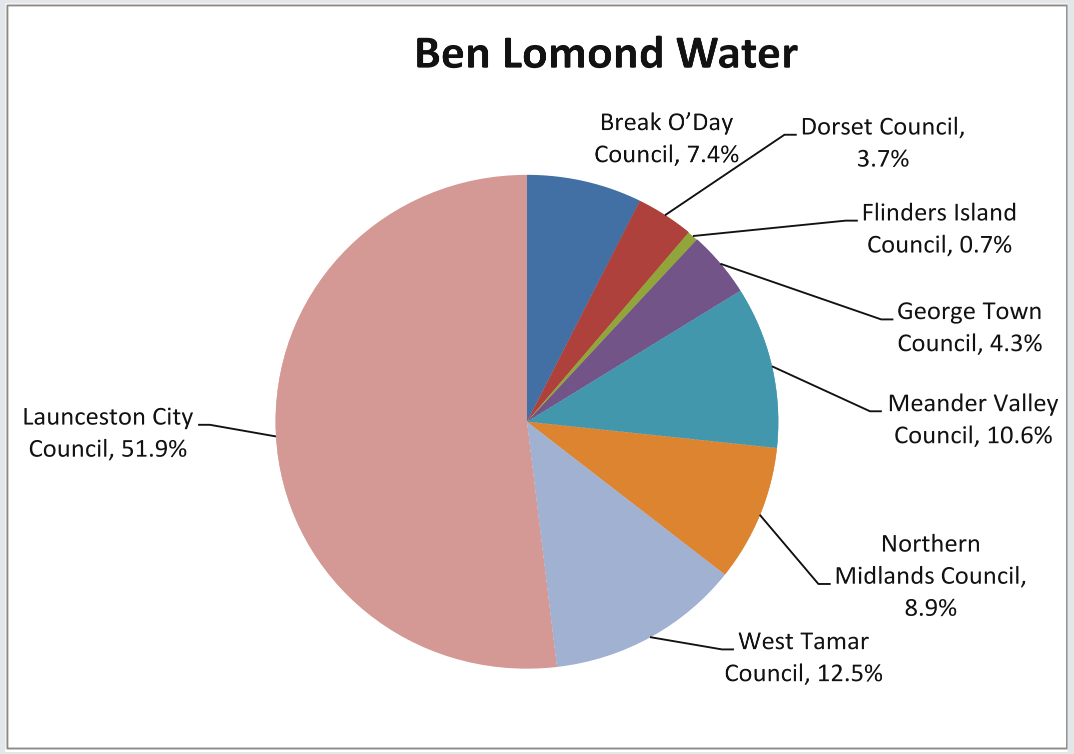
The Regional Water Corporations are owned by councils in their respective regions:



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







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

The Regional Water Corporations share distributions from Onstream based on an approximate proportion of use: Southern Water 50%, Ben Lomond Water 25% and Cradle Mountain Water 25%.

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

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

All Corporations commenced full operations on 1 July 2009.

The Regional Water Corporations have a common Chairman and a different common Chair of the Audit and Risk Committees and other Board Committees. Each Board has six directors, some of whom are 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.

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

The major task faced by the Regional Water Corporations and Onstream was absorbing and managing over 620 staff, over $2.000bn in assets and over $300.000m in liabilities transferred from councils and bulk water authorities on 1 July 2009 and developing plans to meet the expectations of communities, public health and environmental regulators under the *Water and Sewerage Industry Act 2008*.

KEY FINDINGS

Asset valuations

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 growth rate, inflation rate, operating expenditure growth rate, WACC etc. We recommended that variables impacting on the calculation of value in use be considered by Audit and Risk Committees and approved by the Boards of each Regional Water Corporation prior to the end of each reporting period. This would improve the process and ensure a consistent approach.

KEY DEVELOPMENTS

Segment Reporting

Last year, we recommended that the Regional Water Corporations give consideration to reporting financial performance by operating segment. While we understand that the Regional Water Corporations are exempt from complying with requirements of AASB 8 *Operating Segments*, in our view the additional information would assist readers to better assess and understand their financial performance. The Regional Water Corporations' main business activities are the provision of water and sewerage services. We understand that discrete financial information about each of these two functions is not currently available and therefore the Regional Water Corporations are unable to apply AASB 8 in relation to reporting separate information about each operating segment. However, we note that the Regional Water Corporations are working towards refining their internal reporting which would allow reporting based on business activities. We will monitor developments in this area and will assess their impact on future financial reporting.

Related Parties Disclosure

The Regional Water Corporations are exempt from making certain disclosures around compensation of key management personnel, otherwise required under AASB 124 *Related Parties Disclosures*. However, we recommended that the Regional Water Corporations give consideration to voluntary adoption of AASB 124. In 2010-11, the Regional Water Corporations included a Remuneration Report in their Directors' Reports. While the Remuneration Report did not meet all the requirements of AASB 124, we commend the Boards of the Regional Water Corporations for this initiative. It provides information on remuneration policies and remuneration for directors and senior executives.

Price Cap

As part of the transition to the new water and sewerage arrangements, the State Government capped price increases for water and sewerage at 5% for three years until 2011-12. The Government also agreed to provide compensation payments to the Regional Water Corporations in recognition of lost revenues and other costs associated with this decision. In June 2011, the State Government announced changes to the water and sewerage arrangements as part of its 2011-12 Budget saving strategies, including lifting the price cap to 10% or $100 ($50 per service), whichever is greater and indexing concession payments. The following table summarises the amount of price cap rebates and other concessions received by the Regional Water Corporations since the introduction of the Price Cap:

Government Subsidies	Combined		SW		BLW		CMW	
	2010-11	**2009-10**	**2010-11**	**2009-10**	**2010-11**	**2009-10**	**2010-11**	**2009-10**
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
Price cap rebate	12 923	5 554	6 089	2 556	4 392	1 972	2 442	1 026
Other concessions	5 873	5 551	2 719	2 614	1 712	1 553	1 442	1 384
Total Government Subsidies	**18 796**	**11 105**	**8 808**	**5 170**	**6 104**	**3 525**	**3 884**	**2 410**

In September 2011, the Government introduced the *Water and Sewerage Industry (Pricing and Related Matters) Regulations 2011*, prescribing matters to which the Tasmanian Economic Regulator (the Regulator) is to have regard in making a price determination. The Regulator will commence independent regulation of prices in the Tasmanian water and sewerage sector from 1 July 2012. The first regulatory period will cover the three financial years from 1 July 2012 to 30 June 2015 inclusive. It is expected that the Regulator will approve and issue price determinations at the end of May 2012.

House of Assembly Select Committee into the Tasmanian Water and Sewerage Corporations

In late 2010, the House of Assembly established a Select Committee to inquire into the governance and operating structure, and financial performance, of the Regional Water Corporations and Onstream. The Committee also inquired into the impact of future prices and strategies to achieve an equitable pricing structure. In its interim report, released in April 2011, the Committee urged the Regional Water Corporations, their owner councils and the State Government to mitigate the price shock expected after the price cap is removed on 1 July 2012. The final report is expected to be released in April 2012 and its impact on the future operations of the Regional Water Corporations and Onstream is unknown.

Structure Review by Local Government Association of Tasmania

In September 2011, the Local Government Association of Tasmania established a working group to investigate the issues and implications of moving from the current structure of the Tasmanian Water and Sewerage Corporations to a streamlined single entity. The impact of this review on the future operations of the Regional Water Corporations and Onstream is unknown.

Billing Arrangements

Onstream is responsible for providing billing services to the Regional Water Corporations, which includes issuing bills to customers and receipting payments. After the transition to the new water and sewerage arrangements, Onstream during 2009-10 used a contracted billing arrangement with a number of Councils. During 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.

Following a tender process, a new billing system began to be rolled-out in February 2011 and the Regional Water Corporations are in the process of implementing strategies to recover outstanding charges. The following table provides details of the dollar value and % of receivables past due more than 90 days at 30 June 2011:

	SW	BLW	CMW
	$'000s	$'000s	$'000s
Receivables past due > 90 days	8 720	3 676	4 140
% of total receivables	27.8%	41.3%	53.1%

Restructure of Onstream

From October 2011, Onstream's operations were further integrated into the three Regional Water Corporations. Core activities, such as IT, billing, payroll, finance, accounts payable, procurement and insurance will continue to be provided by Onstream, but the offices will be co-located within the Regional Water Corporations. Onstream is seeking to sublet or assign its existing lease arrangements. This new model aims to reduce costs and improve efficiencies.

FINANCIAL RESULTS

The financial information detailed below compares the results of the Regional Water Corporations in their second full year of operation ended 30 June 2011 and their financial position at that date.

Onstream's results are included in the results of the Regional Water Corporations.

The Regional Water Corporations generated a combined Net profit after tax of $21.982m. However, average returns on assets of 1.5% and on equity of 1.13% were bellow commercial returns. These levels of return will make it difficult to generate sufficient income to fully maintain the Corporations' assets, to achieve their asset replacement programs and satisfy dividend expectations.

From an asset management perspective, the Asset renewal ratios for Ben Lomond Water and Cradle Mountain Water (we were not able to compute a ratio for Southern Water) were below our benchmark but above benchmark in all three cases for the Investment ratio indicating the focus has been on investing in new assets, rather than upgrading existing infrastructure. We computed the Consumption ratios by applying the gross replacement cost and accumulated depreciation. On this basis, the ratios indicate that, on average, the Regional Water Corporations had used (consumed) half of the service potential of their infrastructure, buildings and other assets. At this level, these assets are at moderate level of sustainability.

The decision by Southern Water to pay dividends and taxes at current levels increased its working capital deficit to $13.936m at 30 June 2011 (2010, $3.501m). A major concern is that Southern Water is effectively paying dividends out of non-operating income. In 2010-11 it paid or proposed returns to owner councils of $14.172m and yet its operating profit before tax only totalled $6.876m.

As advised by the Board of Southern Water, the reasons for this decision was to reach the priority distribution levels as per the owners' expectations which are evidenced by the resolution to note the dividend at the annual general meeting, the Shareholders Letter of Expectation and the Treasurer's Allocation Order.

Management should consider establishing policies concerning returns to owner councils based on operating profits before capital and similar revenues including developer contributions.

More details can be found in each of the Chapters for the Regional Water Corporations and Onstream included within this Volume.

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

In the remainder of this Chapter we compare the results of the three Regional Water Corporations in 2010-11.

COMPREHENSIVE INCOME STATEMENT

	Combined	SW	BLW	CMW
	$'000s	$'000s	$'000s	$'000s
Sales revenue	217 931	111 928	57 814	48 189
Other operating revenue excluding Customer and developer contributions	2 629	1 430	240	959
Total Revenue	**220 560**	**113 358**	**58 054**	**49 148**
Depreciation	55 405	29 780	13 201	12 424
Employee benefits	56 129	29 718	14 003	12 408
Other operating expenses	78 870	39 118	21 611	18 141
Total Expenses	**190 404**	**98 616**	**48 815**	**42 973**
Net Operating Profit before finance cost, tax, contributions and other transactions	**30 156**	**14 742**	**9 239**	**6 175**
Finance costs	13 959	7 407	1 061	5 491
Interest cost on defined benefit superannuation plan	1 061	459	525	77
Net operating profit before tax, contributions and other transactions	**15 136**	**6 876**	**7 653**	**607**
Customer and development contributions	15 351	11 952	2 307	1 092
Share of profit of associate	163	79	41	43
Recovery of misappropriated funds	1 035	0	0	1 035
Net profit before tax*	**31 685**	**18 907**	**10 001**	**2 777**
Income tax equivalents expense	(9 703)	(5 815)	(2 985)	(903)
Net Profit	**21 982**	**13 092**	**7 016**	**1 874**
Superannuation actuarial gain (loss)	365	(358)	533	190
Share of other comprehensive (loss) of associate	(72)	(35)	(18)	(19)
Income tax benefit (expense) on above items	(109)	108	(160)	(57)
Total other comprehensive income (expense)	**184**	**(285)**	**355**	**114**
Total Comprehensive Profit	**22 166**	**12 807**	**7 371**	**1 988**

**While the Net Profit before tax equates to that reported by the Regional Water Corporations, the makeup differs as we have treated Customer and developer contributions, Recovery of misappropriated funds and Share of profit of associate as non-operating sources of revenue, whereas the Regional Water Corporations report these as operating income. As a result the Regional Water Corporations reported profits before tax as follows: Southern Water $18.907m, Ben Lomond Water $10.001m and Cradle Mountain Water $2.777m.*

Comment

The Regional Water Corporations generated a combined Net operating profit before tax of $15.136m ($16.002m) of which Southern Water contributed 45.4% (69.5%), Ben Lomond Water 50.6% (33.5%) and Cradle Mountain Water 4.0% (negative 3.0%).

Operating expenses of Southern Water grew at a much faster rate, 15.6%, than that of Ben Lomond Water, 7.6%, and Cradle Mountain Water, 1.2%. This growth in operating expenses led to the decline in Net operating profit before tax, contributions and other transaction despite a 9.2% increase in Total Revenue. The Regional Water Corporations are implementing strategies to reduce their operating expenses, with the aim of improving their results in the coming year. However, this will be a difficult task for Cradle Mountain Water due to Finance costs representing 11.3% of its operating expenses, compared to Southern Water, 7.0%, and Ben Lomond Water, 2.1%.

The Regional Water Corporations receive contributions from customers and developers. These contributions represent payments for the cost of new connections or expansion of water and sewerage infrastructure as well as, in the case of new subdivisions, the value of infrastructure assets provided by developers. The combined contributions and a Recovery of misappropriated funds by Cradle Mountain Water led to the Regional Water Corporations reporting a combined Net profit before tax of $31.685m ($25.680m). After accounting for income tax, the combined Net Profit totalled $21.982m ($18.431m), representing an increase of $3.551m or 19.3% on last year's combined result.

STATEMENT OF FINANCIAL POSITION

	Combined	SW	BLW	CMW
	$'000s	$'000s	$'000s	$'000s
Cash	10 596	6 165	1 755	2 676
Receivables and prepayments	63 319	30 488	19 914	12 917
Inventories	5 844	3 767	1 228	849
Current tax asset	1 121	1 121	0	0
Total Current Assets	**80 880**	**41 541**	**22 897**	**16 442**
Payables	23 874	15 680	3 959	4 235
Borrowings	48 269	30 455	6 874	10 940
Employee benefits	13 059	6 324	3 566	3 169
Unearned Income	2 860	2 693	44	123
Current tax liability	1 652	0	816	836
Restoration provision	325	325	0	0
Total Current Liabilities	**90 039**	**55 477**	**15 259**	**19 303**
Working Capital	**(9 159)**	**(13 936)**	**7 638**	**(2 861)**
Property, plant and equipment	1 987 299	1 071 625	510 358	405 316
Intangibles	4 403	2 462	430	1 511
Investment in associate	148	73	37	38
Total Non-Current Assets	**1 991 850**	**1 074 160**	**510 825**	**406 865**
Borrowings	171 360	86 824	11 807	72 729
Employee benefits	11 416	6 495	3 932	989
Unearned income	24 975	21 519	1 539	1 917
Deferred tax liabilities	29 486	19 268	8 188	2 030
Restoration provision	5 000	5 000	0	0
Total Non-Current Liabilities	**242 237**	**139 106**	**25 466**	**77 665**
Net Assets	**1 740 454**	**921 118**	**492 997**	**326 339**
Reserves	1 718 758	909 547	484 103	325 108
Retained earnings	21 696	11 571	8 894	1 231
Total Equity	**1 740 454**	**921 118**	**492 997**	**326 339**

Comment

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

Working capital for Ben Lomond Water was positive indicating it was well placed to meet short-term commitments. Southern Water's and Cradle Mountain Water's working capital continued to be negative and deteriorated compared to last year (2009-10, SW: ($3.501m), CMW: ($1.906m)). The higher working capital deficits at Southern Water and Cradle Mountain Water was connected to a decline in Cash, SW: $11.357m and CMW: $4.725m, following the decision to pay taxes and dividends. Short term borrowings held by Southern Water and Cradle Mountain Water also contributed to the negative working capital. It is anticipated that, as debt portfolios are realigned over time, working capital will improve.

Combined Receivables were $63.319m (2009-10, $52.278m), which was $11.041m or 21.1% higher than last year. The increase principally related to continued delays in collections discussed previously as evident by the high number of days it takes to collect payments from customers as shown in the Financial Analysis Section of this Chapter.

The Regional Water Corporations revalued all assets as at 1 July 2009. Fair values of assets contributed by owners and bulk water authorities were determined by an independent valuation based on depreciated replacement cost as at 1 July 2009. Subsequent to determining their fair value, the assets were then tested for impairment by applying a cash-generating unit test to determine recoverable amount, which represents value in use. The cash-generating unit test calculates the discounted present value of the net cash inflows expected to be generated from the assets, operating together within separately identified cash-generating units, over their expected useful lives. Two cash-generating units were identified for the Regional Water Corporations, water and sewerage. Recoverable amount was lower than depreciated replacement cost and this amount was used for the initial recognition of the asset values. No impairment loss was recorded as this was the initial recognition of asset values. Assets were assessed for impairment at 30 June 2011 using the same cash-generating unit test and updated data. The assessment resulted in no changes to the recoverable amount of assets.

An increase in combined Property, plant and equipment, $50.680m, represented the net value of additions less depreciation. The Regional Water Corporations were in the process of undertaking significant capital works.

Borrowings for the Regional Water Corporations totalled $219.629m (2009-10, $203.627m) and were with Tasmanian Public Finance Corporation, as required under the Act. Southern Water's proportion of the borrowings was 53.4% (53.1%), Ben Lomond Water 8.5% (8.4%) and Cradle Mountain Water 38.1% (38.5%).

STATEMENT OF CASH FLOWS

	Combined	SW	BLW	CMW
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	218 498	118 262	52 872	47 364
Receipts from other sources	10 491	775	5 686	4 030
Payments to suppliers and employees	(152 329)	(76 653)	(41 406)	(34 270)
Interest received	547	412	66	69
Finance costs	(12 751)	(6 899)	(927)	(4 819)
Income tax paid	(10 284)	(6 051)	(2 955)	(1 278)
Guarantee fees paid	(1 747)	(976)	(106)	(771)
Cash from operations	**52 425**	**28 870**	**13 230**	**10 325**
Payments for property, plant and equipment	(86 325)	(51 461)	(17 928)	(16 936)
Proceeds from sale of property, plant and equipment	3 804	388	314	3 102
Cash (used in) investing activities	**(82 521)**	**(51 073)**	**(17 614)**	**(13 834)**
Proceeds from borrowings	115 509	61 761	33 932	19 816
Repayment of borrowings	(99 497)	(52 510)	(32 285)	(14 702)
Dividends paid	(9 976)	(7 521)	(1 988)	(467)
Grant Funds	4 377	4 377	0	0
Customer and development contributions	4 739	4 739	0	0
Cash from financing activities	**15 152**	**10 846**	**(341)**	**4 647**
Net increase (decrease) in cash	**(14 944)**	**(11 357)**	**(4 725)**	**1 138**
Cash at the beginning of the year	25 540	17 522	6 480	1 538
Cash at end of the year	**10 596**	**6 165**	**1 755**	**2 676**

Comment

Combined Cash at the end of the year decreased by $14.944m to $10.596m as at 30 June 2011. Both Southern Water and Ben Lomond Water reported a Net decrease in cash of $11.357m and $4.725m respectively, while Cradle Mountain Water reported a Net increase in cash of $1.138m. In 2010-11, Cradle Mountain Water generated $3.102m from the sale of property, plant and equipment, comprising mainly the proceeds from the sale of Wesley Vale assets.

Together, the Regional Water Corporations invested $86.325m in assets as part of their capital works programs, with the majority invested in the South, 59.6%, followed by the Northern and North-Western regions, 20.8% and 19.6% respectively.

Each Regional Water Corporation had to fund their capital expenditure by additional borrowings as they did not generate sufficient Cash from operations while at the same time returned $20.260m to their owner councils, comprising Dividends, $9.976m, and Income Tax, $10.284m. Combined borrowings increased by $16.012m, with Southern Water borrowing an additional $9.251m, followed by Cradle Mountain Water, $5.114m and Ben Lomond Water, $1.647m.

FINANCIAL ANALYSIS

	Bench Mark	SW	BLW	CMW
Financial Performance				
Net profit ($'000s)		13 092	7 016	1 874
Modified EBIT ($'000s)*		14 742	9 239	6 175
Operating margin*	>1.0	1.15	1.19	1.14
Return on assets*	5.21%	1.3%	1.7%	1.5%
Return on equity	6.0%	1.4%	1.4%	0.6%
Financial Management				
Indebtedness ratio		122.7%	43.9%	158.0%
Debt to equity		12.7%	3.8%	25.6%
Debt to total assets		10.5%	3.5%	19.8%
Interest cover	>2	2.0	8.7	1.1
Current ratio	>1	0.7	1.5	0.9
Cost of debt	6.9%	6.3%	5.9%	6.8%
Debt service ratio		50.0%	11.7%	14.0%
Debt collection	30 days	89	82	82
Creditor turnover	30 days	15	21	10
Asset Management				
Asset investment ratio	>100%	173.0%	135.8%	136.3%
Asset renewal ratio**	100%	N/A	55.9%	65.5%
Consumption ratio	40%-80%	48.0%	63.7%	51.4%
Returns to Owners				
Dividends paid ($'000s)		7 521	1 988	467
Income tax paid ($'000s)		6 051	2 955	1 278
Total return to Owners		13 572	4 943	1 745
Dividends paid or payable ($'000s)		8 357	2 765	0
Dividend payout ratio	50%	63.8%	39.4%	0.0%
Dividend to equity ratio		0.9%	0.6%	0.0%
Other Information				
Average staff numbers (FTEs)		386	175	137
Average staff costs ($'000s)		87	86	77
Average leave balance per FTE ($'000s)		15	20	20

** Contributions from customers and developers were excluded from Modified EBIT, Operating margin and Return of assets calculations.*
*** Information not provided due to unavailability of reliable data.*

Comment

The Regional Water Corporations reported profits and their Operating margins were above benchmark. However, returns on assets and equity were below what would be regarded as commercial rates of return and may not be sufficient to assure long-term sustainability including asset management.

Financial Management ratios of Cradle Mountain Water reflected its high level of long-term debt compared to Southern Water and especially Ben Lomond Water which has the lowest level of borrowings.

The level of outstanding debtors remained high and was caused by delays in collecting outstanding charges as discussed previously in this Chapter.

Asset investment ratios exceed benchmark as the Regional Water Corporations undertook significant capital works projects. The majority of capital expenditure was on new assets as indicated by the Asset renewal ratio which was below benchmark. We have computed the Consumption ratios by applying the gross replacement cost and accumulated depreciation. On this basis, the ratios indicate that, on average, the Regional Water Corporations had used (consumed) half of the service potential of their infrastructure, buildings and other assets. At this level, these assets are at moderate level of sustainability.

