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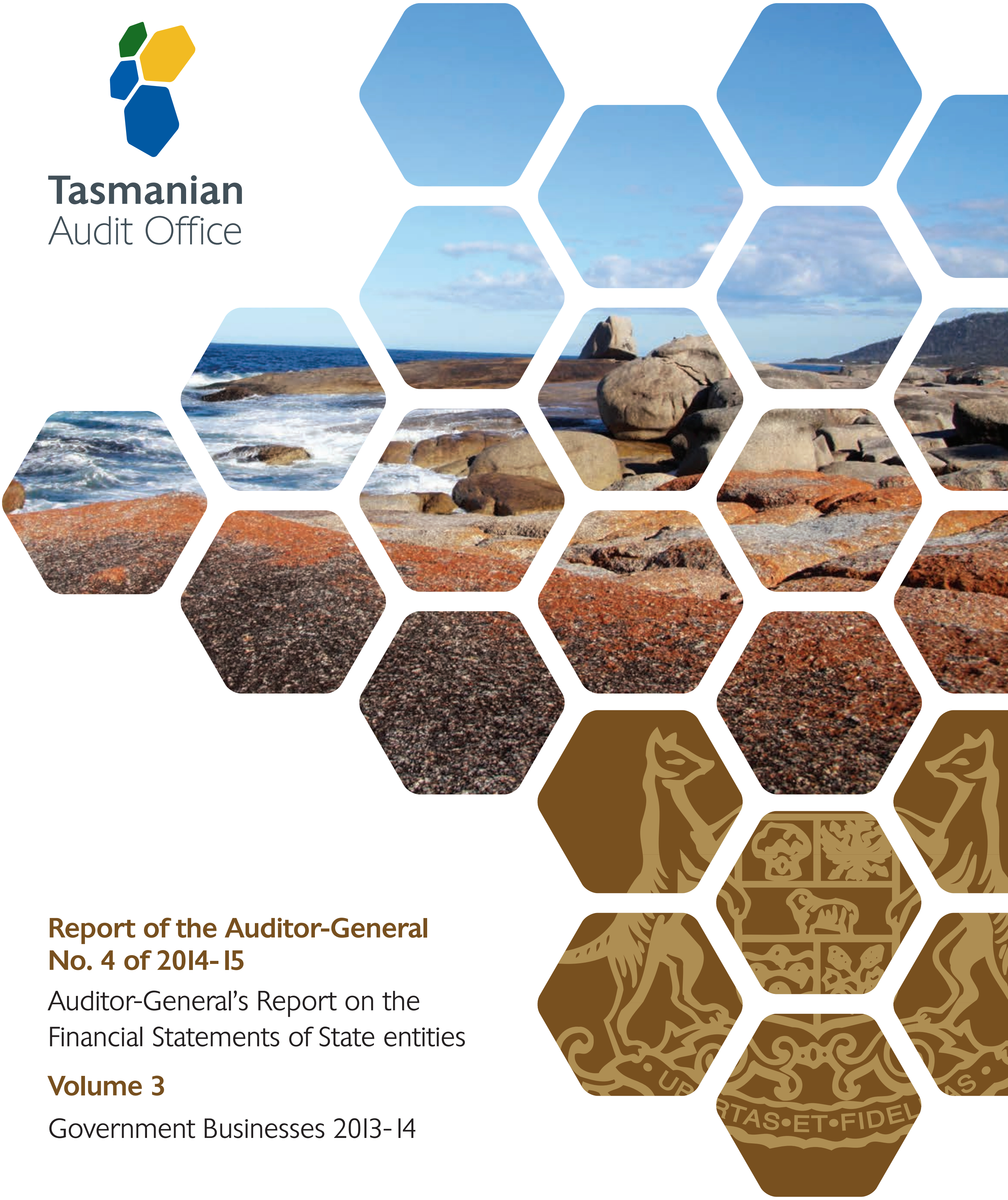

Report of the Auditor-General
No. 4 of 2014-15

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

Volume 3

Government Businesses 2013-14

November 2014

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THE ROLE OF THE AUDITOR-GENERAL

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

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

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

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

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

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

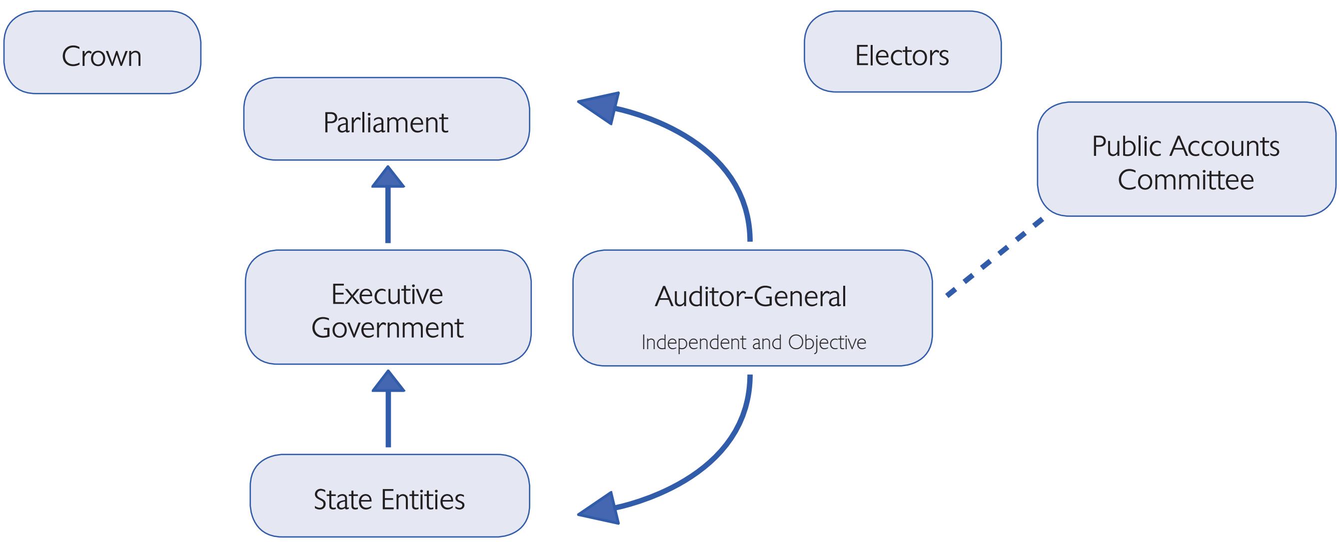
We can also carry out investigations but only relating to public money or to public property.

Performance and compliance audits are reported separately and at different times of the year, whereas outcomes from financial statement audits are included in one of the regular volumes of the Auditor-General's reports to the Parliament normally tabled in May and November each year.

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

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

The Auditor-General's role as Parliament's auditor is unique.



TASMANIA

2014
PARLIAMENT OF TASMANIA

Report of the Auditor-General
No. 4 of 2014-15

Volume 3

Government Businesses 2013-14.

November 2014

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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25 November 2014

President
Legislative Council
HOBART

Speaker
House of Assembly
HOBART

Dear Mr President

Dear Madam Speaker

Report of the Auditor-General No. 4 of 2014-15, Auditor-General's Report on the Financial Statements of State entities, Volume 3 – Government Businesses 2013-14.

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 State entities - Volume 3 - Government Businesses 2013-14.

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 2013-14 financial year. It summarises the results of audits, key findings and developments and financial performance of those State entities consisting of Public Non-Financial Corporations (PNFC) and Public Financial Corporations (PFC) for the year ended 30 June 2014.

In the financial year ended 30 June 2014, entities making up the PNFC sector generated $4.055bn in revenue and incurred $3.642bn in expenditure including asset write-downs. They managed total assets of $10.029bn and $6.064bn in liabilities which included borrowings from TASCORP of $2.363bn, superannuation obligations of $0.729bn and other liabilities of $2.968bn mainly consisting of deferred tax provisions, employee entitlements, payables and financial liabilities.

Included in PNFC entities are Macquarie Point Development Corporation and Private Forests Tasmania. These entities are neither government business enterprises nor state owned companies but are regarded as PNFCs for financial reporting purposes. At 30 June 2014, these entities held net assets of $46.694m, with total liabilities of $3.057m.

There are two entities making up the PFC sector; TASCORP and Motor Accidents Insurance Board, with combined assets of $7.907bn comprising cash, investments and loans to participating state entities. Total liabilities were $7.374bn which included borrowings and provisions for outstanding and unreported insurance claims.

Of the 17 entities included in the Report, 10 recorded underlying profits, six reported underlying losses and one had a break-even result. Results after taxation remained consistent with underlying profits and losses, with the exception of one entity which recorded a loss after tax, but an underlying profit.

The Report also includes commentary on the following two matters:

- how Government Business Enterprises and State Owned Corporations responded to complying with remunerations guidelines issued by the Department of Treasury and Finance
- summary of the comparative performance of the state's energy utilities.

All audits were completed within specified deadlines and unqualified audit opinions were issued in all cases.

H M Blake

Auditor-General

25 November 2014

TABLE OF CONTENTS

INTRODUCTION

SCOPE OF THIS REPORT

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

STATUS OF AUDITS

All audits for the year ended 30 June 2014 have been completed. The financial statements of the Government Businesses and where relevant, their subsidiary companies, were completed with unqualified audit opinions issued in each case.

Compliance with statutory financial reporting requirements is detailed in individual chapters. A summary dealing with the timeliness and quality of financial statements submitted for audit will be included Volume five to be tabled in 2015.

FORMAT OF THIS REPORT

Unless specifically indicated, comments in this Report were current as at 11 November 2014.

In addition to this Introduction, this report includes:

- Key Points
- Executive Remuneration
- Energy Businesses 2013-14
- Audit Summary Government Business Enterprises (GBEs)– these pages provide a summary focussing on financial performance
- individual chapters for each GBE
- Audit Summary State Owned Corporations (SOCs) – similarly, these pages provide a summary focussing on financial performance
- individual chapters for each SOC
- Audit Summary - PNFC
- individual chapters for Other PNFC entities.

Individual Chapters were structured as follows:

- a snapshot of the entity
- introduction
- audit of the 2013-14 statements
- key areas of audit attention*
- key findings*
- key developments*
- analysis of financial performance, concentrating on the underlying result*
- analysis of financial position reviewing total assets and net assets*
- appendices covering the statements of comprehensive income, financial position, cash flows and key financial ratios*.

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

Underlying Result

Entities are required to follow an applicable financial reporting framework specified in relevant law or regulations. State entities prepare general purpose financial statements in accordance with

Australian Accounting Standards. In certain circumstances a small number of State entities can prepare special purpose financial statements.

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

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

SUBMISSIONS AND COMMENTS RECEIVED

A copy of each chapter in this Report was provided to the relevant Government business and other PNFCs for comment and response. No comments were provided.

KEY AREAS OF AUDIT ATTENTION

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

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

KEY POINTS

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

REMUNERATION DISCLOSURE GUIDELINES

In August 2012 the Treasurer released financial reporting guidelines dealing with board member and key management personnel remuneration-related disclosures for the 2012-13 reporting period.

More comprehensive Guidelines were issued in October 2013. An objective was to ensure executive remuneration was not excessive and broadly in line with public sector levels and wage movements. Further minor amendments were made and the Guidelines reissued in March 2014.

Remuneration disclosures by GBEs and SOCs this year were an improvement compared to prior years resulting in greater openness, accountability, transparency and comparability. However, the requirements in the Guidelines are still less comprehensive than those established by AASB 124 *Related Party Disclosures* when read together with the *Corporations Act 2001.*

The Guidelines are currently being reviewed and we encourage Treasury to expand the disclosure requirements.

Recommendations:

That the Guidelines for Tasmanian Government Businesses - Director and Executive Remuneration are amended to require all Government businesses to fully adopt the remuneration-related disclosure requirements of AASB 124 Related Parties Disclosures as well as the requirements of the Corporations Act 2001 as they relate to disclosing entities.

We also recommend that similar disclosure requirements apply to all other State entities including General Government Sector and Local Government entities.

ENERGY BUSINESSES

These entities made a combined profit after tax of $245.863m (2012-13, loss $81.900m).

The three entities continued to generate significant cash from operations, which totalled $508.890m in 2013-14, (2012-13, $536.422m) and invested $348.302m in capital expenditure ($348.623m).

Average Tasmanian electricity wholesale prices in the National Energy Market decreased in 2013-14 to $41.98/MWh, compared to $48.30/MWh in 2012-13.

Government Business Enterprises

Audits of the financial statements of the six GBEs, and where relevant their subsidiary companies, were completed with unqualified audit opinions issued in all cases.

All audits were completed satisfactorily with no major items outstanding.

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

Forestry Tasmania (Forestry) 34

The audit opinion contained an "emphasis of matter" paragraph related to the assessment by the Directors and their conclusion that it was appropriate for Forestry to continue to adopt the going concern basis in preparing its financial report.

Continued to operate at a loss, however, revenue from forest sales was up $39.466m, or 70%, compared to last year and was consistent with the average sales over the previous three years of $90.054m.

Government support in the form of Deficit funding of $23.000m helped to reduce Forestry's underlying loss to $7.277m.

Equity decreased a further $41.269m to $31.259m.

Debt reduced over the four year period by $40.579m to $0.221m.

The value of standing timber declined by $18.875m this year to $86.083m.

Forty two employees, along with their employee obligations, and related assets were transferred to Department of Primary Industries, Parks, Water and Environment in January 2014. This was deemed to be an equity contribution by owners.

Hydro-Electric Corporation (Hydro) 48

On a turnover of $1.978bn, Hydro returned a Net Profit After Tax of $144.548m, and reported a Total Comprehensive Income of $148.899m.