The Regional Water Corporations provided returns of $20.260m to their council owners in 2010-11. These returns represented final dividends for 2009-10, interim dividends, where declared, for 2010-11 and income tax equivalent payments. Dividends paid or payable showed dividends in relation to current year's results. Cradle Mountain Water proposed that no dividend be paid in relation to 2010-11.

Of the average 725 FTEs, 53.2% were employed by Southern Water, followed by Ben Lomond Water, 24.1% and Cradle Mountain Water, 22.6%. The Regional Water Corporations finalised their respective Enterprise Bargaining Agreements during 2010-11, which harmonised industrial relations within each individual Corporation and across the sector. Average staff costs were fairly comparable across the Regional Water Corporations.

TASMANIAN WATER AND SEWERAGE CORPORATION (SOUTHERN REGION) PTY LTD - SOUTHERN WATER

INTRODUCTION

Tasmanian Water and Sewerage Corporation (Southern Region) Pty Ltd trading as Southern Water, was incorporated on 13 November 2008.

The owners of Southern Water, who each hold one ordinary share, are:

- Brighton Council
- Central Highlands Council
- Clarence City Council
- Derwent Valley Council
- Glamorgan Spring Bay Council
- Glenorchy City Council
- Hobart City Council
- Huon Valley Council
- Kingborough Council
- Sorell Council
- Southern Midlands Council
- Tasman Council.

The responsible Minister is the Treasurer.

AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

Signed financial statements were received on 11 August 2011 and an unqualified audit report was issued on the same day.

The audit was completed satisfactorily with no major items outstanding.

KEY FINDINGS AND DEVELOPMENTS

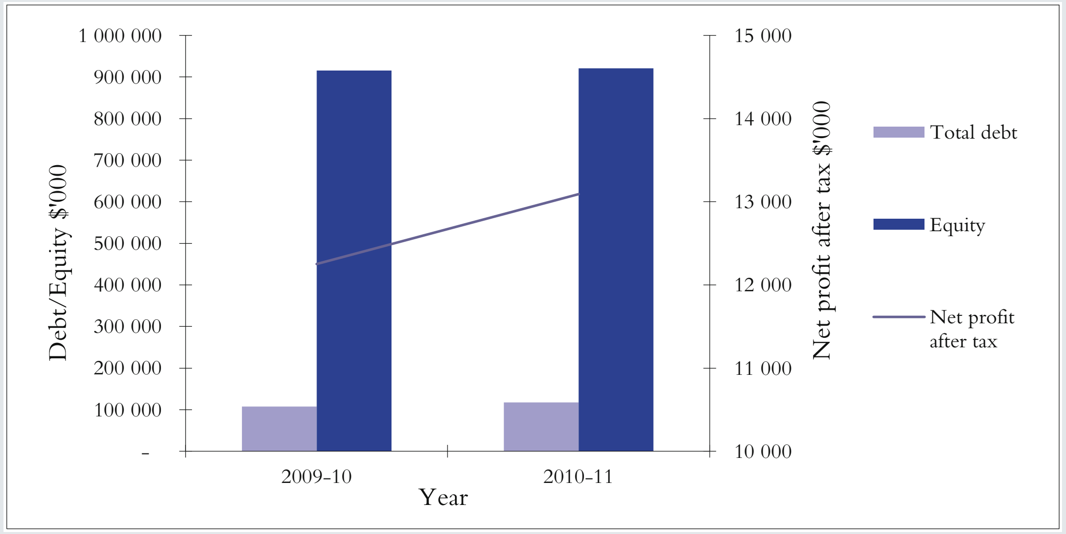
Strategies to Reduce Operating Expenses

During 2010-11 Southern Water identified certain strategies to reduce its operating expenses. One of the strategies was a review of its business structure to determine the suitable mix of people required leading to a decision to reduce its staff numbers. As a result, Southern Water recognised a provision for restructure, in accordance with accounting standards, of $1.200m (included within Current Employee Benefits). Another strategy to curtail its operating expense was to remove inefficient assets from service and optimise the use of existing infrastructure. Southern Water identified certain assets which will be decommissioned and as a result recognised a provision for restoration, in accordance with accounting standards, of $5.325m (included within Other current liabilities, $0.325m and Other non-current liabilities, $5.000m).

Other key developments and findings are discussed in the Water and Sewerage Corporations Chapter of this Volume.

FINANCIAL RESULTS

Aspects of Southern Water's financial performance and financial position for the first two full years of its operations are shown in the graph below.



In 2010-11, Southern Water reported a Net Profit after tax of $13.092m which represented a 6.9% improvement on last year's results. However, this included $11.952m of contributions from customers and developers, comprising $4.739m cash and $7.213m physical assets. It is noted that at both 30 June 2010 and 2011, Southern Water was not in a tax paying situation because it has accumulated tax losses.

Total dividends and tax paid, despite the existence of tax losses, or payable from the 2010-11 profit and returned to owner councils will be $14.172m. This means that for 2010-11 Southern Water, to a significant extent, is paying returns to owners from assets contributed to it by developers rather than from operating profits. These assets represent elements of capital works which Southern Water will need to maintain, and generate revenues from, into the long term.

The decision to pay dividends and taxes at current levels has negative consequences including:

- Working capital deficit of $13.936m at 30 June 2011 (2009-10, $3.501m)
- Increasing levels of debt in particular if Southern Water needs to continue with its current asset replacement and upgrade programs.

Management should establish returns to owner councils policies based on operating profits before capital and similar revenues including developer contributions.

While total debt is relatively low in relation to total equity at around 12%, returns on assets and equity are well below commercial returns at 1.3% and 1.4% respectively. At this level the operation does not provide an adequate return to fully maintain its assets and is heavily reliant on future price increases allowed by the Regulator.

COMPREHENSIVE INCOME STATEMENT

	2010-11	2009-10
	$'000s	$'000s
Sales revenue	111 928	101 879
Other operating revenue excluding Customer and developer contributions	1 430	1 377
Total Revenue	**113 358**	**103 256**
Depreciation	29 780	25 829
Employee benefits	29 718	25 296
Other operating expenses	39 118	34 173
Total Expenses	**98 616**	**85 298**
Net Operating Profit before finance cost, tax, contributions and other transactions	**14 742**	**17 958**
Finance cost	7 407	6 417
Interest cost on defined benefit superannuation plan	459	421
Net operating profit before tax, contributions and other transactions	**6 876**	**11 120**
Customer and developer contributions	11 952	5 911
Share of profit of associate	79	33
Net profit before tax*	**18 907**	**17 064**
Income tax equivalents expense	(5 815)	(4 812)
Net Profit	**13 092**	**12 252**
Superannuation actuarial loss	(358)	(515)
Share of other comprehensive loss of associate	(35)	(4)
Income tax benefit on above items	108	155
Total other comprehensive expense	**(285)**	**(364)**
Total Comprehensive Profit	**12 807**	**11 888**

**While the Net Profit before tax equates to that reported by Southern Water, the makeup differs as we have treated Customer and developer contributions and Share of profit of associate as non-operating sources of revenue, whereas Southern Water reports these as operating income.*

Comment

Southern Water recorded a Net operating profit before tax, contributions and other transactions of $6.876m in 2010-11, representing a decline of $4.244m or 38% on last year's result. The decrease was due to Total Expenses growing at a faster rate, 16%, than the growth in Total Revenue, 10%.

Sales revenue grew by $10.049m, totalling $111.928m and comprised mainly of charges for water $54.465m (2009-10, $50.703m) and wastewater services $45.852m ($43.648m). As part of the transition to the new water and sewerage arrangement, the Government capped price increases for water and sewerage at 5% for three years until 2011-12. The Government also agreed to provide compensation payments to the Regional Water Corporations in recognition of lost revenues and other costs associated with this decision. This year, Southern Water received $8.808m ($5.170m) in price cap rebates and other concessions.

Offsetting the increase in revenues were rises in:

- Depreciation, up $3.951m primarily due to depreciation expenses associated with assets commissioned during the year and $1.163m in respect of the provision for restoration

- Employee benefits, up $4.422m as a result of an increase in staff numbers to manage the Company's works program, the effect of a new Enterprise Agreement and a $1.200m provision for restructure
- Other operating expenses, up $4.945m which included a write-off of $1.858m of previously captialised expenses, including consultancy expenses, a net loss on disposal of assets, $0.895m due to the write-off of assets replaced through the capital works program and an increase of regulatory expenses, $0.700m,
- Finance cost, $0.990m, due to additional borrowings of $9.251m.

Customer and developer contributions represent payments for the cost of new connections or expanding of water and sewerage infrastructure as well as, in the case of new subdivisions, the value of infrastructure assets provided by developers. In 2010-11, Southern Water received contributions totalling $11.952m (2009-10, $5.911m), comprising $4.739m cash and $7.213m physical assets. The increase in contributions led to the Company reporting a net profit before tax of $18.907m ($17.064m).

STATEMENT OF FINANCIAL POSITION

	2011	**2010**
	$'000s	$'000s
Cash	6 165	17 522
Receivables and prepayments	30 488	25 531
Inventories	3 767	3 253
Current tax asset	1 121	304
Total Current Assets	**41 541**	**46 610**
Payables	15 680	10 108
Borrowings	30 455	32 636
Employee benefits	6 324	4 863
Unearned income	2 693	2 504
Restoration provision	325	0
Total Current Liabilities	**55 477**	**50 111**
Working Capital	**(13 936)**	**(3 501)**
Property, plant and equipment	1 071 625	1 034 254
Intangibles	2 462	1 814
Investment in associate (Onstream)	73	29
Total Non-Current Assets	**1 074 160**	**1 036 097**
Borrowings	86 824	75 392
Provisions superannuation	5 741	5 343
Employee benefits	754	802
Unearned income	21 519	16 433
Restoration provision	5 000	0
Deferred tax liabilities	19 268	18 794
Total Non-Current Liabilities	**139 106**	**116 764**
Net Assets	**921 118**	**915 832**
Reserves	909 547	909 547
Retained earnings	11 571	6 285
Total Equity	**921 118**	**915 832**

Comment

Total Equity increased from $915.832m to $921.118m during 2010-11. The increase of $5.286m comprised the Comprehensive profit of $12.807m less dividends paid, $7.521m.

The corresponding growth in Net Assets of $5.286m related to:

- decrease in Cash $11.357m, discussed in the Statement of Cash Flows section of this Chapter
- higher Receivables and prepayments, $4.957m, representing mainly outstanding water charges due to delays in collections discussed previously in the Water and Sewerage Corporations Chapter of this Volume
- an increase in Property, plant and equipment, $37.371m, attributable to:
    - infrastructure and other assets additions, $52.044m,
    - work in progress additions, $8.996m,
    - contributed assets, $7.213m,
    - offset by Depreciation and amortisation expense $29.780m

- increase in Payables, $5.572m due mainly to accrued expenditure for capital works
- increased Borrowings, $9.251m to part fund the capital works program
- increase in Unearned income, $5.275m mainly representing funding for the Water Metering Project and progress payments for the Huon Valley Regional Water Scheme
- recognition of the provision for restructure, $1.200m (included in Current Employee benefits), and restoration obligations, $5.325m ($0.325m included in current Restoration provision and $5.000m included in Non-current Restoration provision), discussed previously.

Despite Southern Water's profitability, working capital continued to be negative, $13.936m at 30 June 2011 (2009-10, $3.501m). As discussed previously, this is connected to Southern Water's decision to pay taxes and dividends. This level of negative working capital needs close monitoring.

STATEMENT OF CASH FLOWS

	2010-11	2009-10
	$'000s	$'000s
Receipts from customers	118 262	83 853
Receipts from other sources	775	3 506
Payments to suppliers and employees	(76 653)	(68 405)
Interest received	412	487
Finance cost	(6 899)	(5 082)
Income tax paid	(6 051)	(7 057)
Guarantee fees paid	(976)	(868)
Cash from operations	**28 870**	**6 434**
Payments for property, plant and equipment	(51 461)	(27 486)
Proceeds from sale of property, plant and equipment	388	1 491
Cash (used in) investing activities	**(51 073)**	**(25 995)**
Proceeds from borrowings	61 761	69 803
Repayments of borrowings	(52 510)	(57 939)
Dividends paid	(7 521)	(4 255)
Customer and developer contributions	4 739	2 555
Grant funds received	4 377	5 393
Owners cash contributions	0	21 526
Cash from financing activities	**10 846**	**37 083**
Net increase (decrease) in cash	**(11 357)**	**17 522**
Cash at the beginning of the year	17 522	0
Cash at end of the year	**6 165**	**17 522**

Comment

Cash at the end of the year decreased by $11.357m to $6.165m as Southern Water returned $13.572m to its owner councils, comprising Dividends $7.521m and Income Tax, $6.051m. In addition, Southern Water paid Guarantee fees, $0.976m, to its owner councils.

The increase in Cash from operations, $22.436m was driven mainly by an increase in Receipts from customers, $34.409m. This increase was due to a combination of an increase in water and sewerage charges in the current year, payments of charges billed during and outstanding at the end of last year and the increase in Government funded price cap rebate and concessions. No receivables or payables were transferred to Southern Water when it commenced operations on 1 July 2009. This meant that, while sales in its first year of operation totalled $101.879m, this included receivables of $25.510m resulting in cash receipts of only $76.369m (included in the $83.853m reported in the Statement of Cash Flows). However, in 2010-11, sales revenue was $111.928m, but the increase in debtors was only $4.752m resulting in receipts well in excess of the 2009-10 result.

Payments to suppliers and employees increased by $8.248m in line with the increase in Employee benefits and Other operating expenses discussed previously in the Statement of Comprehensive Income section of this Chapter.

The increase in Cash used in investing activities, $25.078m, reflected the capital works program being undertaken by Southern Water. The majority of capital expenditure was financed by Cash from operations and borrowings.

FINANCIAL ANALYSIS

	Bench Mark	2010-11	2009-10
Financial Performance			
Net Profit ($'000s)		13 092	12 252
Modified EBIT ($'000s)*		14 742	17 958
Operating margin*	>1.0	1.15	1.21
Return on assets*	5.21%	1.3%	1.7%
Return on equity	6.0%	1.4%	1.3%
Financial Management			
Indebtedness ratio		122.7%	113.1%
Debt to equity		12.7%	11.8%
Debt to total assets		10.5%	10.0%
Interest cover	>2	2.0	2.8
Current ratio	>1	0.7	0.9
Cost of debt	6.9%	6.3%	5.9%
Debt service ratio		50%	36%
Debt collection	30 days	89	81
Creditor turnover	30 days	15	22
Asset Management			
Asset investment ratio	>100%	173%	106%
Asset renewal ratio	100%	N/A**	N/A
Consumption ratio	40%-80%	48%	47%
Returns to Owners			
Dividends paid ($'000s)		7,521	4,255
Income tax paid ($'000s)		6,051	7,057
Total return to Owners ($'000s)		13,572	11,312
Dividends paid or payable ($'000s)		8 357	6 110
Dividend payout ratio	50%	63.8%	49.9%
Dividend to equity ratio		0.9%	0.7%
Other Information			
Average staff numbers (FTEs)		386	337
Average staff costs ($'000s)		87	82
Average leave balance per FTE ($'000s)		15	14

* *Contributions from customers and developers, $11.952m ($5.911m), were excluded from Modified EBIT, Operating margin and Return on assets calculations.*
** *Information not provided due to unavailability of reliable data.*

Comment

The drop in Modified EBIT by $3.216m to $14.742m and in Operating margin to 1.15 reflected operating expenses growing at a faster rate than revenue. As mentioned earlier, Southern Water identified certain strategies to reduce its operating expenses and is planning to implement those strategies during 2011-12. The increase in operating expenses also caused a lower Return on assets.

Return on equity, on the other hand, increased marginally to 1.4% with the slight increase in Net Profit, $0.840m. Net Profit included contributions from customers and developers, which were $6.041m higher this year and helped to offset the decline in Modified EBIT. Return on equity is well below what would be regarded as a commercial rate of return of around 6%.

Financial management measures deteriorated in the current year. This was mainly driven by an increase in liabilities, $27.708m, due to higher borrowings, up $9.251m, and payables, up $5.572m, together with the recognition of restructure and restoration provisions, $1.200m and $5.325m respectively. Debt collection worsened and remained high at 89 days. This is common to all three Regional Water Corporations and is discussed in the Water and Sewerage Corporations Chapter of this Volume.

The increase in Asset investment ratio reflects the significant investment in infrastructure made during the year, which almost doubled to $51.461m compared to 2009-10. We have computed the Consumption ratio by applying the cost and accumulated depreciation of Southern Water's assets. On this basis, the Consumption ratio indicates Southern Water had used (consumed) 48% of the service potential of its infrastructure, buildings and other assets meaning that their remaining service potential was 52%. At this level, these assets are at moderate level of sustainability risk.

Returns to owners increased by $2.260m to $13.572m in 2010-11. This increase was well above the increase in Net Profit, $0.840m. However, as discussed previously, Net Profit included contributions from customers and developers. The impact of this was discussed earlier in this Chapter.

Average staff numbers and staff cost increased between the two years due to additional staff necessary to complete the transition from local government and to manage the works program. During this period, the Company utilised more casual and contract labour, 41 FTEs (25 FTEs), to work on short term projects, which impacted on the average staff cost.

TASMANIAN WATER AND SEWERAGE CORPORATION (NORTHERN REGION) PTY LTD - BEN LOMOND WATER

INTRODUCTION

Tasmanian Water and Sewerage Corporation (Northern Region) Pty Ltd, trading as Ben Lomond Water, was incorporated on 13 November 2008.

The owners of Ben Lomond Water, who each hold one ordinary share, are:

- Break O'Day Council
- Dorset Council
- Flinders Council
- George Town Council
- Launceston City Council
- Meander Valley Council
- Northern Midlands Council
- West Tamar Council.

The responsible Minister is the Treasurer.

AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

Signed financial statements were received on 11 August 2011 and an unqualified audit report was issued on that date.

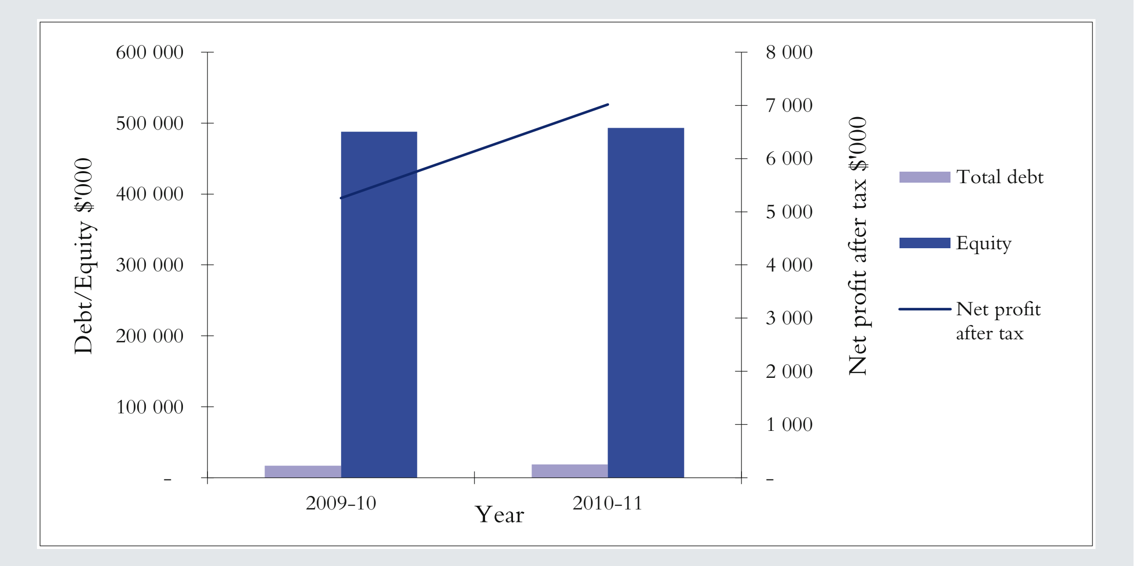
The audit was completed satisfactorily with no major items outstanding.

KEY FINDINGS AND DEVELOPMENTS

Key developments and findings relevant to all three Regional Water Corporations are discussed in the Water and Sewerage Corporations Chapter of this Volume.

FINANCIAL RESULTS

Aspects of Ben Lomond Water's financial performance and financial position for the first two full years of its operations are shown in the graph below.



In 2010-11, Ben Lomond Water reported a Net profit before tax of $10.001m, an improvement of $2.513mm (33.6%) on the previous year. Total revenue (including interest revenue) grew by 11.0% to $60.402m while total expenses (including finance costs) increased by 7.4% to $50.401m. This net profit included contributions from developers of $2.307m (2009-10, $2.113m)

The graph illustrates that:

- the level of debt at 30 June 2011 of $18.681m (2009-10, $17.044m) compared to Equity of $492.997m ($487.614m) was similar to the prior year
- debt equity was extremely low at only 3.8% (3.5%) with this Corporation having an interest cover of 8.7 (6.4) indicating a strong capability in covering its interest costs.

However, returns on assets 1.7% (2009-10, 1.3%) and equity 1.4% (1.1%) were very low in both years. At these levels, Ben Lomond Water did not produce returns sufficient to fully maintain its assets and is heavily reliant on future price increases allowed by the Regulator.

COMPREHENSIVE INCOME STATEMENT

	2010-11	2009-10
	$'000s	$'000s
Sales revenue	57 814	51 785
Other operating revenue excluding Customer and developer contributions	240	511
Total Revenue	**58 054**	**52 296**
Depreciation	13 201	12 551
Employee benefits	14 003	12 995
Other operating expenses	21 611	19 826
Total Expenses	**48 815**	**45 372**
Net Operating Profit before finance cost, tax, contributions and other transactions	**9 239**	**6 924**
Finance cost	(1 061)	(1 089)
Interest cost on defined benefit superannuation plan	(525)	(476)
Net operating profit before tax, contributions and other transactions	**7 653**	**5 359**
Customer and developer contributions	2 307	2 113
Share of profit of associate	41	16
Net profit before tax*	**10 001**	**7 488**
Income tax equivalents expense	(2 985)	(2 231)
Net Profit	**7 016**	**5 257**
Superannuation actuarial gain (loss)	533	(492)
Share of other comprehensive loss of associate	(18)	(2)
Income tax benefit (expense) on above items	(160)	148
Total other comprehensive income (expense)	**355**	**(346)**
Total Comprehensive Profit	**7 371**	**4 911**

**While the Net Profit before tax equates to that reported by Ben Lomond Water, the makeup differs as we have treated Customer and developer contributions and Share of profit of associate as non-operating sources of revenue, whereas Ben Lomond Water reports these as operating income.*

Comment

For 2010-11, Ben Lomond Water recorded a Net Profit after tax of $7.016m (2009-10, $5.257m). The increase of $1.759m was primarily driven by higher Sales revenue of $6.029m, or 11.6%, which included:

- water service charges, $17.793m ($16.873m),
- sewerage service charges, $21.499m ($20.327m),
- water usage charges, $9.933m ($8.972m),
- sewerage usage charges, $1.499m ($1.388m),
- Government funded price cap rebate, $4.392m ($1.972m). This year Ben Lomond Water's price cap rebate increased by $2.420m (122.7%) due to price increases and the nature of the price cap calculation
- Government funded concessions, $1.712m ($1.553m).