Turnover increased significantly with revenue from the sale of goods and services up by $436.395m or 28.3%.

Generated an Underlying profit, that is, before impairment expenses and fair value movements, of $242.112m (2012-13, $230.261m).

While the Underlying result was positive, return, expressed as a percentage of turnover, declined from 15.24% to 12.06% this year. The average over the past six years was 10.94%. A 1% movement in return is about $20m.

The Total Comprehensive Income of $148.889m included a revaluation decrement to hydro generation assets of $228.727m.

Generated $242.672m in Cash flows from operating activities. Operating cash flows averaged $165.708m over the past six years.

Cash investments of $125.154m were made in property, plant and equipment. Hydro, on average over the past six years, invested $111.915m per annum in assets.

Was in a strong net asset position of $1.816bn.

Gross Borrowings totalled $864.003m and averaged $904.012m over the past six years peaking at $983.366m at 30 June 2011.

Paid a dividend of $116.058m based on its 2012-13 results. On 27 August 2014, a dividend of $118.576m was proposed relating to the 2013-14 results, representing 70% of profit before fair value movements, allowing for a 30% tax rate.

Over the past five years (no dividend was paid in 2008-09), Hydro paid an average of $49.319m per annum in dividends to government.

Motor Accidents Insurance Board (MAIB) 63

Recorded a profit before taxation of $171.942m, which included an underwriting profit of $10.136m and net investment income of $171.135m.

There was a 7.4% reduction in the base premium rate.

Investments totalled $1.518bn at 30 June 2014.

Claims expense increased by $37.156m, with a total claims liability of $952.683m at balance date.

Dividends paid this year, based on results over the past five years, totalled $23.219m. The dividend payable for 2013-14, as recommended by the Directors in August 2014, was $44.570m.

The State Budget, released in August 2014, confirmed a special dividend of $100.000m payable in 2014-15.

At 30 June 2014, Total Equity was $484.380m.

MAIB's funding ratio was 133.9%, within the Board's target range of 120% to 145%.

Port Arthur Site Management Authority (The Authority) 73

Recorded a Net Profit for the year of $2.364m.

Received annual support to fund conservation and tourism works of $5.686m (2012-13, $3.267m) and $0.263m ($0.391m), respectively.

Government contributed land at the Cascades Female Factory valued at $0.397m.

Visitor numbers increased 18% to 286 915 (2012-13, 243 761).

Net Assets increased by $1.833m to $28.974m.

Public Trustee (PT) 81

Underlying profit, $1.036m, showed a marked improvement this year compared to the average over the previous three years of $0.673m.

This improvement resulted mainly from higher Capital and Income commissions of $6.285m which was $0.617m more than 2012-13.

The Comprehensive profit included an after tax gain of $0.635m being a fair value movement on investments in managed funds.

Total Equity was $5.268m, an improvement of $0.985m on the prior year.

No dividend was paid as the gap in Community Service Obligation funding exceeded dividends payable in 2013-14. However, after signing the financial statements, the Board declared a dividend of $0.262m based on 2013-14 profits.

Held funds in trust on behalf of clients totalling $139.756m.

Tasmanian Public Finance Corporation (TASCORP) 90

Reported a Net profit before tax of $14.961m, an improvement of $6.116m on last year's profit largely due to a change in the methodology applied to value client advances and a decrease in hedging and funding costs.

Client advances increased to $3.009bn.

Borrowings increased to $5.620bn.

Dividends of $2.346m and income tax of $2.654m were paid this year.

TASCORP reverted to a methodology it used prior to June 2009 for fair valuing its client advances. Had this methodology been applied last year, client advances designated at fair value through profit or loss would have been $3.180m higher at 30 June 2013.

STATE OWNED CORPORATIONS (SOCs) 98

Audits of the financial statements of the nine SOCs, and where relevant their subsidiary companies, were completed with unqualified audit opinions issued in all cases.

All audits were completed satisfactorily with no major items outstanding.

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

Aurora Energy Pty Ltd (Aurora) 102

Transfer of Aurora's distribution and telecommunications businesses to a new entity, TasNetworks, on 1 July 2014.

Withdrawal of the planned divestment of Aurora's Tasmanian retail customer base. Aurora will continue to operate as a stand-alone retail business, with full retail contestability commencing from 1 July 2014.

Recorded Operating revenue of $1.195bn, down 23.0% on the previous year due to the effects of the divestment of Aurora Energy Tamar Valley Pty Ltd (AETV), the cessation of retailing activities on mainland Australia and a regulated price reduction of 5.22% which took effect on 1 January 2014.

Lower demand from customers (continuing a downward trend in recent years) and reduced revenue from external contracting activities.

Reported an Underlying Profit Before Tax and Customer contributions of $57.793m (which included $25.329m of energy reform costs), marginally down from $58.529m in 2012-13.

Reported a Net Profit after Tax of $63.991m with the increase of $12.425m driven by the change in income tax treatment of unbilled revenue.

Total debt remained relatively steady at $762.570m (increase of $12.757m) with a greater portion of the debt classified as current as a result of the transfer of debt to TasNetworks on 1 July 2014.

Made a Return on equity of 11.4% and contributed $64.560m to the State consisting of a $25.000m dividend, $29.881m in income taxes and $9.679m in Government guarantee fees. A further dividend of $40.000m was declared prior to 30 June 2014 and fully provided for.

During 2013-14 the Australian Energy Regulator issued two Regulatory Information Notices (RINs) to Aurora seeking audited economic benchmarking and category analysis information for a five year period, 2008-09 to 2012-13. Both RINs were audited or reviewed within the statutory deadline at a cost to Aurora of $0.250m.

Metro Tasmania Pty Ltd (Metro) 116

On a turnover of $48.220m, incurred a Net Loss Before Tax of $0.375m. The loss was after including $3.250m of funding provided outside of the contract for service delivery. Without this additional funding the Net Loss Before Tax would have been $3.625m.

Positive operating cash flows were achieved despite the loss.

Equity totalled $28.540m at 30 June 2014.

Reported negative working capital at 30 June 2014.

Tasmanian Irrigation Pty Ltd (TIPL) 123

Recorded an Underlying profit of $0.636m.

Continues to be heavily dependent on Government funding. From July 2011 to 30 June 2014 equity contributions, operating grants and interest subsidies totalled $111.705m.

Asset impairment losses over the last three years totalled $67.961m.

Net Assets totalled $103.779m at 30 June 2014.

Proposed a suite of five additional Tranche Two projects that are currently in the development stage. These proposed schemes will require $140.000m of public capital, with Government committing $30.000m.

Tasmanian Networks Pty Ltd (TasNetworks) 133

Was incorporated on 4 February 2014.

Did not trade prior to 1 July 2014 and all transactions in the current financial period were paid by Transend and Aurora.

Provisions for long service leave and annual leave for key management personnel resulted from balances transferring to TasNetworks from Transend Networks Pty Ltd (Transend) and Aurora. Leave balances for key management personnel from Hydro were recognised by TasNetworks and reimbursed from Hydro.

Provision for superannuation for key management personnel was included in the accounts of Transend.

Receivables represented monies owed by Aurora and Transend.

Tasmanian Ports Corporation Pty Ltd (Tasports) 135

Recorded an Underlying loss of $1.334m, which was consistent with the prior year. The Underlying loss was recorded despite a 12% increase in Net revenue.

Before bringing to account maintenance on non-commercial assets of $4.717m, there was an Underlying surplus of $3.383m.

Net Loss After Tax of $0.169m was an improvement on the prior year predominantly due to an Impairment reversal of $2.027m following a revaluation of infrastructure assets.

Total Equity was $193.785m, an increase of $18.657m on the prior period mainly due to a revaluation increment for infrastructure assets, $18.326m, net of tax.

No dividends were declared or paid.

Tasmanian Railway Pty Ltd (TasRail) 144

Continued to record Underlying losses and to be reliant on State and Commonwealth Government funding.

Incurred an Underlying loss of $6.284m before asset impairments expenses.

After accounting for an asset impairment of $41.666m, recorded a Net Loss Before Taxation of $47.950m.

Operated two reportable segments; above and below rail, which recorded segment losses before tax of $3.958m and $43.992m, respectively.

Total Equity was $118.167m; it had no borrowings and net working capital of $11.454m.

Based on current levels of profitability, it is unlikely to be able to operate beyond the forward estimates period without on-going financial support.

Tasracing Pty Ltd (Tasracing) 154

Recorded a lower Underlying loss of $0.573m this year.

The Asset impairment recorded in prior years was again partly reversed in line with latest forecasts in Tasracing's updated Corporate Plan. Forecasts incorporated the impact of improved revenue streams achieved in 2013-14 and projected reduced expenditure.

Needs to address a structural funding gap by adjusting its business model in order to achieve financial sustainability.

Remains heavily dependent on government funding, with $30.169m provided in 2013-14. Government also provided a loan facility of which $12.578m net was drawn and $0.553m was provided, in the form of an equity contribution, as assistance in servicing loan repayments.

Net Assets totalled $40.365m.

No dividends were declared or paid and no income tax equivalents were due.

Transend Networks Pty Ltd (Transend) 162

Transferred all assets, liabilities, employees and contracts to TasNetworks on 1 July 2014.

Profit after income tax was $37.324m and averaged $44.191m per annum over the past four years.

Net Assets totalled $708.907m and Borrowings were $664.349m. The Debt equity ratio was 93.7%.

Transmitted 13 783 Gigawatt hours (GWh) of energy compared to 12 959 GWh in 2012-13. The increase was due primarily to higher energy exports over Basslink.

Paid dividends of $28.686m and income tax equivalents of $31.187m. Declared, and provided for, a final dividend of $21.000m. Returned capital to the State of $20.000m.

The Australian Energy Regulator issued Regulatory Information Notices to Transend being a request for audited information for the five year period 2008-09 to 2012-13. These audits cost Transend $109 845.

TT-Line Company Pty Ltd (TT-Line) 173

Recorded an Underlying profit of $11.642m.

Net Profit After Tax was $10.383m. Net Profit is variable because of ship valuation adjustments.

Cash and deposits totalled $81.328m, an increase of $22.307m, and at 30 June 2014 it was debt free. The build-up of cash represents funds accumulated to replace or refurbish the two Spirits and because TT-Line has not been required to pay dividends.

Total Equity was $280.864m.

Government requested TT-Line to prepare a business case to increase passenger numbers through more frequent sailings, refurbished passenger facilities and lower average fares.

A new dry dock agreement was finalised with the Australian Government which allows the vessels to continue docking at Garden Island for the foreseeable future.

OTHER PUBLIC NON-FINANCIAL CORPORATIONS (PNFC) 182

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

Both audits were completed satisfactorily with no major items outstanding.

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

Macquarie Point Development Corporation (The Corporation) 183

Completed its first full 12 months of operation compared with four months last year.

Both Toll and TasRail transport and freight operations moved from the site in July 2014 and the head lease will be transferred to the Corporation in 2014-15.

A $4.666m contribution was provided to the Brooke Street Development Corporation for the redevelopment of the Brooke Street Pier. The contribution is not repayable unless default provisions of the agreement are triggered. Of the contribution, $2.916m was paid this year with the balance to be paid in 2014-15.

The contribution was the primary reason for the deficit of $4.624m this year.

Segmented financial reporting was applied for the first time to show the financial performance of the Macquarie Point and Brooke Street Pier projects. Macquarie Point activities resulted in a small surplus of $0.198m and the Brooke Street Pier project recorded a deficit of $4.822m.

Net Assets totalled $45.996m at 30 June 2014 which mainly represented cash and deposits.

The cash position of $46.585m has been forecast to reduce to $14.385m by 30 June 2020 as it undertakes remediation works on the site.

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

Private Forests Tasmanian (PFT) 188

Funded primarily by government appropriations and aims to operate on a break even basis.

Recorded a Net Surplus of $0.250m, a turnaround from deficits in the three prior years.

The surplus was as a result of higher cash flows from private forest levies and cost saving measures implemented over the past two years.

Net Assets totalled $0.698m.

REMUNERATION DISCLOSURE GUIDELINES

INTRODUCTION

In Auditor-General's Report No. 3 of 2013-14, Volume 2, we commented on Government businesses, Government Business Enterprises (GBEs) and State Owned Companies (SOCs), being exempt from making certain disclosures of compensation for key management personnel, otherwise required under AASB 124 *Related Parties Disclosures* and/or by the *Corporations Act 2001*, where applicable. In addition, our Report repeated our recommendation:

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

Our recommendation was partly adopted following release by the Treasurer in August 2012 of the Guidelines for Tasmanian Government Businesses - *Director and Executive Remuneration* (the Guidelines), commencing with the 2012-13 reporting period. In August 2013, the Treasurer determined that the remuneration disclosures should be implemented through a two-staged approach, with reduced disclosure relating to executive remuneration in the first phase. We acknowledged this approach and ensured compliance as part of our 2012-13 audits.

More comprehensive guidelines were issued in October 2013. An objective was to ensure executive remuneration was not excessive and broadly in line with public sector levels and wage movements. The guidelines were principles-based and other major requirements included:

- establishment of an independent Government Business Remuneration Advisory Panel (the Panel)
- requirement for the panel to establish remuneration bands for chief executive officers of Government Businesses that reflect the principles in the guidelines and contain maximum remuneration levels
- expanded criteria and guidance for key contractual terms and conditions and performance payments including linked limits for other senior executives
- a return to the full disclosure requirements for 2013-14.

Further minor amendments were made and the Guidelines reissued in March 2014.

We commend Treasury for preparing and re-issuing the Guidelines.