Offsetting the increased revenues were rises in:

- Depreciation expense, $0.650m (5.2%), mainly related to water and sewerage infrastructure assets commissioned last year
- Employee benefits, $1.008m (7.8%), mainly due to an increase in the average number of FTEs, from 160 to 175, and higher staff costs arising out of a new enterprise agreement finalised in March 2011
- Other operating expenses, $1.785m (9.0%), primarily due to increased operations and maintenance expenses of $1.425m.

STATEMENT OF FINANCIAL POSITION

	2011	2010
	$'000s	$'000s
Cash	1 755	6 480
Receivables and prepayments	19 914	15 139
Inventories	1 228	1 297
Total Current Assets	**22 897**	**22 916**
Payables	3 959	5 123
Borrowings	6 874	5 211
Employee benefits	3 566	3 153
Unearned income	44	44
Current tax liability	816	1 230
Total Current Liabilities	**15 259**	**14 761**
Working Capital	**7 638**	**8 155**
Property, plant and equipment	510 358	504 703
Intangibles	430	72
Investment in associate	37	14
Total Non-Current Assets	**510 825**	**504 789**
Borrowings	11 807	11 833
Employee benefits	3 932	4 329
Unearned income	1 539	1 583
Deferred tax liabilities	8 188	7 585
Total Non-Current Liabilities	**25 466**	**25 330**
Net Assets	**492 997**	**487 614**
Reserves	484 103	484 103
Retained earnings	8 894	3 511
Total Equity	**492 997**	**487 614**

Comment

Total Equity increased from $487.614m to $492.997m during 2010-11. The increase of $5.383m comprised the Comprehensive profit of $7.371m less dividends paid, $1.988m.

Net Assets increased by the same amount with major line item movements being:

- decreased Cash of $4.725m. Refer to the Statement of Cash Flows section of this Chapter for further detail
- increased Receivables and prepayments of $4.775m, mainly related to water and sewerage debtors for which limited recovery action was taken following the industry reform and implementation of the new billing system
- increased Property, plant and equipment of $5.655m, which comprised additions, $19.122m, less disposals, $0.312m, and depreciation, $13.155m
- decreased Payables of $1.1640m due mainly to improvements to purchasing and payment processes
- increased total Borrowings of $1.637m, which comprised new loans, $33.922m, less repayments, $32.285m.

STATEMENT OF CASH FLOWS

.	2010-11	2009-10
	$'000s	$'000s
Receipts from customers	52 872	38 233
Receipts from other sources	5 686	3 677
Payments to suppliers and employees	(41 406)	(33 263)
Interest received	66	341
Finance cost	(1 033)	(990)
Income tax paid	(2 955)	(1 481)
Cash from operations	**13 230**	**6 517**
Payments for property, plant and equipment	(17 928)	(15 867)
Proceeds from sale of property, plant and equipment	314	136
Cash (used in) investing activities	**(17 614)**	**(15 731)**
Owners Cash Contributions	0	18 989
Proceeds from borrowings	33 932	16 187
Repayments of borrowings	(32 285)	(17 492)
Dividends paid	(1 988)	(952)
Dividends paid (Esk Water)	0	(1 038)
Cash from financing activities	**(341)**	**15 694**
Net increase (decrease) in cash	**(4 725)**	**6 480**
Cash at the beginning of the year	6 480	0
Cash at end of the year	**1 755**	**6 480**

Comment

The cash position decreased by $4.725m in the twelve months to 30 June 2011 mainly as a result of cash from operations, $13.230m offset by:

- Payments for property, plant and equipment, $17.928m
- Dividends paid, $1.988m.

Cash from operations was $6.713m higher than 2009-10, due mainly to increased Receipts from customers and other sources, $14.639m, offset by higher Payments to suppliers and employees, $8.143m and Income tax paid, $1.474m. The main reasons for the increased receipts were:

- higher Sales revenue, $6.029m, as noted in the Comprehensive Income Statement section of this Chapter
- the impact of outstanding debtor balances at 30 June 2010. When Ben Lomond Water commenced operations on 1 July 2009, no receivables or payables were transferred to it and there were delays in issuing bills due to harmonisation of water metering data. This meant that, while sales in 2009-10 totalled $51.785m, this included receivables of $15.139m resulting in cash receipts of only $36.646m (included in the $33.263m reported in the Cash Flow Statement) in the first year of operations. However, in 2010-11, sales revenue was $57.814m, but the increase in debtors was only $4.775m in receipts well in excess of the 2009-10 result.

Capital expenditure amounted to $17.928m over the year (2009-10, $15.867m). The major projects were:

- office purchase and development, $4.055m,
- Scamander Water Treatment Plant, $1.780m,
- Campbell Town Water Treatment Plant, $1.296m,
- Queechy Sewage Pumping Station and Pipeline, $1.033m,
- plant replacement, $1.077m,
- Distillery Creek Water Treatment Plant, $0.728m,
- Cressy to Longford Pipeline, $0.871m,
- Lilydale Water Pipeline, $0.288m,
- Water Metering Project, $0.218m,
- corporate GIS implementation, $0.448m.

FINANCIAL ANALYSIS

	Bench Mark	2010-11	2009-10
Financial Performance			
Net Profit ($'000s)		7 016	5 257
Modified EBIT ($'000s) *		9 239	6 924
Operating margin *	>1.0	1.19	1.15
Return on assets *	5.21%	1.7%	1.3%
Return on equity	6.0%	1.4%	1.1%
Financial Management			
Indebtedness ratio		43.9%	48.4%
Debt to equity		3.8%	3.5%
Debt to total assets		3.5%	3.2%
Interest cover	>2	8.7	6.4
Current ratio	>1	1.5	1.6
Cost of debt	6.9%	5.9%	6.4%
Debt service ratio		11.7%	15.7%
Debt collection	30 days	82	56
Creditor turnover	30 days	21	19
Asset Management			
Asset investment ratio	>100%	135.8%	126.4%
Asset renewal ratio	100%	55.9%	106.9%
Consumption ratio	40%-80%	63.7%	64.7%
Returns to Owners			
Dividends paid ($'000s)		1,988	952
Income tax paid ($'000s)		2,955	1,481
Total return to Owners ($'000s)		4,943	2,433
Dividends paid or payable ($'000s)		2 765	1 961
Dividend payout ratio	50%	39.4%	37.3%
Dividend to equity ratio		0.6%	0.4%
Other Information			
Average Staff numbers (FTEs)		175	160
Average staff costs ($'000s)		86	83
Average leave balance per FTE ($'000s)		20	19

* *Contributions from customers and developers were excluded from Modified EBIT, Operating margin and Return on asset calculations.*

Comment

The Financial Performance ratios show operating margins above benchmark in both years under review. Earning before taxation and interest expense (Modified EBIT) were positive totalling $9.239m in 2010-11 and $6.924m in 2009-10. As noted in the Financial Results section of this Chapter, returns on assets and equity were significantly below benchmark in both years

Indebtedness ratio was consistent across the two years under review and showed Ben Lomond Water generated sufficient revenue to meet long-term liabilities. The low level of debt is also reflected in the Debt to equity, Debt to total assets and interest cover ratios.

Debt collection days were well above benchmark in both years due to delays in billing caused by the absence of an integrated billing system. In addition, debt recovery action had been lacking due to the industry reform and implementation of the new billing system.

Asset investment ratio for both years exceeded benchmark with Ben Lomond Water undertaking significant capital expenditure projects. Major capital expenditure projects for 2010-11 were detailed in the Statement of Cash Flows section of this Chapter. Ben Lomond Water's Asset renewal ratio was below benchmark in 2010-11, which reflected the significant expenditure during this year on new asset projects rather than existing assets.

We have computed the Consumption ratio by applying the gross replacement cost and accumulated depreciation balances included as note disclosure in Ben Lomond Water's financial statements. On this basis, the Consumption ratio indicates Ben Lomond Water had used (consumed) 36.3% of the service potential of its infrastructure, buildings and other assets meaning that their remaining service potential was 63.7%. At this level, these assets are at low level of sustainability risk.

Dividends totalling $2.940m were paid during the two years under review, which comprised a dividend of $1.961m for 2009-10 and an interim dividend for 2010-11 of $0.979m. A final dividend of $1.786m was proposed for 2011-12, bringing the total dividend in relation to 2010-11 to $2.765m.

In addition to dividends, income tax equivalents totalling $4.436m were paid during the two years under review. A further income tax equivalent payment of $0.816m is payable during 2011-12 in relation to the 2010-11 year.

In addition, Ben Lomond Water paid guarantee fees on loan debt to its owners, which is included in its Finance costs. In 2010-11, Ben Lomond Water paid $0.106m (2009-10, $0.099m) in guarantee fees.

Average staff costs increased slightly from 2009-10, mainly due to pay rises on the implementation of Ben Lomond Water's Enterprise Agreement.

TASMANIAN WATER AND SEWERAGE CORPORATION (NORTH-WESTERN REGION) PTY LTD - CRADLE MOUNTAIN WATER

INTRODUCTION

Tasmanian Water and Sewerage Corporation (North-Western Region) Pty Ltd, trading as Cradle Mountain Water, was incorporated on 13 November 2008.

The owners of Cradle Mountain Water, who each hold one ordinary share, are:

- Burnie City Council
- Central Coast Council
- Circular Head Council
- Devonport City Council
- Kentish Council
- King Island Council
- Latrobe Council
- Waratah/Wynyard Council
- West Coast Council.

The responsible Minister is the Treasurer.

AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2011 and an unqualified audit report was issued on the same day.

The audit was completed satisfactorily with no major items outstanding.

KEY FINDINGS AND DEVELOPMENTS

Valuation of Water Inventory

Cradle Mountain Water adopted a policy of not valuing water as an inventory asset. This policy is inconsistent with the other Regional Water Corporations. The value of water inventory is not a material balance in relation to other asset balances in the other Regional Water Corporations and we believe the inventory amount for Cradle Mountain Water is unlikely to be material. The Regional Water Corporations have agreed to prepare a joint policy paper on the consistent treatment of water as an inventory item for the consideration by them.

Government Support

On 30 November 2009, the Government announced that the *Water and Sewerage Industry Act 2008 Interim Pricing Order* would be amended through the implementation of a five percent cap on total price increases for water and sewerage customers in 2009-10. The Government also announced funding for forgone revenue due to the new pricing policy as well as reasonable costs incurred in implementing the policy.

The levels of funding provided by the Department of Finance and Treasury to each Regional Water Corporation in both 2009-10 and 2010-11 was below the budgeted allocation. In the 2011-12 Budget, the Government revised its funding arrangements to the Regional Water Corporations, with funding of $4.000m in 2011-12 and $2.000m in 2012-13. It is expected Cradle Mountain Water will receive $1.500m of this funding.

In addition, and unique to Cradle Mountain Water, the Government will provide separate support funding to it of $4.225m over the next three years ($0.925m in 2011-12, $1.400m in 2012-13 and $1.900m in 2013-14). The additional support funding will assist the ongoing viability of Cradle Mountain Water.

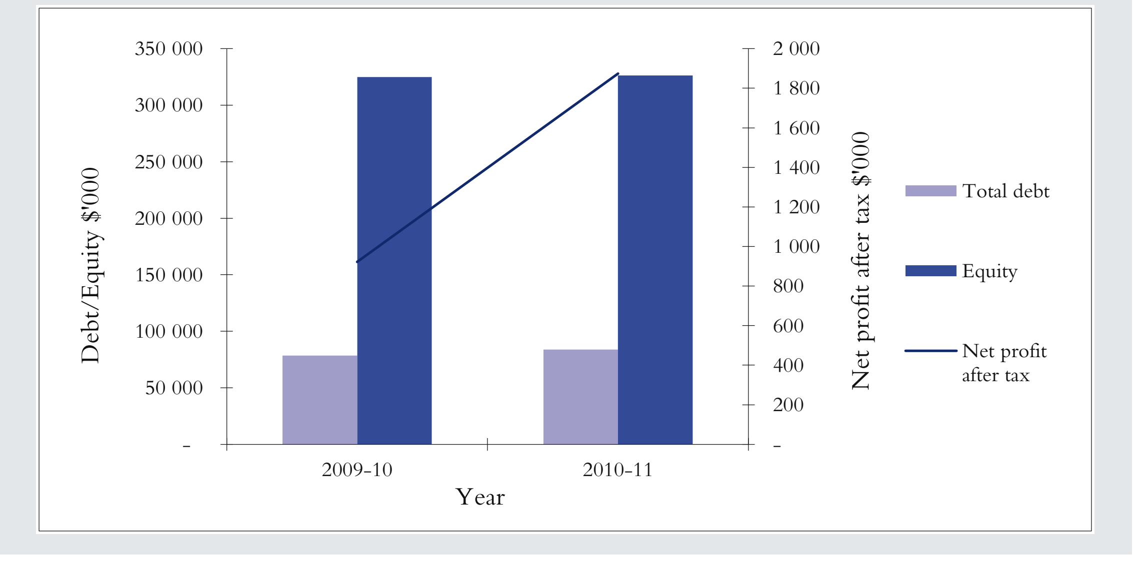
Recovery of Fraud Losses

In 2010-11, Cradle Mountain Water recovered $1.035m (2009-10, $0.237m) from its Insurer in settlement of a fraud claim. The claim related to a significant fraud that was discovered during 2009-10 involving the illegal transfer of funds by an employee. The fraud was committed over a number of years with the total amount stolen being approximately $1.200m.

Other key developments and findings are discussed in the Water and Sewerage Corporations Chapter of this Volume.

FINANCIAL RESULTS

Aspects of Cradle Mountain Water's financial performance and financial position for the first two full years of its operations are shown in the graph below.



In 2010-11, Cradle Mountain Water reported a net profit before tax of $2.777m, an improvement of $1.649m (146.2%) on the previous year. Total revenue (including interest revenue) grew by 6.7% to $51.318m while total expenses (including finance costs) increased by 3.3% to $48.541m.

However, the net profit before tax included insurance recoveries and developer contributions totalling $2.127m (2009-10, $1.589m). On an 'operating' profit basis, Cradle Mountain Water generated a profit before tax of $0.607m, an improvement on the loss of $0.477m in 2009-10.

Return on assets 1.5% (2009-10, 1.0%) and equity 0.6% (0.35) were very low in both years. At this level the operation does not provide an adequate return to fully maintain its assets and is heavily reliant on future price increases allowed by the Regulator.

The graph also details the level of debt at 30 June 2011 of $83.669m (2009-10, $78.555m) compared to Equity of $326.339m ($324.818m) at the same date. Cradle Mountain Water's debt to equity ratio increased from 24.2% to 25.6% at 30 June 2011. While this level of debt to equity is not particularly high, it is higher than the other two Regional Water Corporations and Cradle Mountain Water's interest cover ratio is well below benchmark as was its return on assets. This is discussed further in the Financial Analysis section of this Chapter.

COMPREHENSIVE INCOME STATEMENT

	2010-11	2009-10
	$'000s	$'000s
Sales revenue	48 189	44 852
Other operating revenue excluding Customer and developer contributions	959	1 641
Total Revenue	**49 148**	**46 493**
Depreciation	12 424	12 129
Employee benefits	12 408	10 745
Other operating expenses	18 141	19 583
Total Expenses	**42 973**	**42 457**
Net Operating Profit before finance cost, tax, contributions and other transactions	**6 175**	**4 036**
Financial cost	(5 491)	(4 439)
Interest cost on defined benefit superannuation plan	77	74
Net operating profit before tax, contributions and other transactions	**607**	**(477)**
Customer and developer contributions	1 092	1 352
Recovery of misappropriated funds	1 035	237
Share of profit of associate	43	16
Net profit before tax*	**2 777**	**1 128**
Income tax equivalents expense	(903)	(206)
Net Profit	**1 874**	**922**
Superannuation actuarial gain (loss)	190	(112)
Share of other comprehensive loss of associate	(19)	(2)
Income tax benefit on above items	(57)	33
Total other comprehensive income (expense)	**114**	**(81)**
Total Comprehensive Profit	**1 988**	**841**

**While the Net Profit before tax equates to that reported by Cradle Mountain Water, the makeup differs as we have treated Customer and developer contributions, Recovery of misappropriated funds and Share of profit of associate as non-operating sources of revenue, whereas Cradle Mountain Water reports these as operating income.*

Comment

For 2010-11, Cradle Mountain Water recorded a $1.874m (2009-10, $0.922m) Net profit after tax. The increase of $0.952m was primarily driven by:

- Increased Sales revenue of $3.337m or 7.4% and included:
  - water service charges, $16.662m ($16.019m),
  - sewerage service charges, $18.038m ($16.776m),
  - water usage charges, $4.606m ($5.042m). The decrease in water usage charges of $0.436m was mainly due to the wetter summer and resultant decrease in water consumption
  - sewerage usage charges, $3.647m ($3.735m),
  - Government funded price cap rebate, $2.442m ($1.026m). This year Cradle Mountain Water's price cap rebate increased by $1.416m (138.0%) due to the nature of the price cap calculation
  - Government funded concessions, $1.442m ($1.384m).
- Other operating expenses decreased $1.442m (7.4%) due primarily to a reduction in operations and maintenance expenses of $1.226m. Cradle Mountain Water made a deliberate effort to reduce these costs this year and improve cost allocation.

Offsetting the increase in revenues and savings in Other operating expenses were rises in:

- Depreciation expense increased $0.295m (2.4%) caused by asset additions in the past two years
- Employee benefits increased from $10.745m to $12.408m ($1.663m, 15.5%) mainly due to an increase in average FTEs from 137 to 164 and increased staff costs from a new enterprise agreement finalised in December 2010
- Finance cost (which include guarantee fees) grew by $1.052m (23.7%) due to higher borrowings in both 2009-10 and 2010-11.

Other income included:

- Customer and developer contributions of $1.092m, mainly in the form of infrastructure assets
- the recovery of misappropriated funds, $1.035m ($0.237m), related to a significant fraud, as noted in the Key Developments section of this Chapter.

STATEMENT OF FINANCIAL POSITION

	2011	2010
	$'000s	$'000s
Cash	2 676	1 538
Receivables and prepayments	12 917	11 608
Inventories	849	604
Assets held for sale	0	3 008
Total Current Assets	**16 442**	**16 758**
Payables	4 235	5 565
Borrowings	10 940	9 249
Employee benefits	3 169	2 668
Unearned income	123	123
Current tax liability	836	1 059
Total Current Liabilities	**19 303**	**18 664**
Working Capital	**(2 861)**	**(1 906)**
Property, plant and equipment	405 316	400 660
Intangibles	1 511	930
Investment in associate	38	14
Total Non-Current Assets	**406 865**	**401 604**
Borrowings	72 729	69 306
Employee benefits	989	1 408
Unearned income	1 917	2 041
Deferred tax liabilities	2 030	2 125
Total Non-Current Liabilities	77 665	74 880
Net Assets	**326 339**	**324 818**
Reserves	325 108	325 108
Retained earnings	1 231	(290)
Total Equity	**326 339**	**324 818**

Comment

Total Equity increased from $324.818m to $326.339m during 2010-11. The increase of $1.521m comprised the Comprehensive profit of $1.988m less dividends paid, $0.467m.

The corresponding growth in Net Assets related to:

- increased Cash of $1.138m. Refer to the Statement of Cash Flows section for further detail
- increased Receivables and prepayments of $1.309m. The principal increase related to water and sewerage debtors which was due to a lack of recovery action being taken following the industry reform and implementation of the new billing system
- increased Property, plant and equipment of $4.656m, which comprised of additions of $17.070m, less disposals of $0.010m and depreciation of $12.404m
- decreased Payables of $1.330m due mainly to improvements to the purchasing and payment processes which included the implementation of invoice scanning and matching
- decreased Assets held for sale of $3.008m. This balance related to the sale of Wesley Vale assets, comprising a reservoir, pump station, rising main and gravity main. The sale was finalised in December 2010
- increased total Borrowings of $5.114m, which comprised new loans of $19.816m less repayments of $14.702m. The loans were needed to fund asset acquisition.

Cradle Mountain Water's working capital continued to be negative, $2.861m at 30 June 2011 (2010, $1.906m). The negative position was primarily due to:

- current loan debt $10.940m, which will not be fully settled in 2011-12, with a major portion expected to be refinanced and
- current Employee benefits of $3.169m.

STATEMENT OF CASH FLOWS

	2010-11	2009-10
	$'000s	$'000s
Receipts from customers	47 364	36 323
Receipts from other sources	4 030	6 134
Payments to suppliers and employees	(34 270)	(33 900)
Interest received	69	179
Finance cost	(4 819)	(3 622)
Guarantee fees paid	(771)	(577)
Income tax paid	(1 278)	(442)
Cash from operations	**10 325**	**4 095**
Payments for property, plant and equipment	(16 936)	(18 389)
Proceeds from sale of property, plant and equipment	3 102	311
Cash (used in) investing activities	**(13 834)**	**(18 078)**
Owner cash contributions	0	12 542
Proceeds from borrowings	19 816	49 265
Repayment of borrowings	(14 702)	(45 831)
Dividends paid	(467)	(455)
Cash from financing activities	**4 647**	**15 521**
Net increase in cash	1 138	1 538
Cash at the beginning of the year	1 538	0
Cash at end of the year	**2 676**	**1 538**

Comment

Cradle Mountain Water's total cash balance at 30 June 2011, $2.676m, comprised cash at bank and on hand, $2.670m, and a cash management account held with Tascorp of $0.006m.

The cash position increased by $1.138m in the twelve months to 30 June 2011 as a result of:

- Cash from operations, $10.325m,
- net proceeds from borrowings, $5.114m,
- Proceeds from the sale of property, plant and equipment $3.102m, which mainly comprised the proceeds from the sale of the Wesley Vale assets that were recorded as Assets held for resale at 30 June 2010.

These funding sources were used for:

- Payments for property, plant and equipment, $16.936m,
- Dividends paid, $0.467m.

Cash from operations was $6.230m higher than 2009-10, due mainly to an increase in Receipts from customers and other sources of $9.482m, offset by higher Interest paid, $1.197m and Income tax $0.836m. The main reasons for the increase in receipts were:

- higher Receipts from customers, as noted in the Comprehensive Income Statement section of this Chapter
- the impact of outstanding debtor balances at 30 June 2010. When Cradle Mountain Water commenced operations on 1 July 2009, no receivables or payables were transferred to it and there were delays in issuing bills due to harmonisation of water metering data. This meant that, while sales in 2009-10 totalled $44.852m, this included receivables of $11.608m resulting in cash receipts of only $33.244m (included in the $36.323m reported in the Cash Flow Statement) in the first year of operations. However, in 2010-11, sales revenue was $48.189m, but the increase in debtors was only $1.309m in receipts well in excess of the 2009-10 result.

In addition, it is noted that total Cash from operations of $10.325m seems a reasonable result when compared to the Net profit before tax of $2.777m, depreciation expense of $12.424m, less the negative impact on net cash receipts of the increase in receivables and decrease in payables.

Capital expenditure amounted to $16.936m over the year (2009-2010, $18.389m). Major expenditure related to the following projects:

- Cradle Mountain Sewerage Scheme, $1.681m,
- Treated water to Spreyton /Melrose area, $1.479m,
- Queenstown Water scheme, $1.157m
- North Caroline Street, East Devonport sewerage pump station, $1.011m
- Water Metering Project, $0.722m,
- motor vehicles, $0.638m,
- corporate GIS implementation, $0.582m.

FINANCIAL ANALYSIS

	Bench Mark	2010-11	2009-10
Financial Performance			
Net Profit ($'000s)		1 874	922
Modified EBIT ($'000s) *		6 175	4 036
Operating margin *	>1.0	1.14	1.10
Return on assets *	5.21%	1.5%	1.0%
Return on equity	6.0%	0.6%	0.3%
Financial Management			
Indebtedness ratio		158.0%	161.1%
Debt to equity		25.6%	24.2%
Debt to total assets		19.8%	18.8%
Interest cover	>2	1.1	0.9
Current ratio	>1	0.9	0.9
Cost of debt	6.9%	6.8%	5.7%
Debt service ratio		14.0%	11.6%
Debt collection	30 days	82	65
Creditor turnover	30 days	10	26
Asset Management			
Asset investment ratio	>100%	136.3%	151.6%
Asset renewal ratio	100%	65.5%	78.7%
Consumption ratio	40%-80%	51.4%	52.7%
Returns to Owners			
Dividends paid ($'000s)		467	455
Income tax paid ($'000s)		1,278	442
Total return to Owners ($'000s)		1,745	897
Dividends paid or payable ($'000s)		0	922
Dividend payout ratio	50%	0.0%	100.0%
Dividend to equity ratio		0.0%	0.3%
Other Information			
Average staff numbers (FTEs)		164	137
Average staff costs ($'000s)		91	89
Average leave balance per FTE ($'000s)		20	21

* *Contributions from customers and developers were excluded from Modified EBIT, Operating margin and Return on assets calculations.*

Comment

Financial Performance ratios show operating margins above benchmark in both years and earnings before taxation and interest expense (Modified EBIT) of $6.175m in 2010-11 and $4.036m in 2009-10. As noted in the Financial results section of this Chapter. Return on assets and equity were very low in both years and significantly below benchmark.

Indebtedness ratio was relatively high at 158.0% (161.1%) due to Cradle Mountain Water's level of long-term debt. The relatively high level of debt is also reflected in the Debt to equity and total assets ratios.

Current ratio was marginally below the benchmark of one due to Cradle Mountain Water's level of short term debt. The majority of this debt is expected to be refinanced in 2011-12.

Debt collection days were well above benchmark in both years due to the delays in billing caused by the absence of an integrated billing system. In addition, debt recovery action has been lacking due to the industry reform and implementation of the new billing system.

Asset investment ratio exceeded benchmark in both years, with Cradle Mountain Water undertook significant capital expenditure projects. Details of the capital expenditure projects for 2010-11 are included under the Statement of Cash Flows section of this Chapter. Cradle Mountain Water's Asset renewal ratio was below benchmark in both years, which indicates more than half of the capital expenditure completed was on new assets. This may indicate Cradle Mountain Water was under investing in its exiting assets.

We have computed the Consumption ratio by applying the gross replacement cost and accumulated depreciation balances included as note disclosure in Cradle Mountain Water's financial statements. On this basis, the Consumption ratio indicates Cradle Mountain Water had used (consumed) 48.6% of the service potential of its infrastructure, buildings and other assets meaning that their remaining service potential was 51.4%. At this level, these assets are at moderate level of sustainability risk.

Dividends totalling $0.922m were paid in relation to the 2009-10 financial year. These were paid as an interim dividend in 2009-10 of $0.455m and a final dividend in 2010-11 of $0.467m. No dividends have been proposed in relation to the 2010-11 financial year. In addition to dividends, income tax equivalents totalling $1.720m were paid during the two years under review.

In addition, Cradle Mountain Water provided guarantee fees on loan debt to its council owners, which is included in its Finance costs. In 2010-11, Cradle Mountain Water paid $0.771m (2009-10, $0.577m) in guarantee fees.

Average staff costs and leave balances were consistent with the prior year.

TASMANIAN WATER AND SEWERAGE CORPORATION (COMMON SERVICES) PTY LTD - ONSTREAM

INTRODUCTION

Tasmanian Water and Sewerage Corporation (Common Services) Pty Ltd (Onstream), trading as Onstream, was incorporated on 9 December 2008.

Onstream is equally owned by the three Regional Water Corporations. The responsible Minister is the Treasurer.

The Board comprised six directors, the Chair who was common to all three Regional Water Corporations and Onstream, Regional Water Corporations' CEOs and two additional directors.

AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

Signed financial statements were received on 11 August 2011 and an unqualified audit report was issued on the same day.

The audit was completed satisfactorily with no major items outstanding.

KEY DEVELOPMENTS

Key developments are discussed in the Water and Sewerage Corporations Chapter of this Volume.

COMPREHENSIVE INCOME STATEMENT

	2010-11	**2009-10**
	$'000s	$'000s
Sales revenue	16 050	15 095
Other revenue	151	50
Total Revenue	**16 201**	**15 145**
Depreciation and amortisation	931	691
Employee benefits	7 064	6 069
Other operating expenses	7 527	8 028
Total Expenses	**15 522**	**14 788**
Net operating profit before finance cost and tax	**679**	**357**
Finance cost	421	296
Interest cost on defined benefit superannuation plan	26	30
Net operating profit before tax	**232**	**31**
Income tax equivalents benefit (expense)	(70)	36
Net Profit	**162**	**67**
Superannuation actuarial (loss)	(104)	(13)
Income tax benefit on above items	31	4
Total other comprehensive income (expense)	(73)	(9)
Total Comprehensive Profit	**89**	**58**

Comment

For 2010-11, Onstream recorded a Net operating profit before tax of $0.232m, an increase of $0.201m on the previous year's result. The higher profit was driven mainly by:

- increased Sales revenue of $0.955m, or 6%. Sales revenue comprised fees earned for services provided to the Regional Water Corporations, $15.908m (2009-10, $15.006m) and service income from other sources, $0.142m ($0.018m)
- cost savings in Other operating expenses, $0.501m, mainly due to savings on call centre costs and billing services provided by councils. These savings were partly offset by higher IT system maintenance and equipment leasing costs relating to the new billing system and higher Employee benefits discussed below.

The increased revenue and net savings in Other operating costs were partly offset by:

- higher Employee benefits, $0.995m, as a result of billing becoming centralised at Onstream, personnel changes and the effect of a new Enterprise Agreement
- higher Finance cost, $0.125m, due to the full year effect of interest on loans taken up last year
- higher Depreciation and amortisation charges, $0.240m, due mainly to the implementation of the new billing system.

Overall, Onstream reported a Total Comprehensive Profit of $0.089m (2009-10, $0.058m).

ABRIDGED STATEMENT OF FINANCIAL POSITION

	2011	2010
	$'000s	$'000s
Total Current Assets	3 103	6 114
Total Current Liabilities	5 480	5 533
Working Capital	**(2 377)**	**581**
Total Non-Current Assets	7 157	4 490
Total Non-Current Liabilities	4 633	5 013
Net Assets	**147**	**58**
Retained earnings	147	58
Total Equity	**147**	**58**

Comment

Total Equity increased from $0.058m to $0.147m at 30 June 2011. The movement between years represented the comprehensive profit for the year, $0.089m.

At the same time, Onstream's Working Capital became negative, $2.377m at 30 June 2011 (2010, positive $0.581m), a change of $2.958m. This movement was caused by Onstream's decision to finance this year's cost of the new billing system and other capital works from cash reserves, which included $2.476m in net receivables collected this year, rather than borrowings. This resulted in a net decrease in cash of $0.322m, being the difference between cash generated from operations, $3.094m, and cash used in investing activities, $3.416m. Since 30 June 2011, Onstream improved Working Capital by realigning its debt portfolio.

FINANCIAL ANALYSIS

	Bench Mark	2010-11	2009-10
Financial Performance			
Net Profit ($'000s)		162	67
EBIT ($'000s)		679	357
Operating margin	>1.0	1.04	1.02
Return on assets	5.21%	6.5%	4.7%
Financial Management			
Indebtedness ratio		28.6%	33.1%
Debt to total assets		63.4%	61.3%
Interest cover	>2	1.5	1.2
Current ratio	>1	0.6	1.1
Cost of debt	6.9%	7.1%	5.9%
Debt service ratio		3%	2%
Creditor turnover	30 days	20	57
Other Information			
Average staff numbers (FTEs)		73	59
Average staff costs ($'000s)		105	105
Average leave balance per FTE ($'000s)		14	14

Comment

Financial Performance ratios reflected the improved operating results for the year. However, it should be noted that charges are set to recover Onstream's costs rather than generate profits. Financial Management ratios weakened slightly due to increased finance cost and a shift of the majority of assets from current to non-current. As discussed earlier, capital expenditure was financed from existing cash reserves rather than borrowings, which resulted in a decline in current assets and an increase in non-current assets. Interest cover and Current ratio were both below their respective benchmarks as Onstream priced its services to the Regional Water Corporations on a cost recovery plus contingency basis.

Creditor turnover almost halved to 20 days as Onstream improved the management of its cash flows, reduced the use of external service providers and completed major capital projects.

Onstream increased its workforce during 2010-11 in response to bringing billing services in-house and a higher level of activity. This resulted in Average Staff Numbers increasing by 14 FTEs. Due to structural changes, Onstream kept its Average staff cost at the same level during both years, despite the commencement of a new Enterprise Agreement and personnel changes.

SUPERANNUATION FUNDS

INTRODUCTION

A number of different superannuation arrangements operate in the Tasmanian public sector for public sector employees and Members of Parliament.

Superannuation may be provided in a number of ways:

- *Defined benefit:* Such a scheme has benefits that accrue on resignation or retirement or death, and are predetermined according to a formula established in the scheme's rules or regulations. The employer's contributions will vary depending on the performance of the underlying investments and the lifespan of the pensioners, as well as the salary of contributing employees immediately before their retirement
- *Accumulation:* Under this scheme the employer's contribution is fixed according to the scheme's rules. The end benefit consists of the accumulated contributions by the employer and employee, together with the investment earnings on the contributions
- *Unfunded:* An unfunded scheme is one in which the employer financed benefit component is met on an 'emerging costs' basis when the employee becomes entitled to receive his or her payout, and without any money set aside in the scheme by the employer for that individual's benefit
- *Funded:* In this type of scheme the employer makes a regular contribution to the fund reflecting the currently accruing liability in regard to employees.

The Retirement Benefits Fund (RBF) is Tasmania's public sector superannuation fund and has been Tasmanian-owned and operated since it was established in 1904. Membership is available to people working on a casual, contract, permanent or temporary, full or part-time basis for a Tasmanian public sector employer and their spouses.

The Retirement Benefits Fund Board (RBFB) is responsible for the management and administration of the Funds established under the *Retirement Benefits Act 1993, Retirement Benefits Regulations 2005, Retirement Benefits (State Fire Commission Superannuation Scheme) Act 2005, Retirement Benefits (Tasmanian Ambulance Service Superannuation Scheme) Act 2006, the Public Sector Superannuation Reform Act 1999*, and the *Retirement Benefits (Parliamentary Superannuation) Regulations 2002*.

The fully funded Tasmanian Accumulation Scheme (TAS) was established under the provisions of the *Public Sector Superannuation Reform Act 1999* and replaced the unfunded RBF non-contributory scheme on 25 April 2000. The Fund had three accounts, Superannuation Guarantee (SG) Account, Allocated Pension and Term Allocated Pension. RBF also managed the Investment Account, which is an accumulation-style account, fully funded by members. In October 2010, the SG Account was consolidated into the Investment Account. Previously, the SG Account was where superannuation guarantee contributions for members employed in the State public sector were invested. Personal contributions, rollovers, salary sacrifice and co-contributions were invested in the Investment Account. As a result, members who held both accounts had their SG Account merged into the Investment Account. In addition, the Board stopped preparing separate financial statements for the Investment Account. Comparative information was changed to include transactions and balances of the Investment Account as though this change had occurred from 1 July 2009.

The Contributory Scheme has been closed to new members since 15 May 1999. Members who leave the Tasmanian public sector may, on satisfying certain conditions, continue to contribute to the RBF Investment Account.

The *Retirement Benefits (Parliamentary Superannuation Trustee Arrangements and Miscellaneous Amendments) Act 2002* received Royal Assent on 27 November 2002 with effect from 1 January 2003. This resulted in the Parliamentary Superannuation Fund and the Parliamentary Retiring Benefits Fund being transferred to RBF as sub-funds and the RBFB becoming the corporate Trustee of these sub-funds.

The *Retirement Benefits (Parliamentary Superannuation) Regulations 2002* also commenced on 1 January 2003. The purpose of these regulations was to ensure that equivalent rights continued to be provided to members of the Parliamentary Funds upon their incorporation as sub-funds of RBF.

The *Retirement Benefits (Tasmanian Ambulance Service Superannuation Scheme) Act 2006* received Royal Assent on 26 June 2006 with effect from 30 June 2006. This resulted in the Fund being transferred to RBF as a sub-fund and RBFB becoming the corporate Trustee of this sub-fund.

The *Retirement Benefits (State Fire Commission Superannuation Scheme) Act 2006* received Royal Assent on 24 June 2005 with effect from 1 May 2006. This resulted in the Fund being transferred to RBF as a sub-fund and RBFB becoming the corporate Trustee of this sub-fund.

The financial statements for the Contributory Scheme (as well as for the State's five other superannuation schemes included elsewhere in this Report) are prepared in accordance with Australian Accounting Standard AAS 25 *Financial Reporting by Superannuation Plans*. Note that in the case of the Contributory Scheme and the other four defined benefit schemes, this Standard does not require the preparation of a statement of cash flows. All statements complied with Australian Accounting Standards.

Superannuation arrangements for judges are specified in the *Judges' Contributory Pensions Act 1968*. There is no superannuation scheme setup specifically for judges and the cost of retirement benefits is met by the State Government. Member contributions made by judges, at the rate of 5% of salary which is consistent with other contributory schemes, are paid into the Consolidated Fund. The value of retirement benefits payable to judges who are entitled to pensions under this arrangement was estimated to be $35.382m at 30 June 2011. This arrangement was closed to new entrants from 1 July 1999 and is managed by Finance-General within the Department of Treasury and Finance.

RESPONSIBLE MINISTER

The Responsible Minister is the Treasurer.

The consolidated financial results, assets and obligations managed by the RBFB are noted in the following table:

	2010-11	2009-10	2008-09	2007-08
	$m	$m	$m	$m
Investment revenues	316.6	255.2	(353.9)	(181.0)
Contributions from members, employers and transfers	749.5	773.2	701.8	749.3
Benefits paid	599.1	637.3	554.2	591.9
Administration expenses	38.8	22.1	23.5	17.8
Defined Benefit Schemes				
Net assets under management	1 567.7	1 484.9	1 461.1	1 665.9
Liability for acrued benefits	5 581.3	5 694.0	5 296.5	4 663.8
Net unfunded superannuation liability	**(4 013.6)**	**(4 209.1)**	**(3 835.5)**	**(2 997.8)**
Tasmanian Accumulation Scheme				
Net assets under management	2 261.4	1 950.4	1 620.8	1 645.9
Liability for acrued benefits	2 261.4	1 950.4	1 620.8	1 645.9
Net unfunded superannuation liability	**0.0**	**0.0**	**0.0**	**0.0**

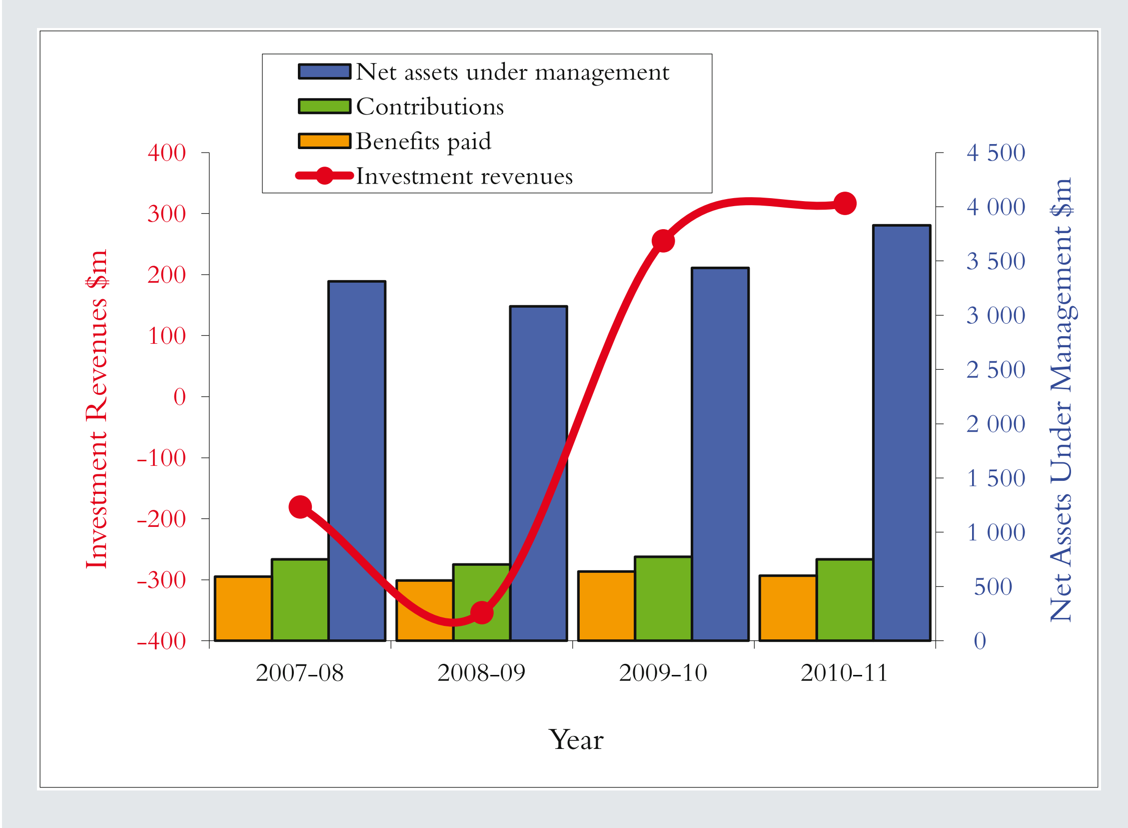
Comment

The effects of the 2007-08 sub-prime crisis in the United States combined with a sustained stock market decline, at least until late in 2008-09, flowed through into International and Australian equities markets. The effect was of particular relevance in that each of RBFB's diversified options, including those in the Contributory Scheme, had significant exposure to equity markets. Australian and international equity markets had been particularly buoyant in 2006-07. Up until 31 December 2007 returns remained high, but experienced significant deterioration leading up to 30 June 2008 and for most of 2008-09. The net market value of Property investments in 2008-09 was also significantly impacted, recording a negative result for the first time. Following the recovery of financial markets in 2009-10, Investment revenues and Net assets started to improve.

The State Government is responsible for funding the shortfall between Net Assets and the value of accrued benefits for members employed by general government sector (GGS) entities. This liability is held centrally and is recognised within the Department of Treasury and Finance – Finance-General's statement of financial position at the latest actuarial assessment. Other state entities who participate in the Contributory Scheme are responsible for meeting their own obligations although the State is ultimately responsible for the full liability.

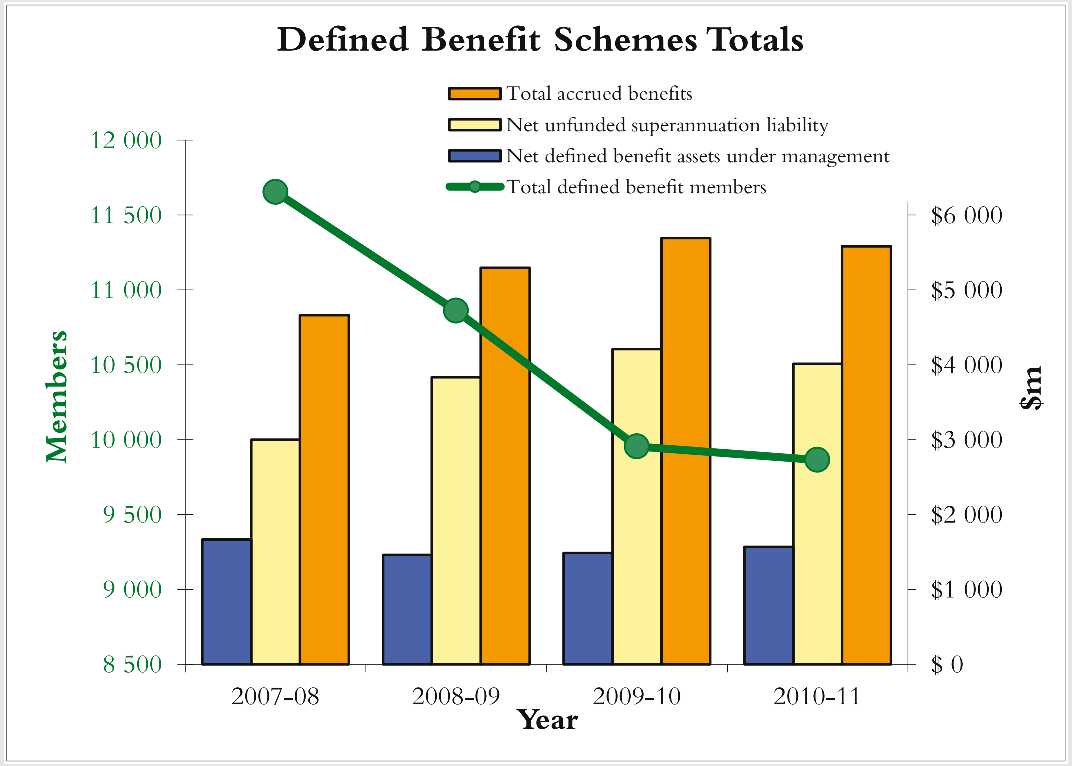
The RBFB outsourced member administration processes and platform to a third party. This arrangement commenced on 29 April 2011. Limited service period was introduced from mid-April to June 2011 to assist with the transition. As a result, some members experienced delays in processing new pension claims, personal contributions and Member Investment Choice switches. Payments of existing pensions were not affected. To a degree, limitations on services provided during the transition period affected the amount of co-contributions, transfers and benefits paid in 2010-11. The outsourcing of member services and preparation for Registrable Superannuation Entity (RSE) license contributed largely to the increase in Administration expenses in the current year.