REPORTING IN 2013-14 FINANCIAL REPORTS

In our audits of financial reports prepared by GBEs and SOCs in 2013-14 we noted they:

- interpreted the guidelines as maximum disclosures sticking rigidly to what was written rather than acknowledging them as principles based
- incorrectly assumed that the maximum band was $0.450m
- adopted differing treatments of termination payments, including redundancies and retention incentives, and movements in leave provisions.

In completing our audits we reviewed compliance in light of the principles underpinning the Guidelines and ensured that items not specifically addressed were appropriately disclosed. In some cases interpretation differences resulted in changes being made prior to audit completion. Ultimately, in our opinion, disclosures complied with the Guidelines.

REPORTING IN LINE WITH DISCLOSING ENTITIES

Remuneration disclosures by GBEs and SOCs this year were an improvement compared to prior years resulting in greater openness, accountability, transparency and comparability. However, the requirements in the Guidelines are still less comprehensive than those established by AASB 124 when read together with the *Corporations Act 2001.*

We understand that the Guidelines are currently being reviewed and we encourage Treasury to expand the disclosure requirements consistent with our original recommendation.

Recommendations:

That the Guidelines for Tasmanian Government Businesses - Director and Executive Remuneration are amended to require all Government businesses to fully adopt the remuneration-related disclosure requirements of AASB 124 Related Parties Disclosures as well as the requirements of the Corporations Act 2001 as they relate to disclosing entities.

We also recommend that similar disclosure requirements apply to all other State entities including General Government Sector and Local Government entities.

Response by the Department of Treasury and Finance

The Department was offered the opportunity to comment and it advised that it did not have any comment to make.

ENERGY BUSINESS ENTERPRISES

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 Volume. This Chapter summarises their performance on a comparative basis.

Readers should take care in drawing conclusions from comparisons due to the differing nature of each entity's business and corporate structures. At the same time, there are many similarities and comparative assessment is again provided to assist in evaluating relative financial performance and financial position. However, to facilitate comparison, allocations of some income and expenditure in the Income Statements may vary from those reported separately for each entity.

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

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

ENERGY TRANSFORMATION PACKAGE

All three energy businesses were impacted as initiatives from the Minister for Energy's 2012 energy reform package, "Energy for the Future", were implemented. Key outcomes during 2013-14 were the:

- transfer of Aurora Energy (Tamar Valley) Pty Ltd (AETV) from Aurora to Hydro – the transfer took place on 1 June 2013 with 2013-14 the first full financial year under Hydro management
- merging of Aurora's distribution network with Transend's transmission network to form TasNetworks Pty Ltd with effect from 1 July 2014.

While significant processes were commenced to prepare for the divestment of Aurora's retail customers, this did not occur. On 26 September 2013, following advice from the Department of Treasury and Finance (Treasury) that it did not believe the current divestment process would achieve a fair and reasonable price for Aurora's retail customers, the Minister resolved, at that point in time, to withdraw the sale process. Aurora's retail business then refocused to prepare for full retail contestability from 1 July 2014.

Local electricity reform costs

Treasury established a business transition group to coordinate the electricity reforms. The three State owned electricity businesses funded the group's operations and incurred other operational and capital costs as part of the reforms. As summarised in the following table, reform costs since 2012 now total \$82.733m.

	Hydro	Aurora	Transend	Total
	$'000s	$'000s	$'000s	$'000s
2013-14 Reform Costs				
Business Transition Group costs	0	837	537	1 374
Employees, contractors and consultants costs	19	8 245	1 981	10 245
Redundancy costs paid	63	13 724	4 398	18 185
Other costs of reform	167	2 523	718	3 408
Total Operating Reform Costs	**249**	**25 329**	**7 634**	**33 212**
Capital costs incurred for distribution business full retail contestability	0	28 458	886	29 344
Total	**249**	**53 787**	**8 520**	**62 556**
2012-13 Reform Costs				
Operating Reform Costs	3 862	5 685	949	10 496
Capital Reform Costs	0	9 681	0	9 681
Total	**3 862**	**15 366**	**949**	**20 177**
Total Reform Costs	**4 111**	**69 153**	**9 469**	**82 733**

National electricity reform costs

The Australian Energy Regulator (AER) is Australia's national energy market regulator with the objective of promoting efficient investment in, and efficient operation and use of, electricity services for the long-term interests of consumers. To achieve this, the AER has a program which collects and collates both financial and non-financial information. Energy network providers are required to develop and maintain systems to capture and report required information in a format stipulated by the Regulator in Regulatory Information Notices (RINs). The AER then utilises this information for benchmarking and analysis of performance as an integral input into future regulatory determinations for setting entity returns and consumer prices. RIN outcomes are posted on the AER website.

In Tasmania both Aurora and Transend were issued with RINs. Completion of these RINs required significant input of resources by both companies. The cost of auditing multiple prior year RINs in 2013-14 for Aurora and Transend was $0.250m and $0.110m respectively. Since the AER's regulatory program is on-going, all future RINs requirements will now to be met by TasNetworks.

INCOME STATEMENTS

	Hydro	Aurora	Transend
	$'000s	$'000s	$'000s
Electricity sales/transmission/distribution	1 978 012	1 134 514	214 735
Share of profit of joint venture entities	3 070	0	0
Other operating revenue	26 551	60 025	19 203
Total Revenue	**2 007 633**	**1 194 539**	**233 938**
Depreciation and amortisation	88 230	102 344	77 125
Labour	149 941	104 026	31 336
Energy generation, acquisition and transmission	1 447 510	875 843	29 384
Total Expenses	**1 685 681**	**1 082 213**	**137 845**
Underlying Profit before Interest and Tax	**321 952**	**112 326**	**96 093**
Finance costs	79 840	54 533	43 451
Underlying Profit Before Tax and Fair Value Movements	**242 112**	**57 793**	**52 642**
Movements in fair value	162 110	(1 144)	706
Customer contributions	0	8 432	0
Revaluation and impairment expenses	(220 492)	0	0
Net Profit (Loss) before Taxation	**183 730**	**65 081**	**53 348**
Income tax benefit (expense)	(39 182)	(1 090)	(16 024)
Net Profit (Loss) after Taxation	**144 548**	**63 991**	**37 324**
Net Profit (Loss) after Taxation in 2012-13	**(188 825)**	**59 115**	**47 810**
Net Profit (Loss) after Taxation in 2011-12	**13 872**	**21 410**	**43 964**
Net Profit (Loss) after Taxation in 2010-11	**151 092**	**17 683**	**47 665**

These entities made a combined profit after tax of $245.863m (2012-13, loss $81.900m) with Hydro contributing 59%, Aurora 26% and Transend 15%. Hydro's profit was severely affected by revaluation decrements and impairment expenses of $220.492m ($484.315m). Had these expenses not been incurred, the three entities' combined profit before tax would have been $466.355m ($388.618m).

Hydro's sales revenue grew by 28.3% (2012-13, 48.7%) mainly due to additional retail revenue generated by Momentum Energy Pty Ltd (Momentum Energy) of 29.13% to $1.033bn for 2013-14 (2012-13, $800.143m).

Aurora's sales decreased by 23.5% (increase 3.9%) due to a variety of factors including the divestment of AETV on 1 June 2013, the cessation of retailing activities on mainland Australia and a regulated price reduction of 5.22% effective 1 January 2014. Lower consumption and reduced external contracting also contributed to Aurora's lower sales. The transfer of AETV to Hydro had little impact on Hydro's gross revenues because the power station was not used to generate power for lengthy periods in 2013-14.

Transend's revenue decreased marginally by 1.7% (increased 5.6%), primarily due to the Board's decision to limit increases in prescribed transmission revenue, combined with a fall in local consumption.

Hydro's energy generation and other expenses increased from $1.043bn in 2012-13 to $1.448bn in 2013-14 primarily due to continued higher energy costs, mainly reflecting continued growth in Momentum Energy, combined with the inclusion of AETV.

Aurora's expenses included energy, transmission and other costs of $875.843m (2012-13, $1.201bn). The decline was due to a variety of factors including the divestment of AETV from 1 June 2013, the cessation of retailing activities on mainland Australia, lower energy consumption and reduced external contracting activities. The decline in energy consumption also resulted in a slight reduction in Transend's direct transmission costs.

Labour costs movements were as follows:

- Hydro's costs increased by $29.402m during the year mainly due to the recognition of restructuring and redundancy expenses during and just prior to year end. Labour costs were 8.9% (2012-13, 9.6%) of Total Expenses
- Aurora's costs increased $5.843m primarily due to the effects of its restructuring which included retention and redundancy costs. Labour costs were 9.6% (6.9%) of Total Expenses
- Transend's total labour costs increased by $3.668m due to the inclusion of $4.639m in reform costs. Excluding reform costs, labour costs actually declined by $0.971m due to a continued reduction in average staff numbers of 16 (21) as a result of the redundancy program. Total Labour costs were 22.7% (21.2%) of Total Expenses.

Financing costs, consisting of borrowing costs, guarantee fees and nominal interest on superannuation liabilities, represented differing percentages of total costs, excluding revaluation decrement and impairment costs, as noted below:

	2013-14	2012-13	2011-12	2010-11
Hydro	4.52%	5.10%	9.15%	11.29%
Aurora	4.80%	4.86%	5.67%	5.80%
Transend	23.97%	24.72%	24.61%	21.42%

Hydro's financing costs as a percentage of total costs continued to decline in 2013-14. The increase in Total Expenses and a reduction in the interest cost on the Retirement Benefits Fund (RBF) liability were the main reasons for the reduction in the percentage, as high levels of debt were maintained throughout the year. The increase in debt was due to the debt acquired with the transfer of AETV. In total Hydro's financing costs increased $12.339m (2012-13, decreased $19.186m).

Aurora's financing costs decreased by $17.992m in 2013-14 (2012-13, decreased $9.970m), primarily due to the divestment of AETV.

Transend's financing costs increased by $0.652m (2012-13, increased $2.244m), due primarily to additional borrowings to fund operating and capital investment demands, meet dividend payments and to fund the $20.000m reduction in equity capital.

Hydro's net fair value gain of $162.110m was a result of the following main factors:

- a decrease in expected electricity imported from Victoria via Basslink, with an increase in exports of electricity to Victoria
- narrowing of the Tasmanian and Victorian price spreads over 2013-14
- a reduction in electricity prices between 2012-13 and 2013-14.

Hydro's revaluation and impairment expenses included recognition of a $228.727m revaluation decrement of its hydro generation assets in 2013-14, consolidating a revaluation decrement in 2012-13 of $439.220m. The unfavourable movement was due to changes in assumptions and forecasts within the asset revaluation model.

STATEMENTS OF FINANCIAL POSITION

	Hydro	Aurora	Transend
	$'000s	$'000s	$'000s
Cash and investments	13 012	44 679	665
Receivables	241 086	100 690	29 855
Unbilled energy	0	75 860	0
Inventories	60 133	20 732	4 872
Financial assets	99 272	6 514	0
Financial assets - Basslink	65 750	0	0
Other	0	6 126	876
Total Current Assets	**479 253**	**254 601**	**36 268**
Payables	176 073	123 208	39 524
Borrowings	369 286	103 290	124 349
Financial liabilities	175 249	28 033	0
Provisions	100 399	61 052	30 007
Tax liabilities	46 755	22 294	3 700
Other	0	39 432	30 433
Total Current Liabilities	**867 762**	**377 309**	**228 013**
Working Capital	**(388 509)**	**(122 708)**	**(191 745)**
Property, plant and equipment	3 969 767	1 466 593	1 712 088
Investments	68 866	0	0
Intangible assets	0	69 670	5 701
Financial assets - Basslink	391 034	0	0
Deferred tax assets	0	59 484	0
Goodwill	16 396	0	0
Other financial assets	110 624	34 597	39
Total Non-Current Assets	**4 556 687**	**1 630 344**	**1 717 828**
Borrowings	494 717	659 280	540 000
Provisions	458 692	104 139	68 975
Financial liabilities	890 797	38 139	0
Deferred tax liabilities	508 332	143 062	208 116
Other non-current liabilities	0	0	85
Total Non-Current Liabilities	**2 352 538**	**944 620**	**817 176**
Net Assets	**1 815 640**	**563 016**	**708 907**
Capital	353 206	232 319	6 549
Reserves	(13 242)	184 434	568 038
Retained profits	1 475 676	146 263	134 320
Total Equity	**1 815 640**	**563 016**	**708 907**
Total Equity at 30 June 2013	**1 793 097**	**554 918**	**721 822**
Total Equity at 30 June 2012	**2 132 047**	**601 076**	**687 607**
Total Equity at 30 June 2011	**2 013 453**	**561 063**	**623 238**

As in previous years, Hydro (since 2005-06) and Transend (since 1998-99) reported negative working capital suggesting that, before adjusting for employee and other provisions, and subject to available credit, liquidity was tight. However, that assumed all short-term borrowings were to be repaid rather than re-negotiated.

Hydro's working capital position at 30 June 2014 was negative $388.509m (2013, negative $194.759m). The worsening working capital position was primarily due to higher Borrowings (likely to be re-negotiated) classified as current $233.617m, Provisions $41,829m and Payables $33,341m, partially off-set by increased financial assets $80,699m. Hydro retired a portion of debt as noted in the Statement of Cash Flows section of this Chapter.

Aurora's negative working capital deteriorated to $122.798m (2013, negative $3.044m) at 30 June 2014. While there were a variety of movements, most were primarily a result of preparation for operation as a standalone retail business from 1 July 2014. Overall total current assets declined $32.770m while current liabilities increased $58.794m, with $103.000m of current Borrowings transferred to TasNetworks on 1 July 2014.