Fund performance is summarised in the following graph:



Contributions and Benefits paid to members remained reasonably consistent over the four years of review. The spike in Investment revenues in 2009-10 reflected investment gains following the recovery of stock and property markets. Positive investment returns over the last two years assisted the growth in Net assets under management.

The Funds' net asset position compared to the Net unfunded superannuation liability and Total accrued benefits is summarised in the following graph:



The State Government is responsible for funding the shortfall between net assets and the value of accrued benefits for members employed by general government sector (GGS) entities. Other state entities who participate in the Contributory Scheme are responsible for meeting their own obligations although the State is ultimately responsible for the full liability.

DEFINITIONS

Accrued Benefits

Represents the present obligation to pay benefits to a member and beneficiaries and has been determined on the basis of the present value of expected future payments arising from membership to a scheme up to the reporting date. Calculations are based on expected future salary levels and by application of a market-based risk-adjusted discount rate and relevant actuarial assumptions.

Vested Benefits

Vested benefits are benefits which are not conditional upon continued membership of a scheme (other than resignation) and include benefits which members were entitled to receive had they terminated their membership as at the reporting date. Vested benefits are guaranteed by regulations related to the particular fund or scheme

Member Investment Choice (MIC)

Members who have an RBF Investment Account, RBF-TAS SG Account, an RBF Allocated Pension, or an RBF Term Allocated Pension Account, have access to 10 different investment options. This allows individual exposure options to portfolio diversification and returns. The default option is RBF Actively Managed, which aims to provide a moderate to high level of capital growth over the medium to long term.

REPORTING

The remainder of this section of this Report provides commentary on each fund managed by RBFB.

RETIREMENT BENEFITS FUND BOARD - CONTRIBUTORY SCHEME

INTRODUCTION

Members of the Contributory Scheme, a defined benefits scheme, receive benefits based on their final average salary, years of service and contribution rate. Regulation 90 provides that the Treasurer or relevant State Employing Authority is to meet a proportion of the costs of benefits paid by the Board. Based on actuarial advice, the proportion payable by the Treasurer and State entities as from 1 July 1996 was generally 70%, with the balance of 30% met by the Board. From 1 July 2010 the employer contribution increased to 75% which was factored into actuarial calculations.

Since membership was only available to permanent employees or long-term employees who started employment prior to 15 May 1999 this scheme will slowly decline over future years.

AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

Signed financial statements were received on 5 October 2011 and an unqualified audit report was issued on the same day. Financial statements were submitted 51 days after the statutory reporting deadline.

KEY FINDINGS AND DEVELOPMENTS

Other than non compliance with the statutory reporting deadline, the audit was completed satisfactorily with no significant items outstanding.

Changes to the Provision of Member Services

From late April 2011, member administration processes and platform were outsourced to Mercer (Australia) Pty Ltd (Mercer). This arrangement aimed to mitigate future risks associated with the Board's ageing computer systems and reduce administration costs. A Limited service period was introduced from mid-April to June 2011 to assist with the transition. As a result, some members experienced delays in processing new pension claims, personal contributions and Member Investment Choice switches. Payments of existing pensions were not affected.

Registrable Superannuation Entity

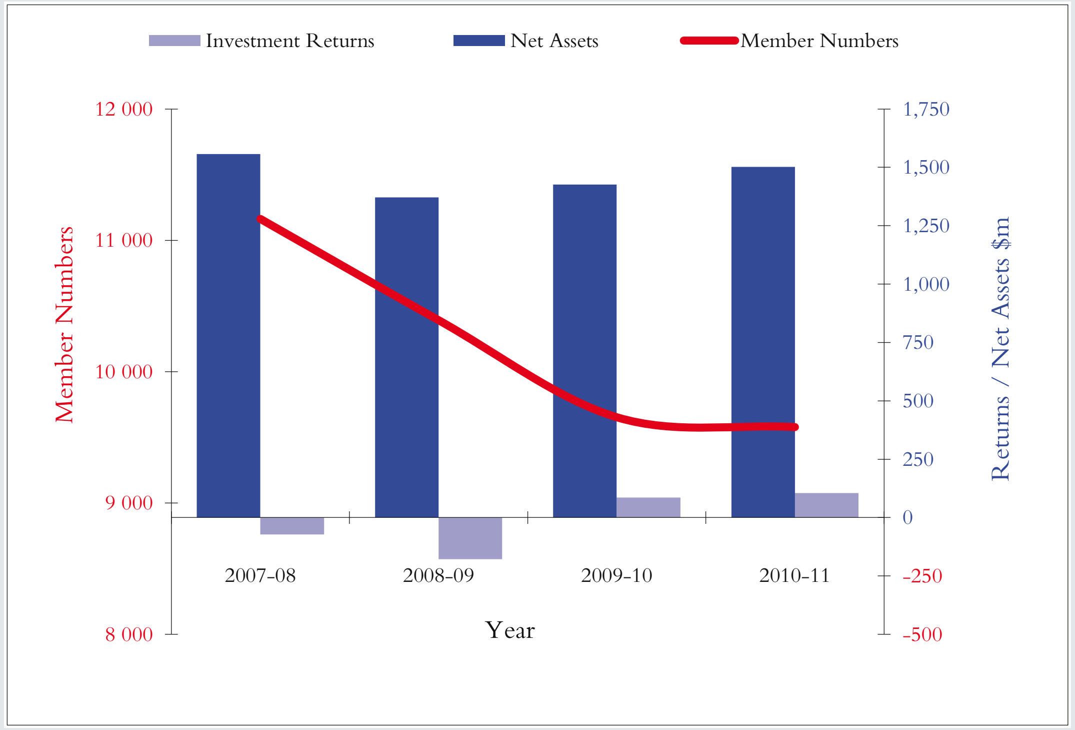
RBF is an Exempt Public Sector Superannuation Scheme for the purposes of the *Superannuation Industry (Supervision) Act 1993*. While it complies with the spirit and intent of this Act, the Board continues to pursue a Registrable Superannuation Entity (RSE) license for RBF.

New Unit Trusts

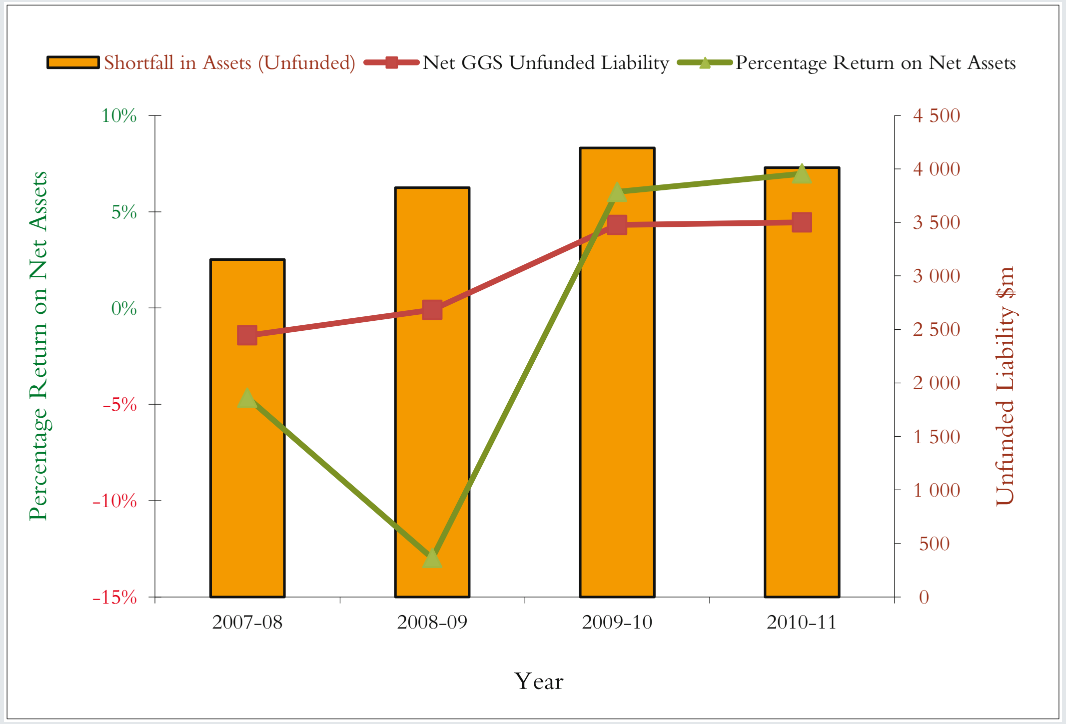
In 2010-11, the Board set up two new unit trusts as a special investment vehicle to acquire a property investment recognised at $26.261m and to enable it to access loan funds of $12.500m. The new holding trust RBF Property Trust holds all units in a unit trust 66-80 Collins Street Property Trust. Both unit trusts are 100% owned by the Board. These unit trust are not individually audited with their financial results reviewed as part of the Board's audit. Net value of the investment, $13.706m, is included within property investments and allocated across schemes.

FINANCIAL RESULTS

The graphs below provide a snapshot of the Contributory Scheme's financial performance.



Being a closed scheme Member numbers continued to fall over the four year period although only slightly in 2010-11. Net Assets and Investment returns declined significantly in 2008-09 due to the downturn in Australian and International markets associated with the global financial crisis. Following the recovery of financial markets in 2009-10, Investment returns and Net Assets started to improve. Net Assets remained below the strong 2007-08 levels.



The State Government is responsible for funding the shortfall between Net Assets and the value of accrued benefits for members employed by general government sector (GGS) entities. This liability is held centrally and is recognised within the Department of Treasury and Finance – Finance-General's statement of financial position at the latest actuarial assessment*. Other state entities who participate in the Contributory Scheme are responsible for meeting their own obligations although the State is ultimately responsible for the full liability.

The total unfunded liability of the Contributory Scheme increased significantly over the period 2007-08 to 2010-11 despite declining fund membership. There is no single factor causing this increase. Contributing factors included:

- lower interest rates leading to application of lower discount rates pushing up the liability
- salary and wages increments at a rate greater than forecast by the actuary
- pension options available to benefit recipients
- anti-detriment provisions
- life expectancy
- tax changes.

* An analysis of the unfunded superannuation liability is included within the Department of Treasury and Finance Chapter of Volume 2 *Executive and Legislature, Government Departments and other General Government Sector State Entities 2010-11.*

STATEMENT OF CHANGES IN NET ASSETS

	2010-11	2009-10	2008-09	2007-08
	$'000s	$'000s	$'000s	$'000s
Investment revenue	63 624	55 524	75 667	107 691
Change in net market value of investments	63 909	52 882	(233 918)	(158 710)
Direct investment expense	(5 500)	(5 129)	(5 088)	(5 515)
Employer contributions	227 253	229 400	202 364	174 611
Member contributions	31 729	34 752	42 540	50 191
Other revenue	(1 304)	(4 026)	(3 280)	(6 689)
Total Revenue	**379 711**	**363 403**	**78 285**	**161 579**
Pensions	204 567	186 639	176 095	162 236
Lump sums	85 798	107 902	90 181	79 222
Refunds and interest	22	374	1 354	2 132
Administration expenses	18 484	13 122	11 379	9 112
Superannuation contributions surcharge	(8)	114	109	115
Total Expenses	**308 863**	**308 151**	**279 118**	**252 817**
Surplus (Deficit) before tax	**70 848**	**55 252**	**(200 833)**	**(91 238)**
Income tax benefit (expense)	4 735	(265)	14 651	(497)
Net Surplus (Deficit)	**75 583**	**54 987**	**(186 182)**	**(91 735)**
Net Assets available to pay benefits at start of year	1 426 411	1 371 424	1 557 606	1 649 341
Net Assets Available to Pay Benefits at End of Year	**1 501 994**	**1 426 411**	**1 371 424**	**1 557 606**

Comment

In 2010-11 the Contributory Scheme recorded a Surplus before tax of $70.848m, which was $15.596m greater than last year's result predominantly due to:

- higher Investment revenue, $8.100m, due to better returns mainly in the form of dividends from Australian equities
- increase in the net market value of investments, $11.027m, being a combination of:
  - higher unrealised gains on investments, up $42.035m from a loss of $5.010m last year. All asset classes returned unrealised gains this year, especially investments in property, unlisted trusts and diversified fixed interest instruments, offset by
  - lower realised gains on investments, down $31.008m compared to a relatively high gain of $57.892m last year. The decline was mainly driven by lower gains on the sale of Australian equities
- lower Lump sums payments, $22.104m, due to limitations put on processing of new pension claims during the limited service period.

Higher investment returns were partially offset by:

- increased Pension payments, $17.928m, due to CPI indexing and member retirement
- increased Administration expenses, $5.362m, mainly due to initial costs associated with outsourcing member services
- lower contributions from both employers and members, $2.147m and $3.023m respectively, caused by limitations put on processing of new pension claims and member contributions during the limited service period.

After accounting for an Income tax benefit of $4.735m, the Contributory Scheme returned a Net Surplus of $75.583m. Net Assets available to pay benefits at 30 June 2011 totalled $1.502bn.

Administration

The table below show Net administration costs, comprising administration expenses less recoveries from sub-fund and actuarial movements in the Board's defined benefit obligation. Direct Outsourcing project costs were separated and excluded from calculations.

	2010-11	2009-10	2008-09	2007-08
	$'000s	$'000s	$'000s	$'000s
Administration expenses	18 484	13 122	11 379	9 112
Outsourcing project costs	(4 888)	0	0	0
Actuarial gain (loss) on superannuation liability	607	(2 016)	(972)	527
Net administration costs	**14 203**	**11 106**	**10 407**	**9 639**

Net administration costs increased in 2010-11 due to the Board implementing its restructure program, including redundancies, preparation for the Registrable Superannuation Entity (RSE) license and higher management fees.

STATEMENT OF NET ASSETS

	2010-11	2009-10	2008-09	2007-08
	$'000s	$'000s	$'000s	$'000s
Cash at bank	10 276	0	1 206	849
Contributions and pensions receivable	1 106	4 330	5 327	13 625
Income receivable	4 978	4 083	6 790	7 494
Other receivables	118 810	95 152	79 986	13 555
Investments	1 398 873	1 362 071	1 314 433	1 620 936
Plant, equipment and intangibles	1 555	2 867	4 405	5 062
RBF-TAS Planning Pty Ltd	150	150	139	170
Total Assets	**1 535 748**	**1 468 653**	**1 412 286**	**1 661 691**
Other Payables	5 556	5 265	4 909	60 217
Contributions and pensions payable	2	559	735	669
Contributions in advance	4 280	14 507	14 688	13 589
Provision for employee entitlements	16 985	18 126	17 053	14 422
Deferred tax liability	4 833	1 458	733	11 939
Superannuation contributions surcharge payable	2 098	2 327	2 744	3 249
Total Liabilities	**33 754**	**42 242**	**40 862**	**104 085**
Net Assets Available to Pay Benefits	**1 501 994**	**1 426 411**	**1 371 424**	**1 557 606**

Comment

Net Assets Available to Pay Benefits increased by $75.583m, 5.3%, consistent with the Net Surplus for the year. This was mainly represented by:

- higher Cash at bank, $10.276m, in order to maintain sufficient funds in a clearing account with Mercer
- higher investments, $36.802m, due to improved Investment returns noted in the Statement of Changes in Net Assets section earlier in this Chapter
- increased Other receivables, $23.658m, predominately due to an increase in income tax receivable, $9.257m, and inter-fund receivable, $14.533m. The inter-fund balance was a result of rebalancing asset allocations and other transactions with RBF sub-funds
- lower Plant, equipment and intangibles, $1.312m, due to a write-off of obsolete equipment following the outsourcing of member services
- lower Contributions in advance, $10.227m, following a transfer of $9.700m from an account held to cover retirement benefits of members employed by the former Tasmanian Government Insurance Office. The surplus funds were transferred to the State Government.
- lower Provision for employee entitlements, $1.141m, which arose from changes in actuarial assumptions used to value the liability, including the application of higher discount and expected return on plan assets rates
- increased Deferred tax liability, up $3.375m, due mainly to the movement in unrealised capital gains.

The Contributory Scheme's Statement of Net Assets represents the assets available to pay member's benefits. The Accrued and Vested benefits for the Scheme were reviewed in 2010-11 and disclosed in the notes to the Financial Statements. A full actuarial review was undertaken in 2010-11.
As at 30 June 2011, the value of Accrued benefits, \$5.513bn, was greater than scheme assets, \$1.502bn, resulting in an unfunded liability of \$4.011bn. This shortfall will be funded by the State Government and other entities participating in the Contributory Scheme on an emerging cost basis.

Vested benefits, which were unconditional benefits members were entitled to receive had they terminated their membership as at the reporting date, were \$5.882bn at 30 June 2011.

FINANCIAL ANALYSIS

	2010-11	2009-10	2008-09	2007-08
Financial Performance				
Investments (\$'000s)	1 398 873	1 362 071	1 314 433	1 620 936
Net investment income (loss) (\$'000s)	122 033	103 277	(163 339)	(56 534)
Return on investments	8.8%	7.7%	(11.1%)	(3.4%)
Other Information				
Members (number)	9 578	9 653	10 392	11 163
Net Assets (\$'000)	1 501 994	1 426 411	1 371 424	1 557 606
Return on net assets	8.3%	7.4%	(11.2%)	(3.55%)
Staff numbers (FTEs)	136	172	167	154
Average staff costs (\$'000s)	81	62	63	57
Average annual and long service leave per FTE (\$'000s)	8	6	6	5

Comment

Total funds under management decreased significantly in 2008-09 due to the major downturn in financial markets. The increase in Investments in subsequent years was due to a recovery of financial markets and member contributions.

Net investment losses experienced in 2007-08 and 2008-09 due to the major downturn in financial markets associated with the global financial crisis, started to turn around last year. This year, Net investment income reached \$122.033m, which was an improvement of 18.2% on last year's result.

Return on investments represents a return on average net investments for any given year. The movements in the percentages over the period of review reflected changes in investment income previously discussed. The movement in Net Assets also reflected this.

The sharp decrease in Staff number this year reflected the changes to the provision of member services and their outsourcing to Mercer. The increase in Average staff costs reflected separation payments made to redundant staff members and an increase in the use of temporary employees to assist with the transition to Mercer.

RETIREMENT BENEFITS FUND BOARD - TASMANIAN ACCUMULATION SCHEME

INTRODUCTION

The Tasmanian Accumulation Scheme (TAS) was established under the *Public Sector Reform Act 1999* and commenced operating on 25 April 2000. On this date, the initial balances of TAS, being the account balances of the Non-Contributory Scheme at that time, were funded using surplus assets from the Contributory Scheme, adjusted to take account of the income taxation differences between the two Schemes.

TAS comprises four accounts being Superannuation Guarantee, Investment (from October 2010), Allocated Pension and Term Allocated Pension accounts.

AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

Signed financial statements were received on 5 October 2011 and an unqualified audit report was issued on the same day. Financial statements were submitted 51 days after the statutory reporting deadline.

KEY FINDINGS AND DEVELOPMENTS

Other than non compliance with the statutory reporting deadline, the audit was completed satisfactorily with no significant issues outstanding.

Merge of RBF-TAS SG Account with Investment Account

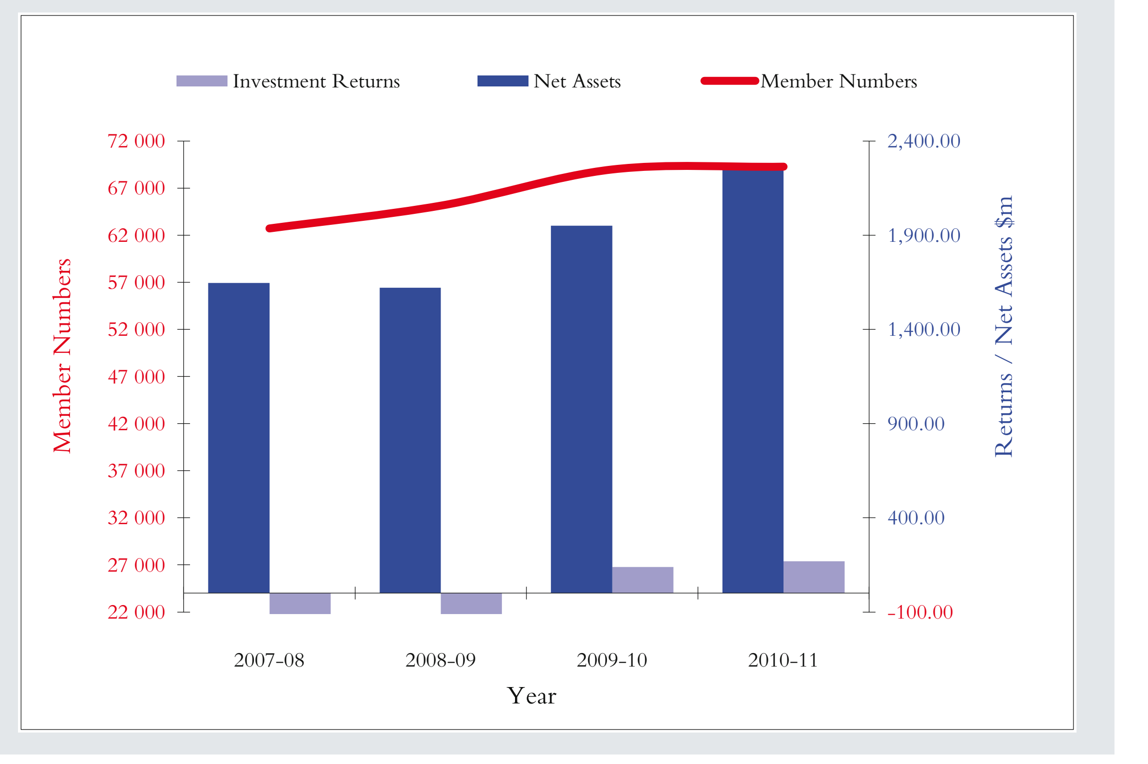
In October 2010, the Superannuation Guarantee (SG) Account was consolidated into the Investment Account. Previously, the SG Account was where superannuation guarantee contributions for members employed in the State public sector were invested. Personal contributions, rollovers, salary sacrifice and co-contributions were invested in the Investment Account. As a result, members who held both accounts had their SG Account merged into the Investment Account. In addition, the Board stopped preparing separate financial statements for the Investment Account. Comparative information was changed to include transactions and balances of the Investment Account as though this change had occurred from 1 July 2009.