Despite Transend's profitability, working capital continued to be negative, $191.745m at 30 June 2014 (2013, negative $58.136m).

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

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

Other major assets and liabilities included:

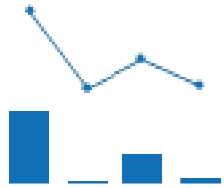
- Net deferred tax liabilities – these primarily arose from offsetting effects of asset revaluations giving rise to deferred tax liabilities and the establishment of provisions, in the main for unfunded superannuation liabilities, giving rise to deferred tax assets.
- in the case of Hydro and Aurora, financial assets and liabilities related primarily to major electricity contracts and, based on established yield curves, the financial impacts on both assets and liabilities were quantified and reported. Hydro's financial assets and liabilities also included quantification of its Basslink obligations and benefits.
- provisions include annual and long service leave, unfunded superannuation obligations, onerous contracts, site rehabilitation and, for Aurora and Transend, dividends declared prior to year end totalled $61.000m.

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

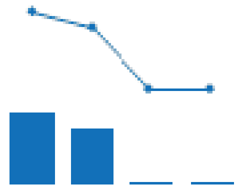
	Hydro	Aurora	Transend	Total
	$'000s	$'000s	$'000s	$'000s
Borrowings at 30 June 2011	983 366	1 085 246	548 000	2 616 612
Borrowings at 30 June 2012	856 806	1 074 582	609 707	2 541 095
Borrowings at 30 June 2013	905 795	749 813	631 197	2 286 805
Borrowings at 30 June 2014	864 003	762 570	664 349	2 290 922
Increase (decrease) in borrowings 2011-14	(119 363)	(322 676)	116 349	(325 690)
Percentage change in borrowings 2011-14	(12.1%)	(29.7%)	21.23%	(12.4%)

Total Borrowings of all three entities decreased by $325.690m over the four years under review. This was primarily due to reductions in capital investment programs, divestment and debt repayment. Other observations include:

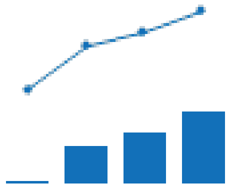
- Hydro's debt fluctuated over the four year period:
  - In 2011-12 total Borrowings decreased by $126.560m due predominantly to the divestment of Woolnorth Wind Farms in February 2012 when Borrowings of $163.000m were settled.
  - Debt increased in 2012-13 due to debt acquired upon acquisition of AETV, $205.000m, offset by the repayment of $155.000m of debt during the year.
  - Debt declined slightly in 2013-14 following net repayments of $41.792m during the year.



- Aurora's debt decreased by $10.664m in 2011-12 due mainly to funding its capital expenditure program partly through cash flows generated from operations. In 2012-13 debt declined $324.769m due to the transfer of AETV related debt, coupled with $119.769m net repayment of borrowings during the year. The increase in debt in 2013-14 was primarily to meet cash requirements associated with of Aurora's standalone retail business from 1 July 2014.



- Transend's debt increased in the period 2010-11 to 2013-14 due to operating demands, extensive capital works programs, meeting the requirements of Government's dividend policy and decision to return equity.



STATEMENT OF CASH FLOWS

	Hydro	Aurora	Transend
	$'000s	$'000s	$'000s
Receipts from customers	2 007 724	1 334 960	256 181
Payments to suppliers and employees	(1 598 809)	(1 089 640)	(85 688)
Payments to Australian Government for carbon	0	1 490	0
Interest received	1 031	965	0
Finance costs	(51 842)	(40 653)	(33 320)
Income tax equivalents paid	(104 208)	(29 881)	(31 187)
Government guarantee fee paid	(11 224)	(9 679)	(7 330)
Cash from (used in) Operations	**242 672**	**167 562**	**98 656**
Payments for investments	900	0	0
Proceeds from financial assets	15 792	0	0
Payments for assets and intangibles	(125 154)	(138 682)	(84 466)
Proceeds from investments and asset sales	4 156	3 256	465
Cash from (used in) Investing Activities	**(104 306)**	**(135 426)**	**(84 001)**
Proceeds from borrowings	185 700	582 483	33 152
Repayment of borrowings	(227 769)	(569 726)	0
Dividend paid	(116 058)	(25 000)	(28 686)
Return/proceeds of shareholder's capital	(7 033)	7 203	(20 000)
Cash from (used in) Financing Activities	**(165 160)**	**(5 040)**	**(15 534)**
Net Increase (Decrease) in Cash	**(26 794)**	**27 096**	**(879)**
Cash at the beginning of the year	39 806	4 813	1 544
Cash at End of the Year	**13 012**	**31 909**	**665**

The three entities continued to generate significant Cash from Operations, which totalled $508.890m in 2013-14, a slight reduction of $27.352m compared to the previous year (in 2012-13, $536.242m; 2011-12, $393.750m; 2010-11, $399.520m).

Hydro's Cash from operations decreased from $261.549m in 2012-13 to $242.672m this year. Although operational revenues less payments to suppliers and employees increased $42.333m, this was more than offset by the increase in Income tax equivalence paid, $51.439m and financing related costs, $10.117m.

Aurora's Cash from Operations increased by $8.023m to $167.562m in 2013-14. Although Receipts from customers decreased, the decline in supplier, employee and carbon costs was greater, resulting in a net increase of $1.933m. The balance of the increase was due the reduction, or omission, in other costs including the one-off settlement of AETV in 2012-13, $17.296m, Finance and guarantee fee costs, fell $16.156m, but these were offset by an increased income tax equivalence paid of $26.495m.

Transend's Cash from Operations decreased by $16.498m from $115.154m in 2012-13 to $98.656m, due predominantly to decreased TUOS (transmission use of system) revenue of $8.895m, and higher operating payments to suppliers and employees of $7.953m.

All three utilities continued to invest strongly in capital expenditure with $348.302m expended in 2013-14 (2012-13 $348.623m; 2011-12, $408.658m; 2010-11, $368.454m; 2009-10, $476.028m).

Transend's Return of shareholder's capital, $20.000m, was incurred for the first time in 2010-11 as part of a five year equity reduction strategy.

FINANCIAL ANALYSES

	Bench Mark	Hydro	Aurora	Transend
Financial Performance				
Net profit after tax ($'000s)		144 548	63 991	37 324
Underlying Profit before tax and fair value movements		242 112	57 793	52 642
EBIT ($'000s)		321 952	119 614	96 093
EBITDA ($'000s)		410 182	221 958	173 218
Operating margin	>1.0	1.26	1.06	1.70
Return on assets		6.3%	6.5%	5.5%
Return on equity		8.0%	11.4%	5.2%
Financial Management				
Debt to equity		47.6%	135.4%	93.7%
Debt to total assets		17.2%	41.5%	37.9%
Interest cover - EBIT	>2	4.03	2.2	2.0
Interest cover - cash from operations	>2	5.14	4.0	3.0
Current ratio	>1	0.55	0.67	0.16
Cost of debt		7.4%	7.2%	7.5%
Debt collection	30 days	44	49	20
Creditor turnover	30 days	18	19	0
Asset Management				
Investment gap %	100%	141.8%	135.5%	110.0%
Returns to Government				
Dividends paid ($'000s)		116 058	25 000	28 686
Income tax paid or payable ($'000s)		104 208	29 881	31 187
Government guarantee fees paid ($'000s)		11 224	9 679	7 330
Total return to the State ($'000s)		231 490	64 560	67 203
Dividends payable ($'000s)		118 576[1]	40 000	21 000
Dividend payout ratio[2]		82.03%	62.51%	56.26%
Dividend to equity ratio		6.6%	7.2%	3.0%
CSO funding		9 200	36 730	0
Other Information				
Average staff numbers (FTEs)		1 114	886	234
Average staff costs - excluding redundancy costs ($'000s)		121	102	141
Average leave balances per employee ($'000s)		24	24	37

[1] *Declared post year end.*

[2] *The actual dividend paid to Treasury is based on the Underlying Profit.*

All entities provided positive Returns on Equity. This was a significant turnaround for Hydro (2012-13, negative 10.0%) as result of the Comprehensive loss in 2012-13. Aurora's improved Return on Equity 11.4% (8.9%) reflected the higher Net Profit for the year, on a slightly lower equity base following the return of capital in AETV in the prior year.

Transend's Debt to equity ratio increased due to additional Borrowings of $116.349m to help fund its capital programs and return on equity. Aurora's Debt to equity ratio remained steady whilst Hydro's declined from 50.5% in 2012-13 to 47.5% in 2013-14 due to slightly lower debt at year end. Debt to equity ratios of Aurora and Transend indicated they relied to a greater extent on debt funding than Hydro.

All entities invested strongly in capital expenditure as indicated by their Investment gap ratios.

Average staff numbers (FTEs) for the three entities only decreased by five FTEs from 2 239 in 2012-13 to 2 234 in 2013-14. Both Transend, (16 FTEs), and Aurora, (66 FTEs), reduced their average FTEs as a result of redundancy and restructuring programs. Aurora's reduction also included the effect of transferring AETV employees to Hydro, contributing to the offsetting increase in Hydro's average FTEs of 77. However, just prior to year end, Hydro was in the process of restructuring certain divisions and locations which may result in a 100 positions being made redundant.

In total these three entities returned $363.253m in the form of taxes, dividends and guarantee fees to the State in 2013-14 (2012-13, $209.235m; 2011-12, $189.284m; 2010-11, $96.618m).

ENERGY PRICES

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

Average Annual Prices (per financial year)

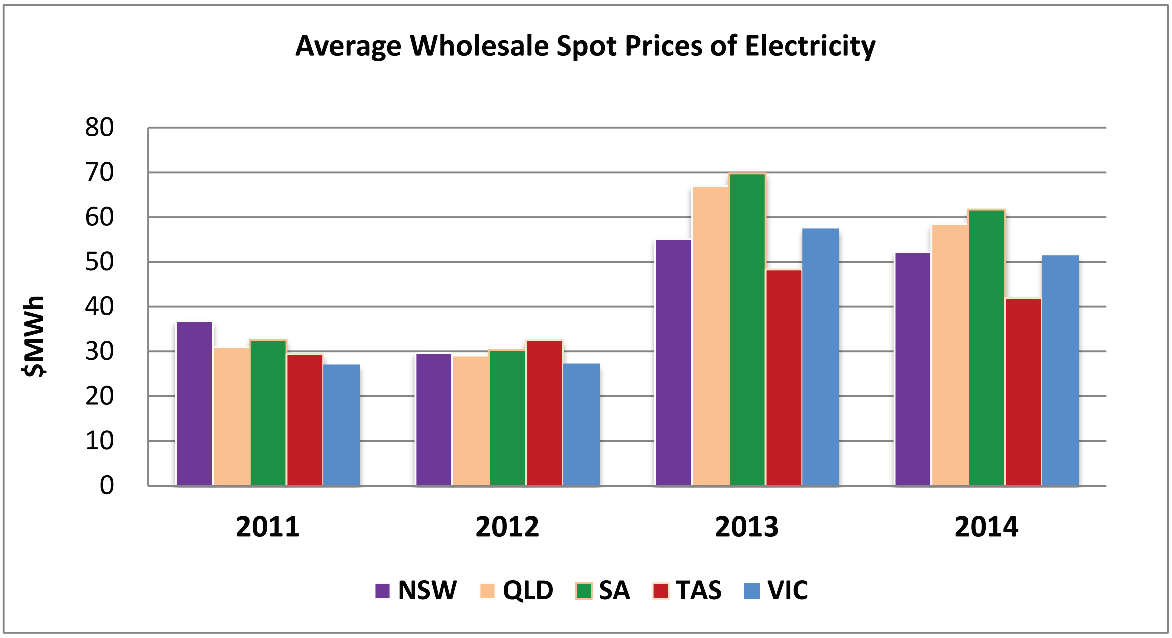
Year	NSW	QLD	SA	TAS	VIC
2011	36.74	30.97	32.58	29.45	27.09
2012	29.67	29.07	30.28	32.58	27.28
2013	55.10	67.02	69.75	48.30	57.44
2014	52.26	58.42	61.71	41.98	51.49

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

Since connecting to the National Electricity Market (NEM) in 2005, Tasmania has participated in one of the world's longest interconnecting power systems that runs for more than 5 000 kilometres from Port Douglas in Queensland to Port Lincoln in South Australia and supplies more than $10 billion of electricity annually to meet the demand of more than eight 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, decreased in 2013-14 to $41.98/MWh, from $48.30/MWh in 2012-13.