Reserves

Last year, the Board set up reserves to shield members from the financial effects of possible future adverse risk events (operating risk reserve) to fund improvement and development initiatives (strategic development reserve) and to collect unallocated investment earnings (income reserve). These reserves were funded from surplus tax provisions provided for in excess of expected future needs, bonus interest and an impairment provision no longer required. The balance of these reserves was $38.155m at 30 June 2011 (2010, $19.239m).

FINANCIAL RESULTS

The graph below provides a snapshot of TAS' financial performance.



Member numbers and Net assets grew over the period. Investment returns continued to recover after the downturn in financial markets between 2007-08 and 2008-09.

COMPREHENSIVE INCOME STATEMENT

	2010-11	2009-10	2008-09	2007-08
	$'000s	$'000s	$'000s	$'000s
Investment income	112 058	83 958	97 238	102 701
Changes in net market values	84 749	66 227	(267 756)	(214 651)
Direct investment expense	(9 071)	(7 043)	(5 898)	(4 501)
Employer contributions	175 709	167 870	159 018	150 039
Member contributions	125 507	114 508	136 933	209 894
Transferred from other funds	184 165	220 868	153 625	157 842
General operating provision	(4 209)	19 239	0	0
Other income	41	4	38	0
Total Revenue	**668 949**	**665 631**	**273 198**	**401 324**
General operating fee	**12 782**	**(2 419)**	**13 137**	**19 423**
Death and incapacity insurance	6 374	5 734	5 214	4 646
Superannuation contributions surcharge	(11)	74	103	290
Total Expenses	**19 145**	**3 389**	**18 454**	**24 359**
Benefits accrued before tax	**649 804**	**662 242**	**254 744**	**376 965**
Income tax expense	(32 907)	(33 699)	(4 426)	(4 388)
Benefits accrued after tax	**616 897**	**628 543**	**250 318**	**372 577**
Benefits paid	(305 918)	(298 973)	(275 374)	(341 436)
Liability for accrued benefits at year start	1 950 389	1 620 819	1 645 875	1 614 733
Liability for Accrued Benefits at Year End	**2 261 368**	**1 950 389**	**1 620 819**	**1 645 874**

Comment

Benefits accrued before tax, $649.804m, were slightly lower than last year. The difference of $12.438m was predominantly caused by:

- higher General operating fee, $15.201m, due to an increase in the taxation component from a credit of $10.017m last year to a charge of $4.057m in 2010-11. The turnaround in tax of $14.074m was a combination of higher tax charges and lower income tax credits from investments
- lower Transfers from other funds, $36.703m, due to less rollovers.

The higher expenses were partly offset by a slight increase in Total Revenue, $3.318m, due to a combination of :

- higher Investment revenue, $28.100m, due to better returns mainly in the form of dividends from Australian equities and interest
- increase in the net market value of investments, $18.522m, being a combination of:
    - higher unrealised gains on investments, up $57.889m from a loss of $24.674m last year. All asset classes returned unrealised gains this year, offset by
    - lower realised gains on investments, down $39.367m compared to a relatively high gain of $90.901m last year. The decline was mainly driven by lower gains on the sale of Australian equities
- higher contributions from both employers and members, $7.839m, and, $10.999m, respectively, due to a combination of higher salaries and wages, increase in members and increased co-contributions
- utilisation of funds from the General operating provision and transfer to Reserves, $4.209m.

Liability for Accrued Benefits increased by $310.979m to $2.261bn at 30 June 2011. The movement comprised Benefits accrued after tax, $616.897m, less Benefits paid, $305.918m.

STATEMENT OF FINANCIAL POSITION

	2011	2010	2009	2008
	$'000s	$'000s	$'000s	$'000s
Cash at bank	9 364	11 133	9 391	9 027
Interest receivable	281	419	5 426	5 282
Other receivables	0	0	18 508	80 486
Investments	2 371 834	2 033 372	1 701 019	1 639 284
Deferred tax asset	21 299	24 572	29 308	7 001
Total Assets	**2 402 778**	**2 069 496**	**1 763 652**	**1 741 080**
Payables	73 264	61 152	61 754	15 324
Provision for death and incapacity insurance	17 477	15 056	15 322	14 678
General operating provisions	20 215	14 111	40 766	39 255
Provision for income tax	30 440	28 766	24 989	25 940
Superannuation contribution surcharge payable	14	22	2	8
Total Liabilities	**141 410**	**119 107**	**142 833**	**95 205**
Net Assets Available to Pay Benefits	**2 261 368**	**1 950 389**	**1 620 819**	**1 645 875**
Represented by:				
Liability for Accrued Benefits				
Allocated to members accounts	2 210 363	1 929 202	1 629 565	1 648 142
Not yet allocated	12 850	1 948	(8 746)	(2 267)
Total Liability For Accrued Benefits Equity	**2 223 213**	**1 931 150**	**1 620 819**	**1 645 875**
Reserves	38 155	19 239	0	0
Net Liability for Accrued Benefits and Equity	**2 261 368**	**1 950 389**	**1 620 819**	**1 645 875**

Comment

As at 30 June 2011, TAS held $2.261bn of Net Assets Available to Pay Benefits compared to $1.950bn at the same time last year. This increase of $310.979m was predominantly driven by an increase in Investments, $338.462m, represented by new investments purchased from contributions received during the year and the effect of the continued recovery on domestic and global investment markets.

The increase in Investments was partly offset by:

- lower Cash at bank, $1.769m,
- higher Payables, $12.112m, due to an increase in inter-fund payables in line with the increase in the Board's administration expenses due to the initial cost associated with outsourcing member services and the cost of restructure
- higher Provision for death and invalidity insurance, $2.421m, in line with actuarial assessment of the liability
- increased General operating provision, $6.104m, representing the difference between the amount deducted from members for administration and income tax expenses and actual payments made to the Board. The increase is a combination of higher net assets, which are used as the base for calculating member fees, and a transfer of $2.050m from Reserves.

Net Assets Available to Pay Benefits comprised:

- Total Liability for Accrued Benefits, $2.223bn, representing the value of member benefits at 30 June 2011 of which $12.850m was yet to be allocated. The increase in unallocated benefits, $10.902m, was due to delays in processing during the limited service period.
- Equity, $38.155m, represented by an operating risk reserve, $21.741m, and a strategic development reserve, $16.414m. Both reserves were created in 2009-10 from income generated by the Accumulation Scheme but which cannot be allocated to individual members.

STATEMENT OF CASH FLOWS

	2010-11	2009-10	2008-09	2007-08
	$'000s	$'000s	$'000s	$'000s
Employer contributions	175 709	167 869	159 018	150 033
Member contributions	124 824	114 902	137 225	207 275
Transferred from other funds	184 165	220 868	153 625	157 841
Investment income received	12 636	30 829	19 331	9 137
Interfund transfers	12 953	17 493	107 134	(37 649)
Other	41	4	75	(37)
Benefits paid	(305 918)	(298 907)	(275 307)	(341 299)
Direct investment expenses	(7 147)	(6 077)	(6 229)	(5 009)
Management fees paid	(9 325)	(7 493)	(10 969)	(8 197)
Death and incapacity benefits paid	(3 953)	(6 000)	(4 570)	(2 496)
General operating provision	(3 486)	723	0	0
Income tax paid	(27 960)	(25 186)	(27 684)	(23 086)
Superannuation contribution surcharge	3	(101)	(171)	(323)
Cash from operations	**152 542**	**208 924**	**251 478**	**106 190**
Proceeds from the sale of investments	796 543	1 087 830	591 859	813 148
Payments for purchase of investments	(950 414)	(1326 835)	(644 943)	(865 929)
Cash (used in) investing activities	**(153 871)**	**(239 005)**	**(53 084)**	**(52 781)**
Net increase (decrease) in cash	**(1 329)**	**(30 081)**	**198 394**	**53 409**
Cash at the beginning of the year	392 472	422 553	224 159	170 750
Cash at end of the year	**391 143**	**392 472**	**422 553**	**224 159**

Comment

Cash at bank disclosed in the Statement of Financial Position varied from cash balance in the Statement of Cash Flows, as this amount was determined by member investment choice allocation between different types of investments of varying liquidity and risk appetite. The cash position will therefore fluctuate in line with members' investment strategies. The increase in 2008-09 was partly due to members increasing investments in cash deposits seeking to avoid risks associated with market volatility. This reversed in following years as markets stabilised, however cash investments remained relative high compared to 2007-08.

Reasons for variations in cash flow receipt and payment amounts reflected the comments made previously in the Comprehensive Income Statement and the Statement of Financial Position sections of this Chapter.

The variance between Investment income received, $12.636m, and Investment income disclosed in the Comprehensive Income Statement, $112.058m, was due to the Accumulation Scheme reinvesting $99.402m of proceeds in additional investment units.

FINANCIAL ANALYSIS

	2010-11	2009-10	2008-09	2007-08
Financial Performance				
Investments ($'000s)	2 371 834	2 033 372	1 701 019	1 639 284
Net investment income ($'000s)	187 736	143 142	(176 416)	(116 451)
Return on investments	8.52%	7.67%	(10.56%)	(7.04%)
Other Information				
Members (number)	69 270	68 973	65 132	62 714

Comment

Investments under management and Net investment income continued to grow after the fall in 2007-08 following the collapse of stock markets.

Return on investments represents a return on average net investments for any given year before fees and taxes are deducted. Return on investments in 2008-09 and 2007-08 were negative due to adverse performance of financial markets. Over the four year period Return on investments was slightly unfavourable at an average of negative (0.35%). MIC allows members to access different investment options and returns will vary according to the objective and potential risk exposure of each option.

PARLIAMENTARY SUPERANNUATION FUND

INTRODUCTION

The Parliamentary Superannuation and Retiring Benefits Trust was responsible for the management and administration of the Parliamentary Superannuation Fund (the PSF) established under the *Parliamentary Superannuation Act 1973*. The PSF was closed to new members on 11 November 1985 with the Retirement Benefits Fund being the default scheme for their superannuation.

Legislation was enacted by Parliament in 2002 to facilitate the winding up of the PSF and the transfer of funds to a sub-fund of the Retirement Benefits Fund Board (RBFB) effective from 1 January 2003. This sub-fund prepares an annual financial report for audit and inclusion with the annual report of the RBFB and retains its status as a defined benefits scheme. The PSF provides members with a benefit paid as a pension.

The PSF's growth and performance will be affected by the lack of new members and as existing members leave the fund. The number of fund members as at 30 June 2011 was two. Nevertheless, as a defined benefit scheme, any unfunded liability must be met by the State Government.

AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

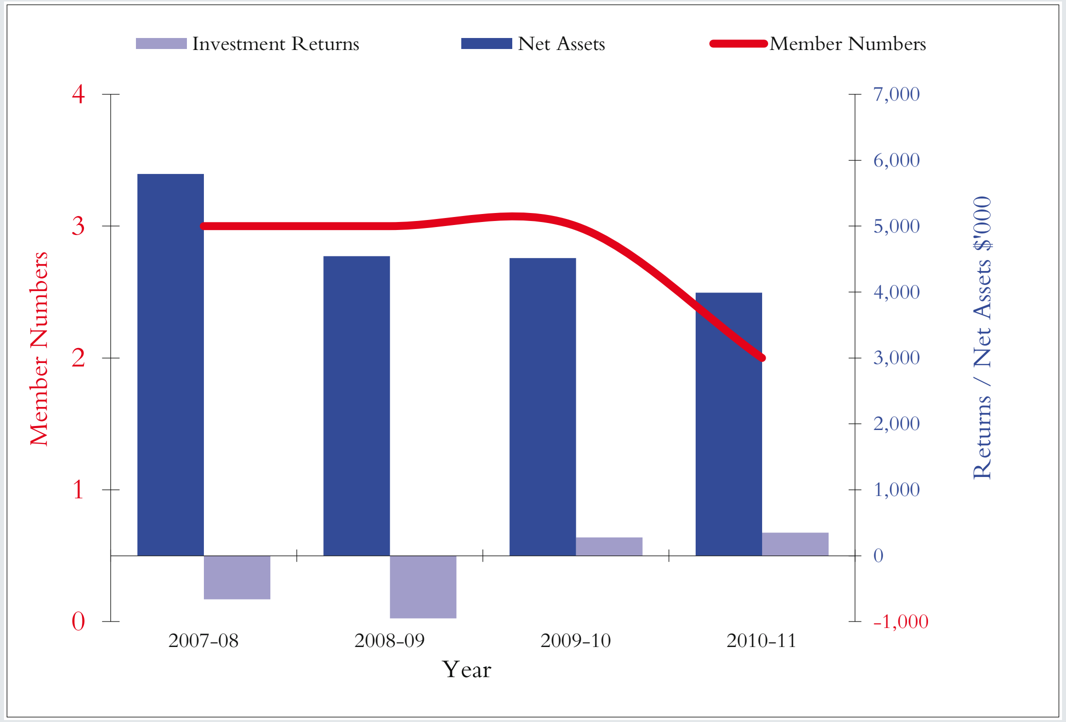
Signed financial statements were received on 5 October 2011 and an unqualified audit report was issued on the same day. Financial statements were submitted 51 days after the statutory reporting deadline.

KEY FINDINGS AND DEVELOPMENTS

Other than non compliance with the statutory reporting deadline, the audit was completed satisfactorily with no significant matters outstanding.

FINANCIAL RESULTS

The graphs below provide a snapshot of the PSF's financial performance.



In 2010-11 member numbers declined from 3 to 2 and as a result of a lump sum payment. Net assets decreased by $0.527m to $3.990m. Net Investment returns continued to grow slightly following negative returns between 2007-08 and 2008-09 caused by the downturn in financial markets.

The Unfunded liability of $12.255m at 30 June 2011 will be funded by the State Government on an emerging cost basis. This liability increased significantly over the period 2007-08 to 2009-10 but was lower this year than the long-term average of $12.970m. Contributing factors included:

- Lower interest rates leading to application of lower discount rates
- Salary and wages increments at a rate greater than forecast by the actuary
- Pension options available to benefit recipients
- Life expectancy
- Tax changes.

The PFS' total unfunded liability fluctuated between the years due to movements in Net Assets and the value of accrued benefits and at 30 June 2011 was at a level similar to 2008. There is no single factor causing these fluctuations. Contributing factors included:

- lower interest rates leading to application of lower discount rates
- salary and wages increments at a rate greater than the actuary
- pension options available to benefit recipients
- anti-detriment provisions
- life expectancy
- tax changes.

STATEMENT OF CHANGES IN NET ASSETS

	2010-11	**2009-10**	**2008-09**	**2007-08**
	$'000s	$'000s	$'000s	$'000s
Investment income	286	259	365	471
Changes in net market values	277	254	(1 159)	(908)
Direct investment expense	(23)	(22)	(28)	(29)
Employer contributions	857	969	994	931
Member contributions	32	40	40	40
Total Revenue	**1 429**	**1 500**	**212**	**505**
Pensions	1 212	1 298	1 366	1 332
Lump sums	548	0	0	0
Refunds and interest	8	0	0	0
Administration expenses	192	209	131	200
Superannuation contributions surcharge	(3)	3	(2)	(2)
Total Expenses	**1 957**	**1 510**	**1 495**	**1 530**
Change in net assets before tax	**(528)**	**(10)**	**(1 283)**	**(1 025)**
Income tax benefit (expense)	1	(15)	34	28
Change in net assets after tax	**(527)**	**(25)**	**(1 249)**	**(997)**
Net Assets available to pay benefits at year start	4 517	4 542	5 791	6 788
Net Assets Available to Pay Benefits at Year End	**3 990**	**4 517**	**4 542**	**5 791**

Comment

In 2010-11 the PFS recorded a loss before tax of $0.528m due to a Lump sum paid to a member who exited during the year, $0.548m. The exit of one member caused a decline in Employer contributions, $0.112m, which was partly offset by lower Pensions, $0.086m and higher investment income, $0.050m.

Net Assets available to pay benefits at 30 June 2011 totalled $3.990m. In view of the absence of new members and as existing members exit, subject to improved investment performance, net assets will gradually decline.

STATEMENT OF NET ASSETS

	2011	2010	2009	2008	2007
	$'000s	$'000s	$'000s	$'000s	$'000s
Receivables	0	18	24	20	39
Investments	6 244	5 921	5 549	6 921	7 698
Total Assets	**6 244**	**5 939**	**5 573**	**6 941**	**7 737**
Payables	1 421	735	540	681	463
General operating provision	811	641	468	402	241
Deferred tax liabilities	22	46	23	67	245
Total Liabilities	**2 254**	**1 422**	**1 031**	**1 150**	**949**
Net Assets Available To Pay Benefits	**3 990**	**4 517**	**4 542**	**5 791**	**6 788**

Comment

Net Assets Available to Pay Benefits decreased by $0.527m, consistent with the deficit for the year. This was mainly represented by:

- higher Investments, $0.323m, due to an increase in the value of Australian and international equities
- higher Payables, $0.686m, due to an increase in inter-fund payables in line with the increase in the Board's administration expenses due to the initial cost associated with outsourcing member services
- higher General operating provision, $0.170m, representing the difference between the amount deducted from members for administration and income tax expenses and actual payments made to the Board.

The PSF's Statement of Net Assets represents the assets available to pay member's benefits. The Accrued and Vested benefits for the Scheme were reviewed in 2010-11 and disclosed in the notes to the Financial Statements. A full actuarial review was undertaken in 2010-11. As at 30 June 2011, the value of Accrued benefits, $16.245m, was greater than scheme assets, $3.990m, resulting in an unfunded liability of $12.255m. This shortfall will be funded by the State Government on an emerging cost basis.

Vested benefits, which were unconditional benefits members were entitled to receive had they terminated their membership as at the reporting date, were $16.478m at 30 June 2011.

FINANCIAL ANALYSIS

	2010-11	2009-10	2008-09	2007-08
Financial Performance				
Investments ($'000s)	6 244	5 921	5 549	6 921
Net investment income ($'000s)	540	491	(822)	(466)
Return on investments	8.9%	8.5%	(13.1%)	(6.3%)
Members numbers	2	3	3	3

Comment

As with most small funds, the PSF's performance varies considerably due to the volatility of investment markets and the amount of benefits paid out in any one financial year. While Returns on investments were positive this year and in 2009-10, poor returns in 2008-09 and 2007-08, which were negative 13.1% and 6.3% respectively, impacted the performance of the fund. Over the four year period, the average Return on investments was negative 0.5%.

PARLIAMENTARY RETIRING BENEFITS FUND

INTRODUCTION

The Parliamentary Superannuation and Retiring Benefits Trust was responsible for the management and administration of the Parliamentary Retiring Benefits Fund (the PRBF) established under the *Parliamentary Retiring Benefits Act 1985*. The PRBF was closed to new members on 1 July 1999 with the Retirement Benefits Fund being the default scheme for their superannuation.

Legislation was enacted by Parliament in 2002 to facilitate the winding up of PRBF and transfer of funds to a sub-fund of the Retirement Benefits Fund Board (RBFB) effective from 1 January 2003. This sub-fund prepares an annual financial report for audit and inclusion in the annual report of the RBFB and it retains its status as a defined benefits scheme. The PRBF provides members with a benefit paid as a lump sum. The number of fund members at 30 June 2011 was 7 (2010, 11). The PRBF's performance was affected by the lack of new members and payments to existing members on retirement.

AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

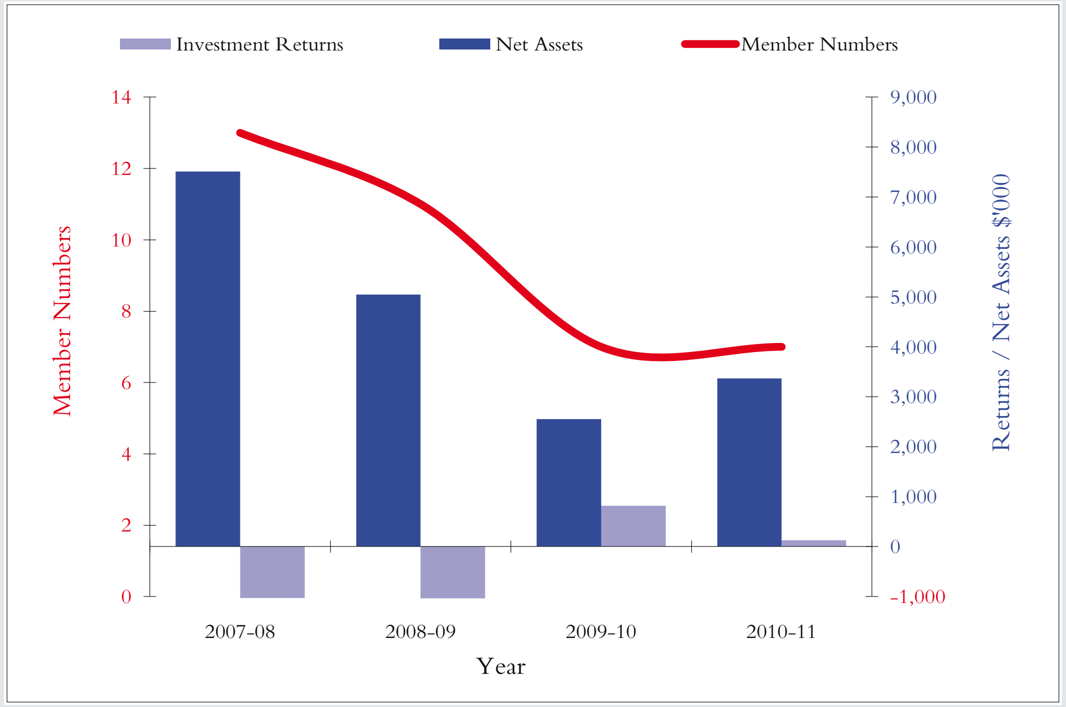
Signed financial statements were received on 5 October 2011 and an unqualified audit report was issued on the same day. Financial statements were submitted 51 days after the statutory reporting deadline.

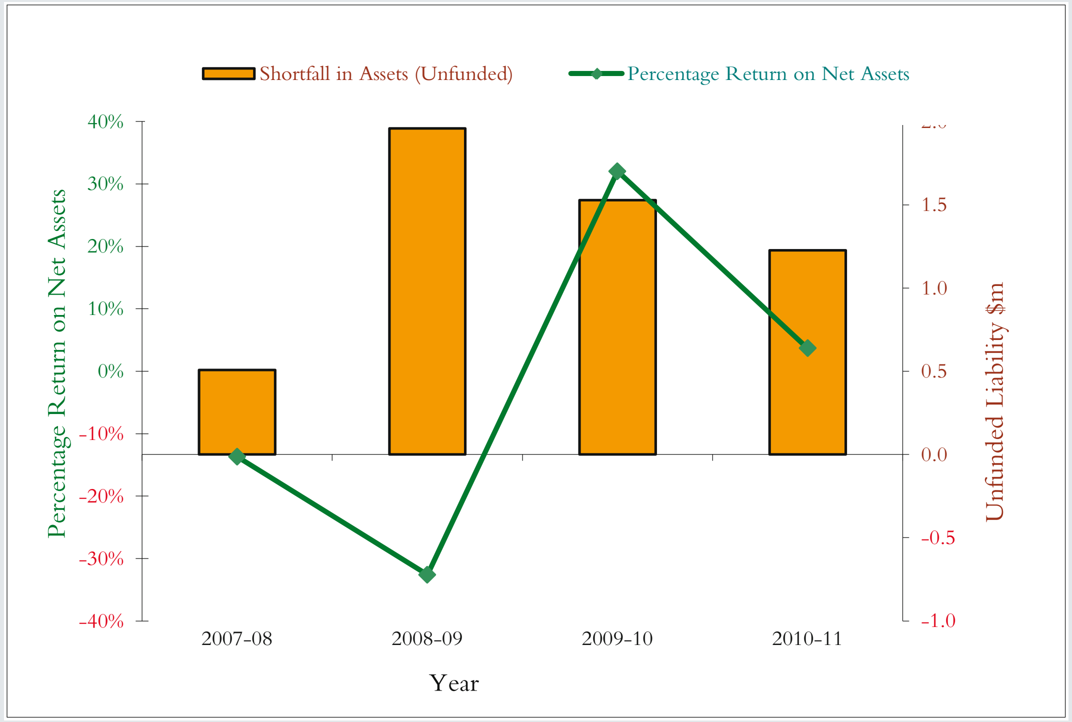
KEY FINDINGS AND DEVELOPMENTS

Other than non compliance with the statutory reporting deadline, the audit was completed satisfactorily with no significant matters outstanding.

FINANCIAL RESULTS

The graphs below provide a snapshot of the Fund's financial performance.





In 2010-11 PRBF's Net assets increased to $3.369m following a slight improvement in investment returns, but mainly due to no lump sum benefits being paid during the year. Investment returns were negative in both 2008-09 and in 2007-08 but returned to positive returns in 2009-10 as financial markets improved after the downturn in 2008. The fall in Net assets between 2007-08 and 2009-10 was a combination of investment losses and disbursements to exiting members.

The total unfunded liability of the PRBF fluctuated between the years with the movements in Net Assets and the value of accrued benefits. There is no single factor causing these fluctuations. Contributing factors included:

- lower interest rates leading to application of lower discount rates
- salary and wages increments at a rate greater than estimated by the actuary
- pension options available to benefit recipients
- anti-detriment provisions
- life expectancy
- tax changes.

STATEMENT OF CHANGES IN NET ASSETS

	2010-11	**2009-10**	**2008-09**	**2007-08**
	$'000s	$'000s	$'000s	$'000s
Investment income	216	277	441	645
Changes in net market values	207	417	(1 460)	(1 237)
Direct investment expense	(17)	(25)	(31)	(39)
Employer contributions	190	294	338	385
Member contributions	88	113	131	173
Other revenue	0	0	0	1
Total Revenue	**684**	**1 076**	**(581)**	**(72)**
Lump sum benefits paid	0	3 455	1 803	1 050
General operating fees	54	32	167	217
Superannuation contributions surcharge	(228)	0	(3)	181
Total Expenses	**(174)**	**3 487**	**1 967**	**1 448**
Change in net assets before tax	**858**	**(2 411)**	**(2 548)**	**(1 520)**
Income tax benefit (expense)	(40)	(86)	84	63
Change in net assets after tax	**818**	**(2 497)**	**(2 464)**	**(1 457)**
Net Assets available to pay benefits at year start	2 551	5 048	7 512	8 969
Net Assets available to Pay Benefits at Year End	**3 369**	**2 551**	**5 048**	**7 512**

Comment

In 2010-11 PRFB recorded an increase in net assets before tax of $0.858m compared to a loss of $2.411m last year. The turnaround of $3.269m was predominantly due to no Lump sum benefits paid in 2010-11, (2009-10, $3.455m) as no members exited during the year. Lower expenses were partially offset by a decline in investment returns, $0.271m, driven by a fall in realised returns across all asset classes, and a drop in contributions revenue.

Net Assets available to pay benefits at 30 June 2011 totalled $3.369m

STATEMENT OF NET ASSETS

	2011	2010	2009	2008	2007
	$'000s	$'000s	$'000s	$'000s	$'000s
Cash at bank	15	0	0	0	0
Receivables	0	19	65	75	87
Investments	4 798	4 201	6 323	8 942	10 152
Other assets	125	140	109	1	1
Total Assets	**4 938**	**4 360**	**6 497**	**9 018**	**10 240**
Payables	859	974	675	660	566
General operating provision	537	510	495	442	335
Other liabilities	173	325	279	404	370
Total Liabilities	**1 569**	**1 809**	**1 449**	**1 506**	**1 271**
Net Assets Available To Pay Benefits	**3 369**	**2 551**	**5 048**	**7 512**	**8 969**

Comment

Net Assets Available to Pay Benefits increased by $0.818m, consistent with the surplus for the year. This was mainly represented by:

- higher Investments, $0.597m, due to an increase in the value of Australian and international equities
- lower Payables, $0.115m, due to lower administration costs
- lower Other liabilities, $0.152m, due to a decline in provision for income tax due to the fall in investment returns.

PRBF's Statement of Net Assets represents the assets available to pay member's benefits. The Accrued and Vested benefits for the Scheme were reviewed in 2010-11 and disclosed in the notes to the Financial Statements. A full actuarial review was undertaken in 2010-11. As at 30 June 2011, the value of Accrued benefits, $4.595m, was greater than scheme assets, $3.369m, resulting in an unfunded liability of $1.226m. This shortfall will be funded by the State Government on an emerging cost basis.

Vested benefits, which were unconditional benefits members were entitled to receive had they terminated their membership as at the reporting date, were $5.379m at 30 June 2011.

FINANCIAL ANALYSIS

	2010-11	2009-10	2008-09	2007-08
Financial Performance				
Investments ($'000s)	4 798	4 201	6 323	8 942
Net Investment Income ($'000s)	406	669	(1 050)	(631)
Return on investments	8.9%	12.3%	(13.5%)	(6.6%)
Members	7	7	11	13

Comment

As with most small funds, PRBF's performance varies considerably due to the volatility of investment markets and the amount of benefits paid out in any one financial year. While Return on investments were positive this year and in 2009-10, poor returns on investments in 2008-09 and 2007-08, which were negative 13.5% and 6.6% respectively, impacted the performance of the fund. Over the four year period, the Return on investments averaged negative 0.3%.

RETIREMENT BENEFITS FUND BOARD - TASMANIAN AMBULANCE SERVICE SUPERANNUATION SCHEME

INTRODUCTION

The Tasmanian Ambulance Service Superannuation Scheme (TASSS or the Scheme) is a Defined Benefit Scheme that provides benefits to its members pursuant to the provisions of the *Retirement Benefits (Tasmanian Ambulance Service Superannuation Scheme) Act 2006*. Membership was open to permanent employees of Ambulance Tasmania (formerly the Tasmanian Ambulance Service) who were employed prior to 30 June 2006 from which date the Scheme was closed to new members.

The TASSS was transferred to the Retirement Benefits Fund Board (RBFB) on 30 June 2006 under a Successor Fund arrangement. This arrangement involved the trustee, fund administration and investment functions of the Scheme being transferred to the RBFB.

Benefits of members are calculated by way of formulae defined in the Tasmanian Ambulance Service Superannuation Trust Deed.

AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

Signed financial statements were received on 5 October 2011 and an unqualified audit report was issued on the same day. Financial statements were submitted 51 days after the statutory reporting deadline.

KEY FINDINGS AND DEVELOPMENTS

Other than non compliance with the statutory reporting deadline, the audit was completed satisfactorily with no significant items outstanding.

FINANCIAL RESULTS

The graph below provides a snapshot of the Scheme's financial performance.

Being a closed scheme, member numbers have fallen since commencement with the RBF. In 2010-11 TASSS' Net assets increased to $37.465m following improved investment returns and increased contributions. Investment returns were negative in both 2008-09 and in 2007-08 but returned to being positive in 2009-10 as financial markets improved after the downturn in 2008.

STATEMENT OF CHANGES IN NET ASSETS

	2010-11	2009-10	2008-09	2007-08
	$'000s	$'000s	$'000s	$'000s
Investment revenue	1 842	1 538	2 020	2 569
Changes in net market values	1 784	1 360	(6 409)	(5 039)
Direct investment expenses	(149)	(123)	(146)	(126)
Employer contributions	2 096	1 839	1 819	1 388
Member contributions	441	429	511	811
Transfers from other funds	0	0	0	1
Total Revenue	**6 014**	**5 043**	**(2 205)**	**(396)**
Benefits paid	740	1 083	2 477	2 729
Administration expenses	398	94	433	462
Total Expenses	**1 138**	**1 177**	**2 910**	**3 191**
Change in net assets before tax	**4 876**	**3 866**	**(5 115)**	**(3 587)**
Income tax benefit (expense)	(432)	(540)	189	146
Change in net assets after tax	**4 444**	**3 326**	**(4 926)**	**(3 441)**
Net assets available to pay benefits at beginning of year	33 021	29 695	34 621	38 062
Net assets available to pay benefits at end of year	**37 465**	**33 021**	**29 695**	**34 621**

Comment

In 2010-11 the Scheme recorded a surplus before tax of $4.876m, which was $1.010m greater than last year's result predominantly due to:

- higher Investment revenue, $0.304, due to better returns mainly dividends
- increase in the net market value of investments, $0.424m, being a combination of:
  - higher unrealised gains on investments, up $1.230m, from a loss of $0.240m last year. All asset classes returned unrealised gains this year, especially investments in property, unlisted trusts and diversified fixed interest instruments, offset by
  - lower realised gains on investments, down $0.806m, The decline was mainly driven by lower gains on the sale of Australian equities
- higher Employer contributions, $0.257m, due to a combination of higher salaries and wages and an increase in the employer share of retirement benefits
- lower Benefits paid, $0.343m.

Higher investment returns were partially offset by:

- increased Administration expenses, $0.304m, mainly due to initial costs associated with outsourcing member services and an increase in the taxation component from a credit of $0.098m last year to a charge of $0.058m in 2010-11.

After accounting for the Income tax expense of $0.432m, the Scheme returned a net surplus of $4.444m. Net Assets available to pay benefits at 30 June 2011 totalled $37.465m.

STATEMENT OF NET ASSETS

	2011	2010	2009	2008
	$'000s	$'000s	$'000s	$'000s
Cash at bank	488	0	0	0
Other receivables	4	119	140	236
Investments	40 463	36 416	31 239	38 016
Deferred tax assets	735	862	899	364
Total Assets	**41 690**	**37 397**	**32 278**	**38 616**
Payables	3 549	3 585	1 837	3 256
General Operating Provision	353	287	445	346
Provision for income tax	323	504	301	393
Deferred tax Liabilities	0	0	0	0
Total Liabilities	**4 225**	**4 376**	**2 583**	**3 995**
Net Assets Available To Pay Benefits	**37 465**	**33 021**	**29 695**	**34 621**

Comment

Net Assets Available to Pay Benefits increased by $4.444m consistent with the net surplus for the year. This was mainly represented by:

- higher Cash at bank, $0.488m, in order to maintain sufficient funds in a clearing account with Mercer
- higher investments, $4.047m, due to the improvement in Investment returns noted in the Statement of Changes in Net Assets section earlier in this Chapter.

The Scheme's Statement of Net Assets represents the assets available to pay members' benefits. A full actuarial review of the Accrued and Vested benefits for the Scheme was last undertaken in 2008-09. As at 30 June 2011, the value of Accrued benefits, as determined by the Actuary at 30 June 2009, was $27.833m. Scheme assets, $37.465m, exceeded this liability resulting in a surplus of $9.632m. However, it should be noted that the actuarial assessment is two years old and a new review is due to be undertaken in 2011-12.

Vested benefits, which were unconditional benefits members were entitled to receive had they terminated their membership as at the reporting date, were $34.165m at 30 June 2009.

FINANCIAL ANALYSIS

	2010-11	2009-10	2008-09	2007-08
Financial Performance				
Investments ($'000s)	40 463	36 416	31 239	38 016
Net investment income ($'000s)	3 477	2 775	(4 535)	(2 596)
Return on investments	9.0%	7.6%	(14.5%)	(6.8%)
Other Information				
Members (number)	161	161	167	176
Departures	0	6	9	13

Comment

The performance of TASSS varied due to the volatility of the investment market and the level of benefits paid out in any one financial year. While Returns on investments were positive this year, and in 2009-10, poor returns in 2008-09 and 2007-08, which were negative 14.5% and 6.8% respectively, impacted the performance of the Scheme. Over the four year period, Returns on investments averaged negative (1.17%).

RETIREMENT BENEFITS FUND BOARD - STATE FIRE COMMISSION SUPERANNUATION SCHEME

INTRODUCTION

The State Fire Commission Superannuation Scheme (SFCSS or the Scheme) is a defined benefit scheme. The Scheme was closed to new members from 1 July 2005. It was established for permanent uniformed employees of the Tasmania Fire Service (TFS). The SFCSS was transferred to the Retirements Benefit Fund Board (RBFB) on 1 May 2006 under a Successor Fund arrangement. This arrangement involved the trustee, fund administration and investment functions of the Scheme being transferred to the RBFB. Accumulation entitlements in SFCSS were rolled over to the RBF Investment Account effective 1 May 2006.

Members receive benefits based on their final average salary and years of service and they contribute at the rate of 5%. Member Investment Choice does not apply to these contributions. Members wishing to contribute more than 5% do so via the RBF Investment Account. The employer, State Fire Commission (SFC), contributes at the rate of 11% for each employee and it retains responsibility for any shortfall in fund assets.

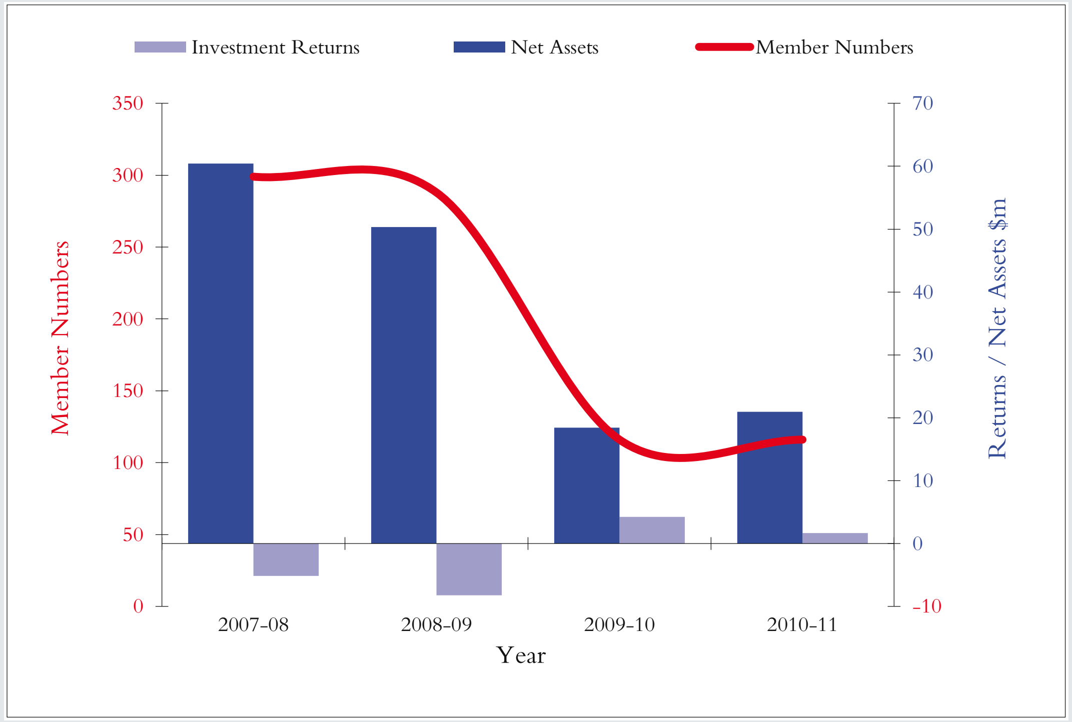
Being a closed scheme, growth and performance will be affected by the lack of new members in future years and as existing members exit from the scheme. Nevertheless, as a defined scheme, any future unfunded liability must be met over time by the SFC.

AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

Signed financial statements were received on 5 October 2011 and an unqualified audit report was issued on the same day. Financial statements were submitted 51 days after the statutory reporting deadline.

FINANCIAL RESULTS

The graph below provides a snapshot of the Scheme's financial performance.



Being a closed scheme, member numbers have fallen since commencement with the RBF and especially in 2009 due to a strategy encouraging members to transfer accounts to the Tasmanian Accumulation Scheme. The decline in member numbers and transfer of their investments contributed significantly to the decline in Net assets between 2008-09 and 2009-10. In 2010-11 SFCSS' Net assets increased slightly on the previous year's balance following improved investment returns. Investment returns were negative in both 2008-09 and in 2007-08 but returned to being positive in 2009-10 as financial markets improved after the downturn in 2008.

STATEMENT OF CHANGES IN NET ASSETS

	2010-11	2009-10	2008-09	2007-08
	$'000s	$'000s	$'000s	$'000s
Investment revenue	1 292	1 577	3 443	4 342
Changes in net market values	1 265	3 366	(10 932)	(8 484)
Direct investment expenses	(105)	(144)	(248)	(213)
Employer contributions	1 333	1 994	3 195	2 220
Member contributions	72	139	271	782
Transfers from other funds	0	0	0	3
Total Revenue	**3 857**	**6 932**	**(4 271)**	**(1 350)**
General operating fee	655	379	377	621
Other expenses	143	206	113	167
Superannuation Contributions Surcharge	0	0	(2)	0
Benefits paid	322	37 542	5 597	1 787
Total Expenses	**1 120**	**38 127**	**6 085**	**2 575**
Change in Net Assets Before Tax	**2 737**	**(31 195)**	**(10 356)**	**(3 925)**
Income tax benefit (expense)	(252)	(714)	291	256
Change in Net Assets after Tax	**2 485**	**(31 909)**	**(10 065)**	**(3 669)**
Net assets available to pay benefits at year start	18 442	50 351	60 416	64 085
Net Assets Available to Pay Benefits at Year End	**20 927**	**18 442**	**50 351**	**60 416**

Comment

In 2010-11 the Scheme recorded a surplus before tax of $2.737m, which was $33.932m better than last year's result. The improved result was predominantly due to a decrease in Benefits paid, $37.220m, caused by a high volume of voluntary transfers of member accounts to the Tasmanian Accumulation Scheme in 2009 following changes made to the Scheme. The lower benefit payments were partially offset by:

- lower Investment revenue, $0.285m, due to lower distributions received
- decreased net market values of investments, $2.101m, being a combination of:
  - lower unrealised gains on investments, down $0.916m from a gain of $1.620m last year. This movement was mainly driven by a decrease in both the volume and value of investments in Australian and international equities
  - lower realised gains on investments, down $1.185m from a gain of $1.746m. The decline was caused by lower gains on the sale of assets across the investment portfolio.

After accounting for an Income tax expense of $0.252m, the Scheme returned a net surplus of $2.485m. Net Assets available to pay benefits at 30 June 2011 totalled $20.927m

STATEMENT OF NET ASSETS

	2011	2010	2009	2008
	$'000s	$'000s	$'000s	$'000s
Cash at bank	220	0	0	0
Interest receivable	11	13	234	202
Other receivables	132	0	0	0
Investments	28 124	25 647	54 078	63 833
Deferred tax asset	1 965	2 063	1 626	720
Total Assets	**30 452**	**27 723**	**55 938**	**64 755**
Other payables	8 803	7 704	4 424	3 169
General operating provision	532	428	623	519
Provision for income tax	190	1 149	540	651
Total Liabilities	**9 525**	**9 281**	**5 587**	**4 339**
Net Assets Available To Pay Benefits	**20 927**	**18 442**	**50 351**	**60 416**

Comment

Net Assets Available to Pay Benefits increased by $2.485m consistent with the net surplus for the year. This was mainly represented by:

- higher Cash at bank, $0.220m, in order to maintain sufficient funds in a clearing account with Mercer
- higher Investments, $2.477m, representing an increase in the value equities and investment properties
- higher Other payables, $1.099m, due to an increase in inter-fund payables in line with the increase in the Board's administration expenses due to the initial cost associated with outsourcing member services
- lower Provision for income tax, $0.959m, due to a decrease in the income tax liability on benefit payments in line with the decrease in benefits paid.

The Scheme's Statement of Net Assets represents the assets available to pay members' benefits. A full actuarial review of the Accrued and Vested benefits for the Scheme was last undertaken in 2008-09. As at 30 June 2011, the value of Accrued benefits, as determined by the Actuary at 30 June 2009, was $49.181m. This actuarial assessment is two years old and does not reflect the significant movement in membership in 2009. A new actuarial review is due to be undertaken in 2011-12.

Vested benefits, which were unconditional benefits members were entitled to receive had they terminated their membership as at the reporting date, were $21.600m at 31 March 2010.

FINANCIAL ANALYSIS

	2010-11	2009-10	2008-09	2007-08
Financial Performance				
Investments ($'000s)	28 124	25 647	54 078	63 833
Net investment income ($'000s)	2 452	4 799	(7 737)	(4 355)
Return on investments	6.0%	18.7%	(14.3%)	(6.8%)
Other Information				
Members (number)	116	116	288	299

Comment

The performance of SFCSS will vary depending on the volatility of the investment market and the level of benefits paid out in any one financial year. While Returns on investments were positive this year and in 2009-10, poor returns in 2008-09 and 2007-08, which were negative 14.3% and 6.8% respectively, impacted the performance of the Scheme. Over the four year period, Returns on investments averaged 0.9%.