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

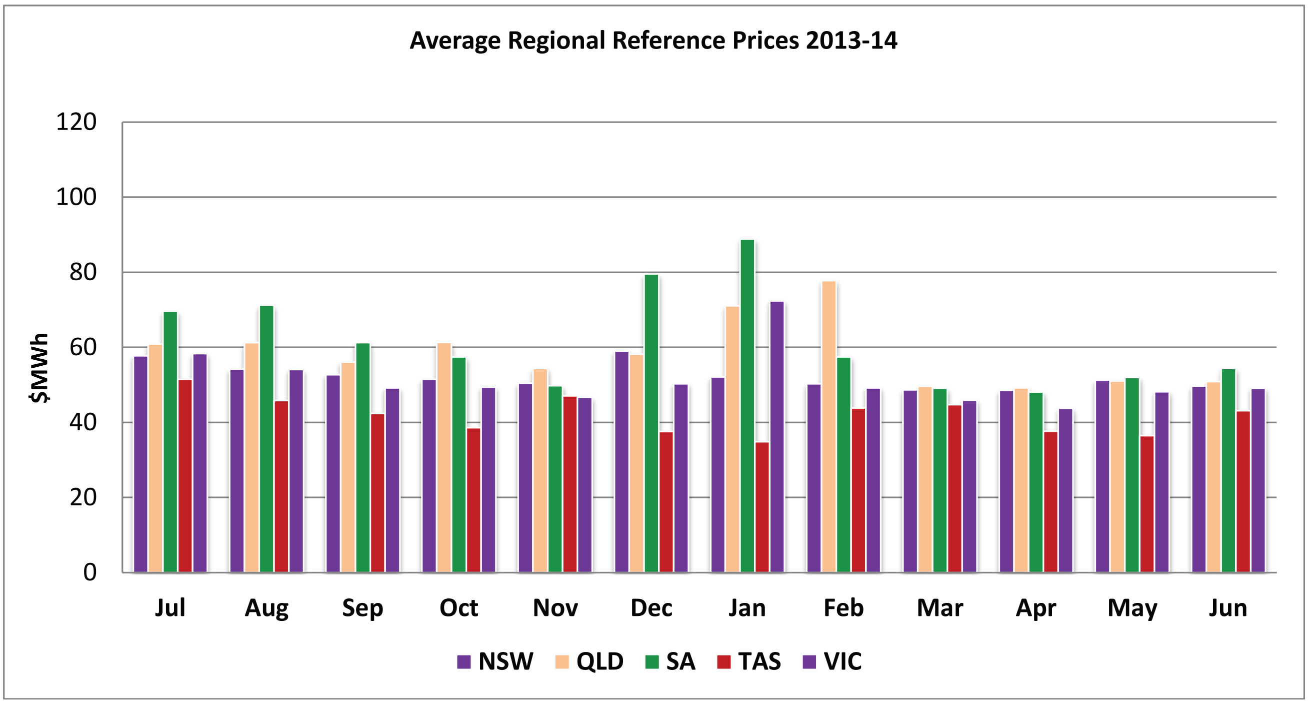
The following graph illustrates movement in the average annual wholesale spot prices for electricity for the past four years.



The NEM is a wholesale market. Following the introduction of a carbon price of $23/tonne CO2-equivalent on 1 July 2012 there was a sharp increase in the NEM spot prices for 2013. An AEMO review of the carbon price effects for the first three months indicated the spot price increase was around $21/MWh. Other noticeable factors were a change in generation mix with hydro generation increasing and coal-fired generation decreasing. Also noted were increased exports from Tasmania to Victoria and Victoria to South Australia.

Additional charges are added to retail accounts for network usage, service fees, market charges, retail charges and GST. As the capacity of available generation to meet demand diminishes, the relative scarcity of electricity is likely to 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 generating at short notice compared to mainland coal generators. However, changes nationally, in particular relating to removal of the price on carbon, will see this advantage diminish.

The average Regional Reference Prices for each month per region over the financial year is shown in the following graph:



The Tasmanian market fluctuated again in 2013-14, with the highest and lowest electricity prices recorded being:

- lowest average daily price was negative $11.07/MWh on 28 January 2014 (2011-12, $33.85/MWh on 9 June 2013)
- highest average daily price was $139.96/MWh on 18 July 2013 ($135.84/MWh on 5 January 2013)
- lowest half-hour price was negative $579.67/MWh on 15 January 2014 at 2.30pm (negative $334.24/MWh on 21 June 2013 at 11.30am)
- highest half-hour price was $4 017.07/MWh on 28 November 2013 at 4.00pm ($2 544.07/MWh on 21 January 2013 at 6.00pm).

Negative prices occur where generators are not able to reduce their output when demand declines. Overall Tasmania's average regional reference prices remained below other States.

AUDIT SUMMARY - GOVERNMENT BUSINESS ENTERPRISES

BACKGROUND

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

The GBE Act, which commenced on 1 July 1995, provided a consistent framework for more accountable, responsive and commercially focussed GBEs.

The GBE Act was consistent with the national competition reform agenda and formed part of a legislative reform package that also included reform of the electricity supply industry and the establishment of the former Government Prices Oversight Commission. The reforms introduced by the GBE Act included:

- a clearer commercial focus for GBEs
- greater accountability for financial performance
- increased return on investment from each GBE
- payment of financial returns to the State
- improved services to clients and consumers.

The GBE Act provides for the payment of guarantee fees, taxation equivalents and dividends by the majority of GBEs.

This summary provides financial information on all GBEs, being:

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

KEY OUTCOMES FROM AUDITS

Audits of the financial statements of the six GBE's, and where relevant their subsidiary companies, were completed with unqualified audit opinions issued in each case. The audit opinion of Forestry contained an "emphasis of matter" paragraph related to the assessment by its Directors and the conclusion that it was appropriate for Forestry to continue to adopt the going concern basis in preparing its financial report.

All audits were completed satisfactorily with no major items outstanding.

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

FINANCIAL ANALYSIS

Tasmania's GBEs collectively had Net Assets of $2.415bn (2013, $2.312bn), employed 1 615 people (1 570), and generated $239.889m in after tax profits ($47.491m after tax losses).

Details of GBE's profits and Net Assets are set out in Table 1.

Table 1: Summarised Financial Results

	Underlying Profit (Loss)	Net Profit (Loss) Before Tax	Net Profit (Loss) After Tax	Total Comprehensive Profit (Loss)	Net Assets
	$'000s	$'000s	$'000s	$'000s	$'000s
Forestry	(7 277)	(30 457)	(43 733)	(43 118)	31 259
Hydro	242 112	183 730	144 548	148 899	1 815 640
MAIB*	10 136	171 942	125 498	125 183	484 380
The Authority	1 967	2 364	2 364	1 833	28 974
PT	1 036	1 036	739	985	5 268
TASCORP	14 961	14 961	10 473	10 473	49 585
Total	**262 935**	**343 586**	**239 889**	**244 255**	**2 415 106**

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

Financial results were dominated by Hydro and MAIB. GBEs recorded Underlying profits of $262.935m, with Net Profits after Tax of $239.889m. Forestry was the only GBE that did not record a profit.

GBE's Net Assets totalled $2.415bn, with 75% of this balance held by Hydro.

At 30 June 2014, Hydro was the only GBE (other than TASCORP) with any significant debt. Details of Hydro's debt, working capital and relevant ratios are set out in Table 2. Table 2 also includes details staff costs and FTEs for all GBEs.

Table 2: Debt, Working Capital, Relevant Ratios and employee data

Debt, Working Capital and Relevant Ratios	Borrowings	Debt to Equity	Net Working Capital	Current Ratio	Return on Assets	Return on Equity	Average Staff Costs	Employee Numbers
	$'000s		$'000s					
Forestry	221	0.7%	18 671	1.6	(0.6%)	(58.7%)	94	302
Hydro	864 003	47.6%	(388 509)	0.55	6.3%	8.0%	121	1 114
MAIB*	0	0%	0	*	11.7%	29.0%	88	35
The Authority	0	0%	4 447	1.98	5.1%	8.4%	77	96
PT	0	0%	2 079	2.27	5.4%	15.5%	87	53
TASCORP**	5 620 442	0%	0	*	0.2%	30.2%	177	15
Total	**6 484 666**		**(363 312)**					**1 615**

** Statement of Financial Position prepared on liquidity basis.*

*** Borrowings are a component of operation.*

Table 3 Returns to Government

	Dividends	Taxation	Guarantee Fees	Total Returns
	$'000s	$'000s	$'000s	$'000s
Forestry	0	0	0	0
Hydro	116 058	104 208	11 222	231 488
MAIB	23 219	9 874	0	33 093
The Authority	0	0	0	0
PT	0	200	0	200
TASCORP	2 346	4 488	0	6 834
Total	**141 623**	**118 770**	**11 222**	**271 615**

GBEs paid $271.615m to the State during 2013-14. The majority of the returns, 85%, were made by Hydro. Forestry made a loss and was not in a position to return dividends to the State. The State Budget, released in August 2014, confirmed a special dividend of $100.000m payable in 2014-15 by MAIB and the Board of Hydro has recommended a dividend payable by Hydro in 2014-15, based in its 2013-14 financial results, of $118.576m.

RESPONSIBLE MINISTER

The Ministers responsible at 30 June 2014 for GBEs were:

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

FORESTRY TASMANIA (Forestry)

SNAPSHOT

- Continued to operate at a loss, however, revenue from forest sales was up $39.466m or 70% compared to last year and was consistent with the average sales over the previous three years of $90.054m.
- Government support in the form of Deficit funding of $23.000m helped to reduce Forestry's underlying loss to $7.277m.
- Equity decreased a further $41.269m to $31.259m primarily as a consequence of a reduction of forest value and write-off of deferred tax assets.
- Debt reduced over the four year period by $40.579m to $0.221m.
- The value of standing timber declined by $18.875m to $86.083m.
- Forty two employees along with their employee obligations and assets were transferred to DPIPWE in January 2014. This was deemed to be an equity contribution by the owners.

Key developments this year included:

- in March 2014 a new State Government was elected in Tasmania with a policy to rebuild the Tasmanian forest industry. As a result the Forestry (*Rebuilding the Forest Industry Act 2014)* was passed by Parliament.
- during 2013-14 Forestry de-recognised its deferred tax asset of $21.108m as an expense.
- Forestry received $23.000m in deficit funding and $14.451m provided under the Tasmanian Forest Agreement and World Heritage Implementation arrangements.

The audit was completed satisfactorily with no major findings. The audit opinion was issued with an "emphasis of matter" paragraph drawing explicit attention to why Forestry's financial statements are prepared on the basis that it is a going concern.

INTRODUCTION

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

On 3 June 2013, the *Tasmanian Forests Agreement Act 2013* was enacted which created future reserve land of approximately 515 000 hectares and also amended the production policy under the *Forestry Act 1920* by reducing the annual minimum aggregate quantity of high quality sawlogs to at least 137 000 cubic metres. As a consequence, the annual production of native forest eucalypt peeler billets reduced to 157 000 cubic metres and an estimated annual average volume of about 870 000 tonnes of native forest pulpwood.

On 6 November 2013 the *Forest Management Act 2013* (the Act) was enacted. This Act replaced the *Forestry Act 1920* and made Forestry the forest manager for the permanent timber production zone land, while transferring the responsibility for formal forest reserves from Forestry to DPIPWE.

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

Forestry developed eco-tourism adventure attractions in regional Tasmania including:

- Forest and Heritage Centre
- Tahune Airwalk
- Hollybank Treetops Adventure (as a 50% equity partner with a private investor)
- Tarkine Forest Adventures

- Eagle Eyrie and Maydena Adventure Hub.

These operated under the Adventure Forests brand. Following the transfer of formal forest reserves, ownership of Eagles Eyrie transferred to DPIPWE. In addition, DPIPWE will lease Tarkine Forest Adventures. Forestry's equity interest in Hollybank Treetops Adventure has been placed on the market for sale.

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

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

KEY AREAS OF AUDIT ATTENTION

Description of Area	Audit Approach
Going Concern Last year we issued an unqualified audit report with an emphasis of matter, drawing attention to circumstances giving rise to uncertainties as to the operations of Forestry, the assessment by the Directors and their conclusion that it was appropriate for Forestry to continue to adopt the going concern basis for preparing its financial statements. The ability of the Directors to conclude the going concern basis is appropriate at 30 June 2014 was dependent upon continued government support. Under ASA 570 *Going Concern*, we considered Forestry's ability to continue as a going concern for a period of approximately twelve months from the date of our report on the financial statements.	Similar to previous years, we discussed the issue of going concern extensively with management and the Finance, Audit and Risk Management Committee. We also reviewed management reports, forecasts and minutes of the Board, Finance, Audit and Risk Management Committee and assessed correspondence from Forestry's stakeholder Ministers which confirmed that government would continue to support Forestry. Based on this work, we concluded it was appropriate for the Board to prepare Forestry's financial statements on the basis that it was a going concern and our audit report again drew attention to this as an emphasis of matter.
Biological Assets (Standing Timber) The value of biological assets is determined as the residual amount of the present value of the combined asset less the fair value of land and improvements. This involves complex calculations performed by a third party valuer, Sewall, engaged by Forestry and was subject to a number of variables and assumptions including changes in market conditions and an appropriate discount rate. Sewall visited Forestry during 2013-14 to review aspects of the valuations.	We reviewed: • the valuation methodology and its compliance with the accounting framework, specifically AASB 141 *Agriculture* • the work of Sewall and assessed key assumptions and their expertise, in accordance with Auditing Standards • the accounting treatment for changes in the value of biological and other assets and obligations.
Repayment of Debt to Transend Networks Pty Ltd The Board approved the repayment of a debt of $2.400m, owed to Transend Networks Pty Ltd in relation to a transmission line constructed in 2007.	We reviewed the accounting treatment and disclosure of this transaction.

Description of Area	Audit Approach
Superannuation The Company also records a superannuation liability relating to Retirement Benefit Fund (RBF) members. The liability is determined by an independent actuary. The liability also requires detailed disclosure in the annual financial statements.	It is noted that an independent expert was engaged by the Office in 2011-12 to review the assumptions made by the State Actuary in valuing the State's superannuation liabilities managed by the RBF Board. It is our current policy to appoint our own independent expert every three years. We reviewed the Actuarial report and reviewed the estimates and assumptions applied to the valuation.

AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

Financial statements were approved by the Board and certified on 13 August 2014. The signed financial statements were received on 15 August 2014 and an unqualified audit report was issued on 20 August 2014. The audit report contained the following "emphasis of matter" paragraph:

> *'I draw attention to Note 2(b) to the financial report which describes circumstances giving rise to uncertainties as to the operations of Forestry Tasmania, the assessment by the Directors and their conclusion that it is appropriate for Forestry Tasmania to continue to adopt the going concern basis in preparing its financial report, while it is continuing a process of transition of its business model together with Government. The Government has confirmed that it will meet its legal obligations as owner of Forestry Tasmania, including financial obligations if required. My audit opinion is not qualified in respect of these matters.'*

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

> *'The Directors have reviewed the appropriateness of continuing to prepare the financial statements on the basis that Forestry Tasmania is a going concern.*
>
> *The Board resolved that it is appropriate to prepare the financial statements on the basis that Forestry Tasmania is a going concern, while it is continuing a process of transition of its business model together with Government. The Government has confirmed that it will meet its legal obligations as owner of Forestry Tasmania, including financial obligations if required'*

KEY DEVELOPMENTS

The Forest Management Act 2013

The Act changed Forestry's structure and operations, and resulted in the transfer of land and employees to DPIPWE and other changes as follows:

- Forty two employees transferred to DPIPWE in January 2014 along with annual leave and long service leave, $0.580m, with associated on-costs of $0.114m
- 221 555 hectares of forest reserve land, also transferred to DPIPWE. This reserve land was carried at a nil value by Forestry and, as a result, the transfer had no impact on its financial statements
- Property, plant and equipment, $0.659m, also to DPIPWE
- $2.606m of superannuation liability to the Department of Treasury and Finance.

Funding arrangements

State Government

During 2013-14, Forestry received $23.000m (2012-13, $35.000m) in deficit funding from Government to ensure it would continue to operate, meet its contractual obligations and perform its non-commercial functions. Without this funding, Forestry would not have been able to continue operating.

We assessed Forestry's projected cash flows for the next 12 to 15 months and noted their expectation of on-going support from Government. It is our assessment that:

- Forestry cannot, in the short to medium term, continue operating without Government support.
- we have no reason to believe that, based on letters of support provided by the Stakeholder Ministers, financial support will not be forthcoming.

Other funding

In addition, Forestry received Tasmanian Forests Intergovernmental Agreement (TFIA) funding, which included:

- Forest Stewardship Council (FSC) certification - $1.200m
- rescheduled harvesting - $4.800m
- transitional funding - $8.500m
- plantation management - $2.000m.

Forestry (Rebuilding the Forest Industry) Act

The *Forestry (Rebuilding the Forest Industry) Act* (FRFI Act) was passed by Parliament on 2 September 2014. The FRFI Act repealed the *Tasmanian Forest Agreement Act 2013* (TFA Act) and prevented the creation of new reserves. The FRFI Act will not change the area of production forest managed by Forestry for at least six years, nor does it change the minimum annual volume of high quality sawlogs that Forestry is required to produce.

These changes had no impact on Forestry's 2013-14 financial report.

De-recognition of deferred tax asset and income tax expense

During 2013-14 Forestry derecognised the deferred tax asset relating to it as a parent entity. The balance of $21.108m was written off in the Statement of Comprehensive Income as part of Income tax expense. Forestry determined that forecast trading results were insufficient to utilise the asset within the foreseeable future. The income tax expense was partially offset by a net tax credit of $7.832m on the operating loss for 2013-14.

Reconciliation

Elsewhere in this Report we note that in some Chapters we re-state the format of entity income statements to arrive at financial results we consider provide Parliamentarians and other readers with a different interpretation of financial performance. This is the case with Forestry. The following table reconciles our Underlying loss and our Net Profit after Tax with that reported by Forestry.

Reconciliation of Underlying and Net Losses	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Underlying Loss before Tax Reported in this Chapter	**(7 277)**	**(13 263)**	**(42 779)**	**(17 722)**
Biological asset valuation adjustment	(23 996)	613	(2 375)	(86 553)
TCFA capital grant income earned before tax	3 201	9 127	5 345	7 496
Superannuation actuarial gains (losses)	(2 385)	17 340	(44 219)	3 232
Investment market value adjustment	0	0	(139)	1 314
Accumulated increments realised on sale of softwood joint venture	0	0	(17 316)	0
Impairment of roads within new reserves	0	(27 748)	0	0
Net Loss before Tax Reported by Forestry	**(30 457)**	**(13 931)**	**(101 483)**	**(92 233)**
Income Tax (Expense) Benefit:				
on the underlying loss - our estimate	(2 183)	(3 979)	(12 834)	(5 317)
on fair value and other movements - our estimate	(5 649)	3 450	(17 720)	42 560
de-recognition of deferred tax assets accrued in prior years	21 108	0	0	0
Total Income Tax Benefit as Reported by Forestry	**13 276**	**(529)**	**(30 554)**	**37 243**
Net Loss Reported by Forestry	**(43 733)**	**(13 402)**	**(70 929)**	**(129 476)**

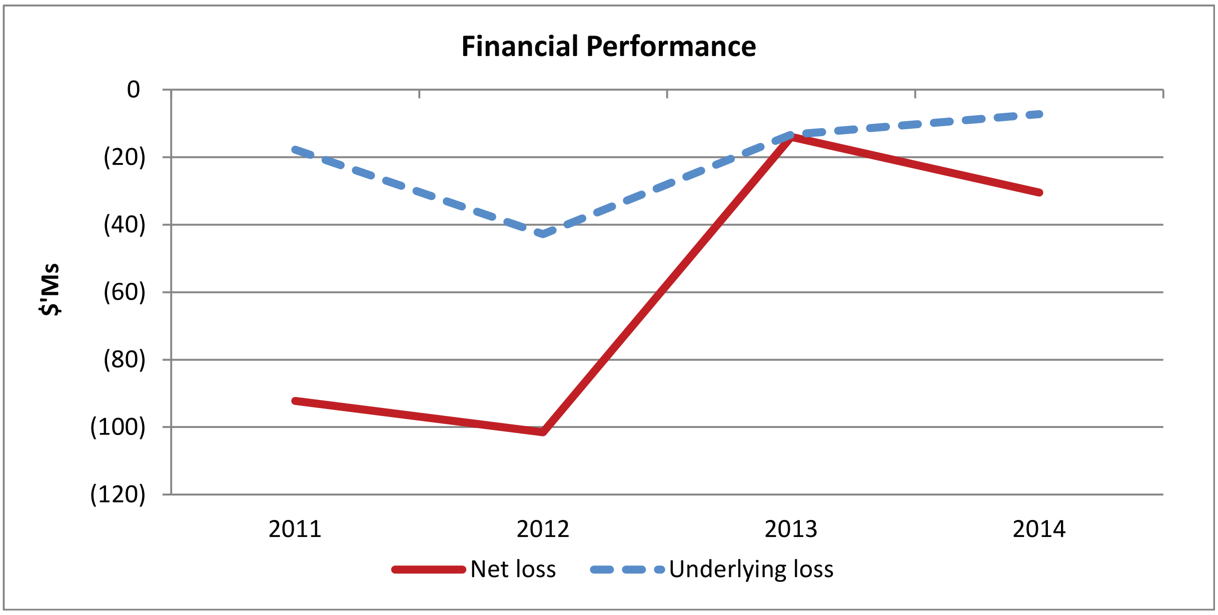
KEY FINDINGS

No high risk audit findings were identified during the course of the audit.

We attended the Island Speciality Timbers (IST) unit at Geeveston stocktake in June 2014 and identified several areas for improving Forestry's stocktake procedures. Our attendance at the stocktake followed several inventory issues identified by Forestry, including:

- IST Geeveston - the outcome of a physical stocktake in October 2013 revealed a shortage of 212.2m3 of stock, which amounted to an overstatement of $0.225m. The Board agreed to write-off the full amount of the overstatement. In addition, Forestry appointed an external consultant to perform a review of the systems and controls over inventory management at Geeveston.
- Export Log Stock – a variance in the inventory balance of $0.639m was identified in January 2014. The Board approved the write-off of the full variance and has resolved that, prior to any recommencement of log exports, appropriate stock controls are put in place.

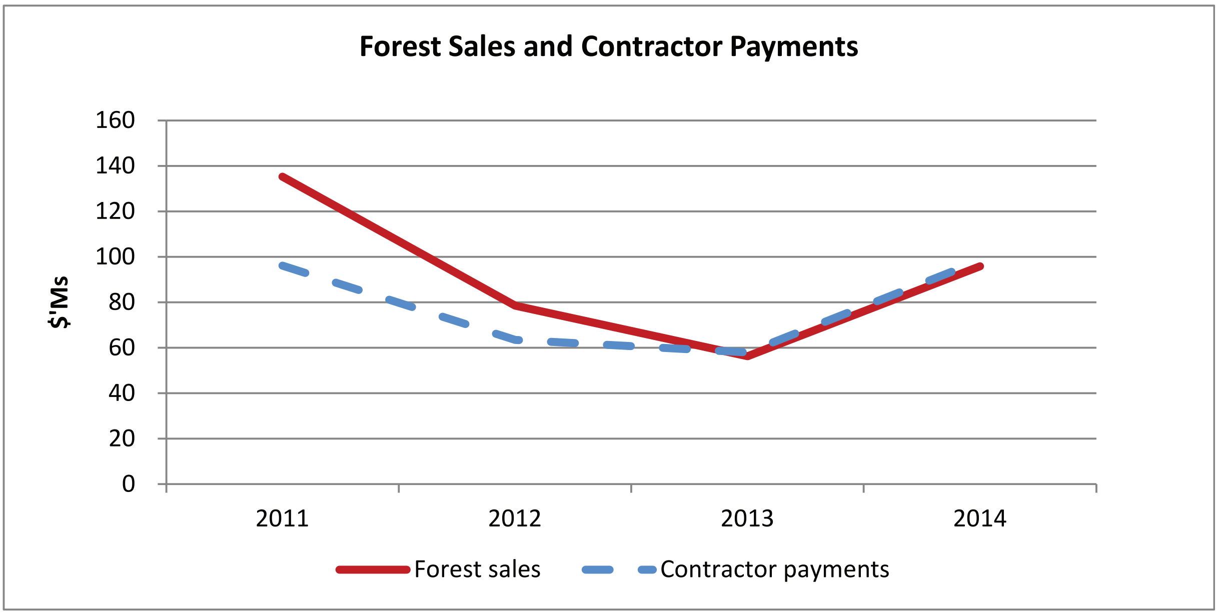
FINANCIAL ANALYSIS



Forestry continued to operate at a loss. The Underlying loss of $7.277m in 2013-14 was an improvement on the loss of $13.263m reported the year before. The improvements in 2013-14 and 2012-13 was mainly due to Deficit funding received in 2013-14, $23.000m (2012-13, $15.000m) and Forestry being reimbursed for the cost of non-commercial activities, $20.000m in 2012-13. In addition, Forestry received TFIA funding of $14.451m ($1.742m)and a one-off receipt of $6.510m from the softwood plantation forest right sale in 2013-14, recognised as other revenue.

Without this support from Government, the Underlying position in 2012-13 and 2013-14 would have been far worse.

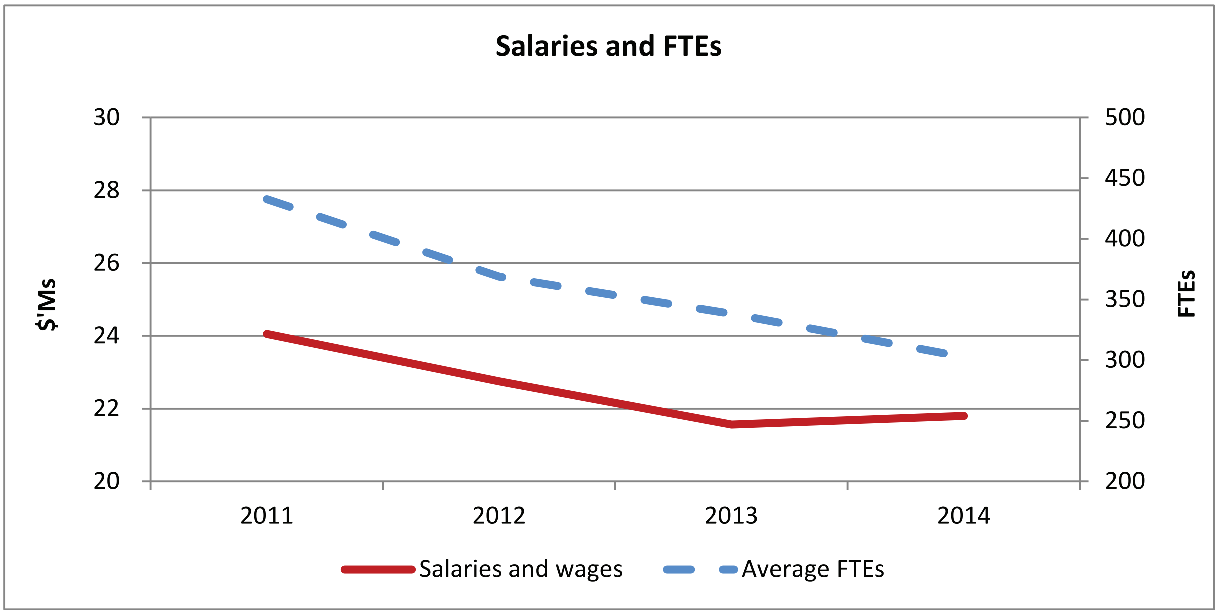
However, Forestry's trading results improved this year. Its forest sales reduced substantially over the period under review but improved in 2014, as shown in the following graph.



Revenue from Forest sales was up $39.466m or 70% compared to last year and was consistent with the average sales over the previous three years of $90.054m. The deterioration in 2011-12 was largely due to a significant reduction in the volume of pulpwood sales as major customers halted or reduced their production in response to lower demand and the closure of essential infrastructure. The relative strength of the Australian dollar impacted on export sales. The increase in Forest sales in 2013-14 was primarily due to wood chip sales of $30.411m.

However, while the improvement in sales was encouraging, Contractor payments were also higher this year and, in both 2012-13 and 2013-14 these payments exceeded Forest sales by $1.576m and $2.611m, respectively. This was caused by higher regeneration and road maintenance activity during the year.

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

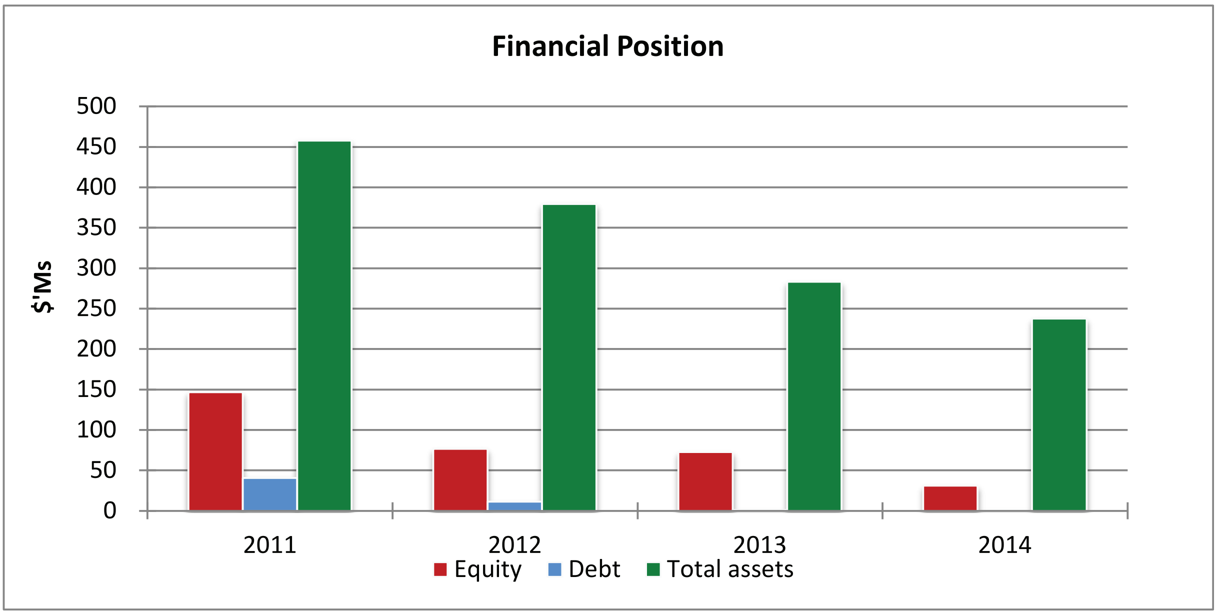


Salaries and wages do not include redundancy costs.

Since 2011-12, Forestry has made changes to its cost structure to align it with a smaller revenue base. This included reducing its workforce. Over the four year period, FTEs reduced by 131 with the highest reduction occurring in 2011-12 resulting in Salaries and wages declining by about $1.300m in that financial year. However, since then, despite further reductions in FTE, Salaries and wages increased to about $22.000m in 2012-13 and remained relatively static this year. The staff that left Forestry were primarily at a lower level and impacted the average employee costs which increased from $0.070m to $0.094m over the period of review.

Salaries and wages remained relatively static in 2013-14, despite the reduction of 36 FTEs and was mainly due to the following:

- reclassifying employees' position descriptions due to the organisational restructure, resulting in higher wages
- pay rises of 3% from 1 April 2013 and 2% from 1 April 2014 for enterprise agreement covered employees
- nine fixed-term employees either resigned or took a redundancy during June 2014 while the amount of casual employment used decreased by 5.24 for the month. This had the effect of decreasing the average FTEs over the year slightly.



Equity decreased over the period under review by $115.377m or 79%.

The decrease in 2012 was due primarily to the sale of Forestry's interest in the GMO joint venture and a significant increase in the amount of the superannuation liability that year. Equity remained consistent in 2013, reducing by the Comprehensive Loss, $14.190m, offset by the equity injection from government, $10.000m. It declined again in 2014 primarily due to the Comprehensive Loss of $43.118m.

Debt reduced over the four year period by $40.579m to $0.221m. In 2013-14 the Cost of debt ratio in increased by 15.9% to 27.2% due primarily to the low total debt at 30 June 2014. In 2012 Forestry repaid $29.800m of its borrowings using funds received from the sale of its share of the GMO joint venture. The equity injection from Government in 2012-13 enabled Forestry to almost extinguish its Debt and the balance remained low at 30 June 2014.

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

In 2013-14 Debt collection days improved by 91 days to 63 days, due mainly to higher Revenue from forest sales and lower trade receivables balance at 30 June 2014.

COMPONENTS OF INTEGRATED FOREST VALUATION

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Standing Timber	**86 083**	**104 958**	**147 860**	**145 927**
Roads and structures	85 260	86 242	116 140	116 749
Total Biological and Forest Estate Assets	**171 343**	**191 200**	**264 000**	**262 676**
Obligations for non-commercial forest zones	(7 900)	(7 300)	(55 300)	(57 100)
GMO joint venture timber resource	0	0	0	85 650
Net Biological and Forest Estate Assets	**163 443**	**183 900**	**208 700**	**291 226**

The value of biological assets is determined as the residual amount of the present value of the combined asset, less the fair value of land and improvements. This is a complex calculation, is performed by a specialised valuer engaged by Forestry and is subject to numerous assumptions.

Changes in market conditions, discount rates and key assumptions impact on the value of biological assets.

The approach adopted for valuing biological assets at 30 June 2014 remained fundamentally unchanged. The underlying assumptions were updated to reflect the quantities available for harvest under the TFA Act, a progressive reduction in administration, forest management, overheads and research and development costs and the introduction of government support. The valuation at 30 June 2013 included government funding of $75.000m over three years. The valuation at 30 June 2014 factored in $33.900m over the next four years; the reduction in revenue significantly influenced the value of standing timber, which decreased by $18.875m.

NEWOOD HOLDINGS PTY LTD (NEWOOD)

Newood is a wholly owned subsidiary of Forestry and is the holding company of three other entities. The Newood group comprises three entities which are all 100% owned:

- Newood Huon Pty Ltd – manages the Huon Wood Centre
- Newood Smithton Pty Ltd – manages the Circular Head Wood Centre
- Newood Energy Pty Ltd – manages the supply of electricity to the lessees at the Huon Wood Centre and to Forestry's main offices.

Significant revenue items for the Newood group are the sale of power and site rental. Expenditure items are electricity charges and finance lease repayments.

In 2007 Newood entered into a 25-year connection agreement with Transend. Under the agreement, Newood was responsible for the repayment of the cost of constructing a high voltage transmission line and the substation required to bring power from Transend's network to the site and the cost of maintaining the infrastructure.

In 2013-14 Forestry paid a further $2.400m (2012-13, $6.000m) to substantially repay the capital component of Newood's obligation to Transend for the transmission line constructed in 2007. The decrease in Newood's obligation to Transend was offset by an increase in an inter-company loan from Forestry. Therefore, there was no net effect on Newood's net assets.

CHAPTER APPENDICES

Statement of Comprehensive Income

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Revenue from forest sales	95 804	56 338	78 564	135 260
Share of GMO Joint Venture revenues	0	0	10 851	21 199
Forest management services revenue	1 240	2 973	3 222	5 733
Tasmanian Community Forest Agreement	606	885	1 010	3 716
Reimbursemment for non commercial activity costs	0	20 000	0	0
Deficit funding	23 000	15 000	0	0
Tasmanian Forest Agreement/World Heritage Area Implementation	14 451	1 742	0	0
Fire fighting reimbursements	2 080	4 338	0	0
Other revenue	15 965	9 029	9 827	10 145
Total Revenue	**153 146**	**110 305**	**103 474**	**176 053**
Employee benefits	28 260	28 202	26 232	30 345
Contractors expenses	98 415	57 914	63 425	96 062

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Share of GMO Joint Venture expenses	0	0	9 559	17 089
Depreciation and amortisation	8 654	9 669	10 362	10 514
Costs attributable to non commercial forest zones	0	6 285	5 269	5 255
Loss on sale of assets	563	440	3 198	8
Other expenses	18 762	14 785	19 104	25 289
Total Expenses	**154 654**	**117 295**	**137 149**	**184 562**
Net Operating Profit (Loss) before Net Finance Cost and Tax	**(1 508)**	**(6 990)**	**(33 675)**	**(8 509)**
Finance revenue	826	1 404	2 050	2 331
Finance costs	(180)	(1 091)	(1 852)	(2 386)
Finance lease costs	(439)	(959)	(976)	(993)
Interest cost on defined benefit superannuation plan	(5 976)	(5 627)	(8 326)	(8 165)
Underlying profit (loss) before Tax	**(7 277)**	**(13 263)**	**(42 779)**	**(17 722)**
Biological asset valuation adjustment	(23 396)	(47 387)	(4 175)	(95 253)
Movement in obligations for non commercial zones	(600)	48 000	1 800	8 700
TCFA capital grant income earned	3 201	9 127	5 345	7 496
Superannuation actuarial gains (losses)	(2 385)	17 340	(44 219)	3 232
Accumulated increments realised on sale of softwood joint venture	0	0	(17 316)	0
Investment market value adjustment	0	0	(139)	1 314
Impairment of roads within new reserves	0	(27 748)	0	0
Net Profit (Loss) before Tax	**(30 457)**	**(13 931)**	**(101 483)**	**(92 233)**
Income tax benefit (expense)	(13 276)	529	30 554	(37 243)
Net Profit (Loss) after Tax	**(43 733)**	**(13 402)**	**(70 929)**	**(129 476)**
Increase (decrease) in the revaluation of land and buildings	879	(1 126)	1 444	1 150
Income tax on revaluation of land and buildings	(264)	338	(364)	(468)
Total Comprehensive Profit (Loss)	**(43 118)**	**(14 190)**	**(69 849)**	**(128 794)**

Statement of Financial Position

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Cash	314	1 485	12 283	9 365
Investments	0	0	0	7 147
Receivables and prepayments	15 162	24 005	25 566	34 702
Inventories	10 871	11 414	13 349	12 684
Biological assets	24 716	17 424	10 923	6 741
Total Current Assets	**51 063**	**54 328**	**62 121**	**70 639**
Payables	14 821	13 095	12 431	15 170
Unearned revenue – TCFA	6 029	11 925	9 518	12 988
Borrowings	221	1 102	11 228	29 800
Employee benefits	4 310	5 028	5 296	4 943
Superannuation	5 858	5 060	5 348	4 556
Obligations for non commercial forest zones	1 153	665	2 288	1 463
Total Current Liabilities	**32 392**	**36 875**	**46 109**	**68 920**
Net Working Capital	**18 671**	**17 453**	**16 012**	**1 719**
Biological assets	61 367	87 534	136 937	224 836
Forest estate	85 260	86 242	116 140	116 749
Property, plant and equipment	38 674	40 419	42 998	43 999
Deferred tax assets	0	13 313	19 877	0
Other	1 159	1 181	1 155	1 289
Total Non-Current Assets	**186 460**	**228 689**	**317 107**	**386 873**
Borrowings	0	0	0	11 000
Finance lease and other payables	3 357	5 773	11 311	11 522
Unearned revenue – TCFA	20 621	22 666	31 193	34 744
Employee benefits	197	265	0	911
Superannuation	142 950	138 275	160 885	117 898
Obligations for non commercial forest zones	6 747	6 635	53 012	55 637
Total Non-Current Liabilities	**173 872**	**173 614**	**256 401**	**241 956**
Net Assets	**31 259**	**72 528**	**76 718**	**146 636**
Contributed equity	246 306	244 457	234 457	234 457
(Accumulated losses) Retained profits	(223 293)	(179 866)	(166 464)	(95 695)
Reserves	8 246	7 937	8 725	7 874
Total Equity	**31 259**	**72 528**	**76 718**	**146 636**

Statement of Cash Flows

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	129 308	72 598	105 345	161 799
Distributions from GMO	0	0	4 641	2 250
Softwood Plantation Forest right sale	6 510	0	0	0
TFA/WHA Implementation Subsidy	16 500	6 498	0	0
Reimbursemment for non commercial activity costs	0	20 000	0	0
Deficit Funding	23 000	15 000	0	0
Interest received	553	1 263	1 995	1 796
Payments to suppliers and employees	(158 115)	(115 458)	(136 908)	(172 807)
Finance Costs	(180)	(1 657)	(1 852)	(2 386)
Cash from (used in) Operations	**17 576**	**(1 756)**	**(26 779)**	**(9 348)**
Proceeds from investments	0	0	7 008	7 926
Payments for plantation activities	(4 521)	(4 485)	(6 107)	(8 094)
Payments for property, plant and equipment	(10 568)	(6 713)	(11 286)	(10 185)
Proceeds from sale of assets	79	7 820	71 020	690
Cash from (used in) Investing Activities	**(15 010)**	**(3 378)**	**60 635**	**(9 663)**
Equity Contribution	0	10 000	0	0
Repayment of borrowings	(800)	(10 000)	(29 800)	0
Finance lease payments	(2 937)	(5 664)	(1 138)	(1 170)
Cash from (used in) Financing Activities	**(3 737)**	**(5 664)**	**(30 938)**	**(1 170)**
Net Increase (Decrease) in Cash	**(1 171)**	**(10 798)**	**2 918**	**(20 181)**
Cash at the beginning of the year	1 485	12 283	9 365	29 546
Cash at End of the Year	**314**	**1 485**	**12 283**	**9 365**