RETIREMENT BENEFITS FUND BOARD - RBF FINANCIAL PLANNING PTY LTD

INTRODUCTION

RBF Financial Planning is wholly owned by the RBF Board. This Company provides financial planning advice to RBF members relating to their individual circumstances and financial goals. It was established to meet the needs of members by providing a cost-effective financial planning service. The Company's operating revenue is derived primarily from financial planning fees charged to RBF members.

AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

Signed financial statements were received on 6 September 2011 and an unqualified audit report was issued on 7 September 2011. The statutory lodging deadline of the 15 August 2011 was not met. Apart from this omission the audit was completed with satisfactory results and there were no major issues outstanding.

SUMMARY OF FINANCIAL RESULTS

	2010-11	2009-10
	$	$
Total Receipts	280 115	167 516
Total Payments	263 851	151 692
Profit before income tax expense	**16 264**	**15 824**
Income tax expense	4 879	4 747
Net Surplus	**11 385**	**11 077**
Total Assets	207 928	201 730
Total Liabilities	46 840	52 027
Net Assets	**161 088**	**149 703**
Total Equity	**161 088**	**149 703**

Comment

Net Surplus was consistent with the prior year. Total Receipts increased by $112 599, 67%, predominately due to an aggressive marketing and sales plan. This was offset by higher Total Payments, $112 159, attributable to additional salary reimbursements which resulted from increased operational activity.

Total Equity increased in line with the Net Surplus. Reasons for movements in total assets and liabilities included:

- Total Assets were higher due to increased trade receivables outstanding at year end which was anticipated following the growth in revenues
- Total Liabilities decreased because salary reimbursements due by the RBFB were settled before 30 June 2011. However, this was offset to an extent by the inclusion of deferred revenue as a result of a new more accurate accounting system.

APPENDIX 1 - GUIDE TO USING THIS REPORT

This Report is prepared under section 29 of the *Audit Act 2008* (the Audit Act), which requires the Auditor-General, on or before 31 December in each year, to report to Parliament in writing on the audit of State entities and audited subsidiaries of State entities in respect of the preceding financial year. The issue of more than one report entitled the *Auditor-General's Report on the Financial Statements of State Entities*, comprising six volumes, satisfies this requirement each year. The volumes are:

- Volume 1 – Analysis of the Treasurer's Annual Financial Report
- Volume 2 – Executive and Legislature, Government Departments and other General Government Sector State entities
- Volume 3 – Government Business Enterprises, State Owned Corporations, and Water Corporations and Superannuation Funds
- Volume 4 – Local Government Authorities
- Volume 5 – Other State entities 30 June
- Volume 6 - 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	5.21%	EBIT divided by Average Total Assets
Return on equity		Result from Ordinary Activities after Taxation divided by Average Total Equity
Self financing ratio		Net Operating Cash Flows divided by Operating Revenue

Financial Performance Indicator	Benchmark[1]	Method of Calculation
Financial Management		
Asset consumption ratio	Between 40% and 80%	Depreciated replacement cost of asset (eg. infrastructure, roads, bridges) divided by current replacement cost of asset
Asset renewal funding ratio	90%-100%	Future (planned) asset replacement expenditure divided by future asset replacement expenditure (actual) required
Asset sustainability ratio	>100%	Renewal and upgrade expenditure on existing assets divided by depreciation on existing assets
Capital Investment Gap, Asset investment ratio or Investment gap	>100%	Payments for Property, plant and equipment divided by Depreciation expenses
Capital Replacement Gap, Asset renewal ratio or Renewal gap	100%	Payments for Property, plant and equipment on existing assets divided by Depreciation expenses
Cost of debt	6.9%	Gross Interest Expense divided by Average Borrowings (include finance leases)
Creditor turnover	30 days	Payables divided by credit purchases multiplied by 365
Current ratio	>1	Current Assets divided by Current Liabilities
Debt collection	30 days	Receivables divided by billable Revenue multiplied by 365
Debt 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	3:1	Net operating cashflows less interest and tax payments divided by Net interest payments
Interest cover – EBIT	>2	EBIT divided by Gross Interest Expense
Interest cover – EBITDA	>2	EBITDA divided by Gross Interest Expense
Interest cover – Funds from Operations	>2	Cash from Operations plus Gross Interest Expense divided by Gross Interest Expense
Liquidity ratio	2:1	Liquid assets divided by current liabilities other than provisions
Net financial assets (liabilities) ($'000s)		Total financial liabilities less liquid assets
Net financial liabilities ratio	0 – (50%)	Total liabilities less liquid assets divided by total operating income

Financial Performance Indicator	Benchmark[1]	Method of Calculation
Returns to Government		
CSO funding ($'000)		Amount of community service obligation funding received from Government
Dividend payout ratio	50%	Dividend divided by Result from Ordinary Activities after Tax
Dividend to equity ratio		Dividend paid or payable divided by Average Total Equity
Dividends paid or payable ($'000s)		Dividends paid or payable that relate to the year subject to analysis
Effective tax rate	30%	Income Tax paid or payable divided by Result form Ordinary Activities before Tax
Government guarantee fees ($'000)		Amount of guarantee fees paid to owners (usually Government)
Income tax paid ($'000s)		Income Tax paid or payable that relates to the year subject to analysis
Total return to equity ratio		Total Return divided by Average Equity
Total return to the State ($'000s) or total return to owners		Dividends plus Income Tax and Loan Guarantee fees
Other Information		
Average leave per FTE ($'000s)		Total employee annual and long service leave entitlements divided by Staff Numbers
Average long service leave balance	Not more than 100 days	Actual long service leave provision days due divided by average FTE's
Average recreational leave balance	20 days [3]	Actual annual leave provision days due divided by average FTE's
Average staff costs [2] ($'000s)		Total employee expenses (including capitalised employee costs) divided by Staff Numbers
Employee costs [2] as a % of operating expenses		Total employee costs divided by Total Operating Expenses
Employee costs capitalised ($'000s)		Capitalised employee costs
Employee costs expensed ($'000s)		Total employee costs per Income Statement
Operating cost to rateable property		Operating expenses plus finance costs divided by rateable properties per valuation roll
Rates per capita		Population of council area divided by rates revenue
Rates per operating revenue		Total rates divided by operating revenue including interest income
Rates per rateable property		Total rates revenue divided by rateable properties per valuation rolls
Staff numbers FTEs		Effective full time equivalents

1 *Benchmarks vary depending on the nature of the business being analysed. For the purposes of this Report, a single generic benchmark has been applied.*
2 *Employee costs include capitalised employee costs, where applicable, plus on-costs.*
3 *May vary in some circumstances because of different award entitlements.*

An explanation of most financial performance indicators is provided below:

FINANCIAL PERFORMANCE

- **Earnings before interest and tax (EBIT)** – measures how well an entity can earn a profit, from its operations, regardless of how it is financed (debt or equity) and before it has to meet external obligations such as income tax. This is a measure of how well it goes about its core business.
- **Earnings before income tax, depreciation and amortisation (EBITDA)** – measures how well an entity can generate funds without the effects of financing (debt or equity), depreciation and amortisation and before it has to meet external obligations such as income tax. This measure is of particular relevance in cases of entities with large amounts of non-current assets as the distortionary accounting and financing effects on the entity's earnings are removed, enabling comparisons to be made across different entities and sectors.
- **Operating margin** – this ratio serves as an overall measure of operating effectiveness.
- **Operating Surplus (Deficit) or Result from operations** – summarises revenue transactions and expense transactions incurred in the same period of time and calculates the difference.
- **Operating surplus ratio** – a positive result indicates a surplus with the larger the surplus the stronger surplus and therefore stronger assessment of sustainability. However, too strong a result could disadvantage ratepayers. A negative result indicates a deficit which cannot be sustained in the long-term.
- **Own source revenue** – represents revenue generated by a council through its own operations. It excludes any external government funding, contributed assets and revaluation adjustments.
- **Return on assets** – measures how efficiently management used assets to earn profit. If assets are used efficiently, they earn profit for the entity. The harder the assets work at generating revenues, and thus profit, the better the potential return for the owners.
- **Return on equity** – measures the return the entity has made for the shareholders on their investment.
- **Self financing ratio** – this is a measure of council's ability to fund the replacement of assets from cash generated from operations.

FINANCIAL MANAGEMENT

- **Asset consumption ratio** – shows the depreciated replacement cost of an entity's depreciable assets relative to their "as new" (replacement) value. It therefore shows the average proportion of new condition left in the depreciable assets.
- **Asset renewal funding ratio** – measures the capacity to fund asset replacement requirements. An inability to fund future requirements will result in revenue, expense or debt consequences, or a reduction in service levels. This is a most useful measure relying on the existence of long-term financial and asset management plans.
- **Asset sustainability ratio** – provides a comparison of the rate of spending on existing infrastructure, property, plant and equipment through renewing, restoring and replacing existing assets, with depreciation. Ratios higher than 100% indicate that spending on existing assets is greater than the depreciation rate. This is a long-term indicator, as capital expenditure can be deferred in the short-term if there are insufficient funds available from operations and borrowing is not an option.
- **Capital Investment Gap, Asset investment ratio or Investment gap** – indicates whether the entity is maintaining its physical capital by reinvesting in or renewing non-current assets (caution should be exercised when interpreting this ratio for entities with significant asset balances at cost as the level of depreciation may be insufficient).
- **Capital Replacement Gap, Asset renewal ratio or Renewal gap** – indicates whether the entity is maintaining its physical capital by reinvesting in or renewing existing non-current assets (caution should be exercised when interpreting this ratio as the amount of capital expenditure on existing assets has largely been provided by the respective councils and not subject to audit).
- **Cost of debt** – reflects the average interest rate applicable to debt.
- **Creditors turnover** – indicates how extensively the entity utilises credit extended by suppliers.
- **Current ratio** – current assets should exceed current liabilities by a 'considerable' margin. It is a measure of liquidity that shows an entity's ability to pay its short term debts.
- **Debt collection** – indicates how effectively the entity uses debt collection practices to ensure timely receipt of monies owed by its customers.
- **Debt to equity** – an indicator of the risk of the entity's capital structure in terms of the amount sourced from borrowings and the amount from Government.
- **Debt to total assets** – an indicator of the proportion of assets that are financed through borrowings.
- **Interest cover** – EBIT – an indicator of the ability to meet periodic interest payments from current profit (before interest expense). The level of interest cover gives a guide of how much room there is for interest payments to be maintained in the face of interest rate increases or reduced profitability.
- **Interest cover** – Funds from operations – examines the exposure or risk in relation to debt, an indicator of the ability to meet periodic interest payments from funds from operations (before interest expense). The level of interest cover gives a guide of how much room there is for interest payments to be maintained in the face of interest rate increases or reduced funds from operations.
- **Net financial liabilities ratio** – indicates the extent to which net liabilities can be met by operating income. A falling ratio indicates that the entity's capacity to meet its financial obligations from operating income is strengthening.

RETURNS TO GOVERNMENT

- **Dividend payout ratio** – the amount of dividends relative to the entity's net income.
- **Dividend to equity ratio** – the relative size an entity's dividend payments to shareholders' equity. A low dividend to equity ratio may indicate that profits are being retained by the entity to fund capital expenditure.
- **Dividends paid or payable** – payment by the entity to its shareholders (whether paid or declared as a payable).
- **Effective tax rate** – is the actual rate of tax paid on profits.
- **Income tax paid** – tax payments by the entity to the State in the year.
- **Total return to equity ratio** – measures the Government's return on its investment in the entity.
- **Total return to the State** – is the funds paid to the Owners consisting of income tax, dividends and guarantee fees.

OTHER INFORMATION

- **Average leave balance per FTE ($'000s)** – indicates the extent of unused leave at balance date.
- **Average long service leave balance or days long service leave due** – records the average number of days long service leave accumulated per staff member. In general public servants cannot accrue more than 100 days annual leave.
- **Average recreational leave balance or days annual leave due** – records the average number of days annual leave accumulated per staff member. In general public service employees accrue 20 days annual leave per annum.
- **Average staff costs** – measures the average cost of employing staff in the entity for the year.
- **Employee costs as a percentage of operating expenses** - indicates the relative significance of employee costs compared to other operating expenses.
- **Employee costs capitalised ($'000s)** – represents employee costs that have been capitalised rather than expensed.
- **Employee costs expensed ($'000s)** – represents the level of employee costs expensed, ie. included in the Income Statement. This together with the Employee costs Capitalised will provide a total employee cost figure for use in other related ratios.
- **Staff numbers FTEs** – as at the end of the reporting period the number of staff employed expressed as full-time equivalents (FTEs).

The above indicators are used because they are commonly applied to the evaluation of financial performance. Care should be taken in interpreting these measures, as by definition they are only indicators, and they should not be read in isolation.

APPENDIX 2 - AUDIT STATUS

Entity	Financial Statement deadline	Signed Financial Statements Received	Re-signed/ Amended Financial Statements Received	Emphasis of matter	Clear opinion issued	Audit opinion signed	< 8 weeks	8 to 10 weeks	10 to 12 weeks	12 to 14 weeks	14 to 16 weeks	> 16 weeks
GOVERNMENT BUSINESS ENTERPRISES, STATE OWNED COMPANIES, WATER CORPORATIONS AND SUPERANNUATION FUNDS												
GOVERNMENT BUSINESS ENTERPRISES												
Forestry Tasmania	15 August 2011	17 August 2011		✓	✓	17 August 2011	✓					
Hydro-Electric Corporation	15 August 2011	11 August 2011			✓	11 August 2011	✓					
Motor Accidents Insurance Board	15 August 2011	11 August 2011			✓	11 August 2011	✓					
Port Arthur Historic Site Management Authority	15 August 2011	8 August 2011			✓	22 September 2011			✓			
Rivers and Water Supply Commission	15 August 2011	15 August 2011			✓	30 September 2011				✓		
Tasmanian Public Finance Corporation	15 August 2011	11 August 2011			✓	12 August 2011	✓					
Public Trustee	15 August 2011	12 August 2011			✓	12 August 2011	✓					
STATE OWNED CORPORATIONS												
Aurora Energy Pty Ltd	15 August 2011	12 August 2011			✓	12 August 2011	✓					
Metro Tasmania Pty Ltd	15 August 2011	11 August 2011			✓	11 August 2011	✓					
Tasmanian Ports Corporation Pty Ltd	15 August 2011	15 August 2011			✓	15 August 2011	✓					
Tasracing Pty Ltd	15 August 2011	15 August 2011	30 September 2011		✓	30 September 2011				✓		
Tasmanian Railway Pty Ltd	15 August 2011	15 August 2011			✓	17 August 2011	✓					
TOTE Tasmania Pty Ltd	15 August 2011	17 August 2011	19 September 2011	✓	✓	19 September 2011			✓			
Transend Networks Pty Ltd	15 August 2011	12 August 2011			✓	12 August 2011	✓					
TT-Line Company Pty Ltd	15 August 2011	10 August 2011			✓	10 August 2011	✓					

Entity	Financial Statement deadline	Signed Financial Statements Received	Re-signed/ Amended Financial Statements Received	Emphasis of matter	Clear opinion issued	Audit opinion signed	< 8 weeks	8 to 10 weeks	10 to 12 weeks	12 to 14 weeks	14 to 16 weeks	> 16 weeks
TASMANIAN WATER & SEWERAGE CORPORATIONS												
Tasmanian Water and Sewerage Corporation (Southern Region) Pty Ltd	15 August 2011	11 August 2011			✓	11 August 2011	✓					
Tasmanian Water and Sewerage Corporation (Northern Region) Pty Ltd	15 August 2011	11 August 2011			✓	11 August 2011	✓					
Tasmanian Water and Sewerage Corporation (North Western Region) Pty Ltd	15 August 2011	15 August 2011			✓	15 August 2011	✓					
Tasmanian Water and Sewerage Corporation (Common Services) Pty Ltd	15 August 2011	11 August 2011			✓	11 August 2011	✓					
SUPERANNUATION FUNDS												
Retirement Benefits Fund Board - Contributory Scheme	15 August 2011	5 October 2011			✓	5 October 2011				✓		
Retirement Benefits Fund Board - Tasmanian Accumulation Scheme	15 August 2011	5 October 2011			✓	5 October 2011				✓		
Parliamentary Superannuation Fund	15 August 2011	5 October 2011			✓	5 October 2011				✓		
Parliamentary Retiring Benefits Fund	15 August 2011	5 October 2011			✓	5 October 2011				✓		
Retirement Benefits Fund Board - Tasmanian Ambulance Service Superannuation Scheme	15 August 2011	5 October 2011			✓	5 October 2011				✓		
Retirement Benefits Fund Board - State Fire Commission Superannuation Scheme	15 August 2011	5 October 2011			✓	5 October 2011				✓		
RBF Financial Planning Pty Ltd	15 August 2011	6 September 2011			✓	7 September 2011		✓				

APPENDIX 3 - ACRONYMS AND ABBREVIATIONS

AAS	Australian Accounting Standard
AASB	Australian Accounting Standards Board
ACT	Australian Capital Territory
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
AETV	Aurora Energy Tamar Valley
BBP	Bell Bay Power Pty Ltd
BLW	Ben Lomond Water
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CLP	China Light and Power
CMW	Cradle Mountain Water
CPI	Consumer Price Index
CPOL	Cargo and Port Operation Logistics
DIER	Department of Infrastructure, Energy and Resources
DORC	Depreciated Optimised Replacement Cost
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EEP	Environmental Energy Products
FCAS	Frequency Control Ancillary Services
FMAA	Financial Management and Audit Act 1990
FTE	Full-time equivalent
GBE	Government Business Enterprise
GMO	Grantham, Mayo and Otterloo
GWh	Gigawatt Hour
HEC	Hydro-Electric Corporation
HR	Human Resources
IRRs	Inter Regional Revenues
IT	Information Technology
KIPC	King Island Ports Corporation
LGAT	Local Government Association of Tasmania
LSL	Long Service Leave
MAIB	Motor Accidents Insurance Board
MIC	Member Investment Choice
MWh	Megawatt Hour
NEM	National Electricity Market
NEMMCO	National Electricity Market Management Company Limited
Newood	Newood Holdings Pty Ltd
NTER	National Taxation Equivalent Regime
PNT	Pacific National Tasmania
POAGS	P&O Automotive & General Stevedoring Pty Limited
PRBF	Parliamentary Retiring Benefits Fund
PSF	Parliamentary Superannuation Fund
PWC	Price WaterhouseCoopers
R40s	Roaring 40s Renewable Energy Pty Ltd
RBF	Retirement Benefits Fund
RBFB	Retirements Benefits Fund Board
REC	Renewable energy certificates
RSTF	Road Safety Task Force
SEV	Soil expectation value
SFC	State Fire Commission
SFCSS	State Fire Commission Superannuation Scheme
SOC	State Owned Company
SW	Southern Water
TAS	Tasmanian Accumulation Scheme
TASCORP	Tasmanian Public Finance Corporation
Tasracing	Tasracing Pty Ltd
TASSS	Tasmanian Ambulance Service Superannuation Scheme
TCFA	Tasmanian Community Forest Agreement
TFS	Tasmania Fire Service
TIDB	Tasmanian Irrigation Development Board Pty Ltd
TIS	Tasmanian Irrigation Schemes Pty Ltd
TRB	Tasmanian Racing Board
TVPS	Tamar Valley Power Station
TWSC	Tasmanian Water and Sewerage Corporation
VaR	Value at Risk

APPENDIX 4 - RECENT REPORTS

TABLED	TITLE
November 2011 No.4 of 2011-12	Auditor General's Report on the Financial Statements of State Entities – Volume 2 – Executive and Legislature, Government Departments and other General Government Sector State entities 2010-11
November 2011 No.3 of 2011-12	Auditor General's Report on the Financial Statements of State Entities – Volume 1 – Analysis of the Treasurer's Annual Financial Report 2010-11
September 2011 No.2 of 2011–12	Children in out of home care
September 2011 No.1 of 2011–12	Tourism Tasmania: is it effective?
July 2011	Special Report No. 100 Financial and economic performance of Forestry Tasmania
June 2011	Special Report No. 99 Bushfire management
June 2011	Special Report No. 98 Premier's Sundry Grants Program and Urban Renewal and Heritage Fund
May 2011	Other State Entities 30 June 2010 and 31 December 2010, including University of Tasmania
May 2011	Special Report No. 97 Follow up of Special Reports 69-73
April 2011	Special Report No. 96 Appointment of the Commissioner for Children
February 2011	Special Report No. 95 Fraud control
November 2010	Analysis of Treasurer's Annual Financial Report
November 2010	Executive and Legislature, Government Department and other General Government State Sector Entities
November 2010	Government Business Enterprises, State Owned Companies and Superannuation Funds
November 2010	Special Report No. 94 Election promise: five per cent price cap on electricity prices
November 2010	Special Report No. 93 Investigations 2004-2010
October 2010	Special Report No. 92 Public sector productivity: a ten-year comparison
September 2010	Special Report No. 91 Follow up of special reports: 62-65 and 70
July 2010	Special Report No. 90 Science education in public high schools
June 2010	Special Report No. 89 Post-Year 10 enrolments
June 2010	Special Report No. 88 Public Trustee: management of deceased estates
June 2010	Special Report No. 87 Employment of staff to support MPs

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

INDEX

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Our Vision

STRIVE | LEAD | EXCEL | TO MAKE A DIFFERENCE

Our Purpose

To provide independent assurance to the Parliament and Community on the performance and accountability of the Tasmanian Public sector

Availability of reports

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

This report is printed on recycled paper.

AUDIT MANDATE AND STANDARDS APPLIED

MANDATE

Section 17(1) of the *Audit Act 2008* states that:

> "An accountable authority other than the Auditor-General, as soon as possible and within 45 days after the end of each financial year, is to prepare and forward to the Auditor-General a copy of the financial statements for that financial year which are complete in all material respects."

Under the provisions of section 18, the Auditor-General:

"(1) is to audit the financial statements and any other information submitted by a State entity or an audited subsidiary of a State entity under section 17(1)."

Under the provisions of section 19, the Auditor-General:

"(1) is to prepare and sign an opinion on an audit carried out under section 18(1) in accordance with requirements determined by the Australian Auditing and Assurance Standards.

(2) is to provide the opinion prepared and signed under subsection (1), and any formal communication of audit findings that is required to be prepared in accordance with the Australian Auditing and Assurance Standards, to the State entity's appropriate Minister and provide a copy to the relevant accountable authority."

STANDARDS APPLIED

Section 31 specifies that:

"The Auditor-General is to perform the audits required by this or any other Act in such a manner as the Auditor-General thinks fit having regard to –

(a) the character and effectiveness of the internal control and internal audit of the relevant State entity or audited subsidiary of a State entity; and

(b) the Australian Auditing and Assurance Standards."

The auditing standards referred to are Australian Auditing Standards as issued by the Australian Auditing and Assurance Standards Board.

Tasmanian
Audit Office

Photo courtesy of Sean Reardon

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