Financial Analysis

	Bench Mark	2013-14	2012-13	2011-12	2010-11
Financial Performance					
Net profit (loss) ($'000s)		(30 457)	(13 931)	(101 483)	(92 233)
EBIT ($'000s)		(1 508)	(6 990)	(33 675)	(8 509)
Operating margin	>1.0	0.99	0.94	0.75	0.95
Return on assets		(0.6%)	(2.1%)	(8.0%)	(1.6%)
Return on equity		(58.7%)	(18.7%)	(90.9%)	(43.7%)
Financial Management					
Debt to equity		0.7%	1.5%	14.6%	27.8%
Debt to total assets		0.1%	0.4%	3.0%	8.9%
Interest cover – EBIT	>2	(0.2)	(1.0)	(3.3)	(0.8)
Interest cover – operating cash flows	>2	2.9	(0.3)	(2.6)	(0.9)
Current ratio	>1	1.6	1.5	1.3	1.0
Cost of debt*		3.4%	3.7%	7.1%	5.8%
Debt collection	30 days	63	154	130	95
Creditor turnover	30 days	48	64	41	37
Other Information					
Average staff numbers (FTEs)		302	338	369	433
Average staff costs ($'000s)		94	83	71	70
Average leave balance per employee per FTE ($'000s)		16	14	13	11

** Cost of debt for 2012-13 and 2013-14 sourced from Forestry Tasmania's financial statements.*

NEWOOD CONSOLIDATED FINANCIAL STATEMENTS

Statement of Comprehensive Income

	Consolidated			
	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Total Revenue	1 996	2 804	2 921	3 124
Total Expenditure	2 148	2 400	3 200	3 463
Profit (Loss)	**(152)**	**404**	**(280)**	**(339)**

Statement of Financial Position

	Consolidated			
	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Current Assets	7 060	3 980	2 400	1 383
Non-Current Assets	20 821	20 208	21 227	22 348
Total Assets	**27 881**	**24 188**	**23 627**	**23 731**
Current Liabilities	16 727	850	664	685
Non-Current Liabilities	12 768	23 052	23 157	22 984
Total Liabilities	**29 495**	**23 902**	**23 821**	**23 669**
Net Assets	**(1 614)**	**286**	**(194)**	**62**
Equity	**(1 614)**	**286**	**(194)**	**62**

HYDRO-ELECTRIC CORPORATION (Hydro)

SNAPSHOT

- On a turnover of $1.978bn, Hydro returned a Net Profit after tax of $144.548m, and reported a total comprehensive income of $148.899m for 2013-14. The total comprehensive income takes into account the Net Profit after tax and all items debited or credited directly to reserves or retained earnings.
- Turnover increased significantly from 2012-13, with revenue from the sale of goods and services up by $436.395m or 28.3%.
- Underlying this Net Profit after tax result, Hydro generated a profit before Impairment expenses and fair value movements of $242.112m ($230.261m in 2012-13).
- While the underlying result was positive, return, expressed as a percentage of turnover, declined from 15.24% to 12.06% this year. The average over the past six years was 10.94%. A 1% movement in return is about $20m.
- The total comprehensive income of $148.889m included a revaluation decrement to the Corporation's hydro generation assets of $228.727m.
- Hydro generated $242.672m in cash flows from operating activities. Operating cash flows averaged $165.708m over the past six years.
- Cash investments of $125.154m were made in Property, plant and equipment. Hydro, on average over the past six years, invested $111.915m per annum in assets.
- Hydro was in a strong net asset position of $1.816bn at 30 June 2014.
- At 30 June 2014 gross Borrowings totalled $864.003m and averaged $904.012m over the past six years peaking at $983.366m at 30 June 2011.
- Hydro paid a dividend of $116.058m in 2013-14 based on 2012-13 results. No dividend was proposed in the annual financial report, however on 27 August 2014, a dividend was proposed of $118.576m relating to the 2013-14 results, representing 70% of profit before fair value movements, allowing for a 30% tax rate.
- Over the past five years (no dividend was paid in 2008-09), Hydro paid an average of $49.319m per annum in dividends to government.

Major developments in the year included:

- revaluation decrement of hydro generation assets of $228.727m, on top of a revaluation decrement in 2012-13 of $439.220m
- restructuring of the business resulting in $14.941m of redundancy expenses recognised in 2013-14.

Major variations between the 2013-14 and 2012-13 financial years, were:

- increase in retail revenue generated by Momentum Energy Pty Ltd (Momentum Energy) of 29.1% to $1.033bn (up from $800.143m). This resulted in Momentum Energy reporting a net profit after tax of $16.880m
- decrease in Total Comprehensive Loss from Aurora Energy (Tamar Valley) Pty Ltd (AETV) from $245.027m to $43.684m. This was mainly attributable to Impairment expenses recognised in relation to the gas fired power station and onerous contracts in 2012-13 of $335.045m, with no like items recognised in 2013-14
- slight reduction in Borrowings to $864.003m, down from $905.795m in 2012-13, due to the net repayment of $41.792m during the financial year
- on the whole, provisions remain consistent year on year, however current provisions have increased and non-current provisions have decreased. The increase in current provisions was due to the recognition of a redundancy provision of $12.000m, and increases in the

current portion of the onerous contracts provision and the provision for rehabilitation. These increases are due to significant activity that will release the provisions, being the operation of the AETV power station under onerous contracts and the site rehabilitation works, expected to take place in the coming 12 months.

A number of recommendations were made to management regarding the monitoring of controls, governance of and inputs into significant financial models, monthly reporting procedures and information technology access and security. None of these was considered to be significant, and did not impact on our ability to issue an unqualified audit opinion.

The audit was completed on time with no major items outstanding, however the signing of the auditor's report was delayed due to reassessment by management of the key management personnel remuneration disclosures.

INTRODUCTION

Hydro was established as a Commission by the *Hydro-Electric Commission Act 1944* and corporatised by the *Hydro-Electric Corporation Act 1995*. Hydro 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 the Australian Capital Territory
- owns the electricity distribution assets on the Bass Strait Islands
- owns and operates a gas-fired power station, AETV, with 2013-14 being the first full year of consolidating the results of these operations
- invests in renewable energy activities in Australia
- has a 25% ownership in the Woolnorth joint venture on the North-West and North-East coasts of Tasmania
- operates a number of wind farm development sites through its subsidiary HT Wind Operations Pty Ltd (HT Wind Operations)
- operates a consulting arm under the name Entura
- provides consulting services on, and making investments in, hydro facilities in South Africa and provides consulting services in India.

Subsidiary and Associated Companies

- **Bell Bay Power Pty Ltd** (BBP) has the responsibility for demolition of this station which ceased operations in March 2009. BBP has previously raised a provision for demolition and site restoration. This provision increased in 2013-14 and is currently estimated to be $21.237m.
- **Bell Bay Three Pty Ltd**. This company's assets have been disposed of and it did not operate in 2013-14.
- **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 $0.042m in 2013-14 (2012-13, $0.080m).
- **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 net loss after tax of $0.623m during 2013-14 (2012-13, profit of $0.068m).

- **RE Storage Project Holding Pty Ltd** was established for the purpose of participating in renewable energy development projects. The company did not operate in 2013-14 or 2012-13.
- **HT Wind Operations** is a subsidiary that was fully incorporated into the group on 30 June 2011 following dissolution of the Roaring 40s joint venture. In February 2012, a 75% interest in the Woolnorth Wind Farms (Bluff Point and Studland Bay) was divested to Shenhua Clean Energy Holdings Pty Ltd to form the Woolnorth Wind Farm joint venture. In February 2013, 75% of Musselroe Wind Farm Pty Ltd was divested to the same joint venture. A number of companies wholly owned by HT Wind Operations are holding companies for potential future developments. Hydro's share of the profit of the Woolnorth Wind Farm joint venture in 2013-14 was $3.794m (2012-13, $1.751m).
- **Momentum Energy** is an energy retailer with licences in Victoria, South Australia, New South Wales, Queensland and the ACT. The operation is discussed later in this Chapter.
- **AETV** is a wholly owned subsidiary that was transferred to Hydro by Ministerial Direction and was incorporated into the group on 1 June 2013, making 2013-14 the first full year of consolidating the results of AETV's operations. AETV operates three gas-fired power generation units in Tasmania. The operation is discussed later in this Chapter.
- **Hydro Tasmania South Africa Pty Ltd** was established in 2012, and in 2012-13 became a joint venture partner in a joint venture to develop a mini-hydro scheme in Neusberg, South Africa. Hydro's investment in the joint venture was $3.599m at balance date (2012-13, $4.326m).

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

Unless otherwise stated, this Chapter reports Hydro's results on a consolidated basis.

KEY AREAS OF AUDIT ATTENTION

Description of Area	Audit Approach
The Asset Revaluation Model (ARM) is a 100 year discounted cash flow model that calculates the value in use of Hydro's generation assets.	We examined the key components of the ARM, including the functionality and mechanics of the model, the inputs including forecast revenues and expenses, and the other drivers of the valuation, including inflation and discount factors. The ARM is sensitive to changes in discount rates and projected electricity prices and volumes. Valuation and modelling experts were engaged to assist in our assessment of the ARM.
Sophisticated modelling and significant management estimates are required to accurately value the unbilled energy delivered to Momentum Energy's retail customers.	We examined the key components of the unbilled energy model prepared by management, including the functionality and mechanics of the model, the inputs including customers, customer pricing and kilowatt hours supplied and other drivers of the valuation. In addition, actual results to forecast were examined throughout the year and a look back analysis was performed on actual billings post year end compared with those estimated in the accrual.

Description of Area	Audit Approach
In accordance with the requirements of Australian Auditing Standards, and given the quantum and significance to the financial report, revenue and revenue recognition are considered to be areas of key audit risk.	Procedures were performed to verify revenue earned through the sale of electricity into the National Electricity Market (NEM). For Hydro, this included agreeing revenue to the weekly statements received from the Australian Energy Market Operator. Our approach to assessing revenue earned by Momentum Energy included analysis of the relationship between kilowatt hours sold on a monthly basis and revenue generated.
Due to their complex nature and the significance of their values, energy and treasury derivatives were an area of key audit focus.	Financial instrument valuation specialists were involved in the audit of energy and treasury derivatives in existence at Hydro. Particularly, assessment was made as to the appropriateness of the discount curve and electricity price curve used in the valuation, and assumptions made regarding carbon pricing in the Australian market in long term pricing benchmarks.
The Basslink valuation is considered to be an area of significant risk due to its complexity and the level of assumptions involved in modelling the fair value of the contract. At 30 June 2014, the net value of the Basslink financial service agreement liability was $124.200m, with a further liability recognising the net position of the Macquarie Bank swap of $296.993m. The ongoing costs of the swap agreement and the facility fee for use of Basslink totalled $122.309m in 2013-14.	Financial instrument valuation specialists were involved in the audit of the Basslink valuation. The key area of focus was the assessment of calculated revenues receivable by Hydro for the supply of energy across the Basslink to mainland Australia. Given the complexity of the calculation, significant judgement was exercised in the calculation and the sensitivity of the calculation to a range of inputs. Changing interest rates impact on the net position of the facility fee swap, which involves a fixed and floating component with cash flows out until 2030. Financial instrument valuation specialists were also involved in the audit of this valuation.
Hydro's level of gross borrowings at 30 June 2014, excluding finance lease liabilities, was at $858.600m, down from $900.000m at 30 June 2013. The ability of Hydro to sustain this level of borrowings, continue its current level of investment in property, plant and equipment and continue to pay dividends to the State of Tasmania was an area of audit consideration.	A pending capital structure review will consider the appropriate borrowing levels maintained within Hydro, however this was contemplated as part of the audit with regard to the sustainability of the current levels of debt for Hydro, bearing in mind the cash impact of the dividend paid in 2013-14 relating to 2012-13 results, and the expected dividend to be paid in 2014-15 relating to 2013-14 results. This is discussed further later in this Chapter.

Description of Area	Audit Approach
The plant and equipment and onerous contracts of AETV are material to the consolidated entity, and were assessed for reasonableness of valuation.	The value of plant and equipment within AETV constitutes the gas fired generators, which are carried at their fair value less costs of disposal and have been valued by an independent valuation expert on the assumption that the assets are sold and transferred to a location outside of Tasmania. The onerous contracts have been valued based on the surplus costs to be incurred over revenues generated in AETV discharging its obligations under its gas transportation contracts and tolling agreements.
Tax equivalent accounting is a complex area and there are inherent risks associated with the accuracy of tax calculations. In particular deferred tax assets and liabilities represent material balances in the financial statements and are by their nature inherently prone to errors of judgement and interpretation in a changing legislative environment.	Tax experts were utilised in the review of the tax calculations of Hydro. The calculations were reviewed for consistency with the requirements of applicable taxation legislation and the GBE Act.

AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

The Directors signed Hydro's financial statements on 14 August 2014 and an unqualified audit report was issued on 12 September 2014.

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

Subsidiary	Date opinion issued
Momentum Energy	13 August 2014
AETV	15 August 2014

KEY DEVELOPMENTS

Write-down of Hydro generation assets

Hydro recognised a $228.727m revaluation decrement of its hydro generation assets in 2013-14, consolidating a revaluation decrement in 2012-13 of $439.220m. The revaluation decrement was recognised based on the valuation of the generation assets as determined through the ARM. The whole $228.727m revaluation decrement was taken through profit or loss, in line with the requirements of accounting standards.

The unfavourable movement in the valuation of the hydro generation assets was due to a combination of factors, including changes in assumptions, revenues to be generated over the five year Corporate Plan period, changes to the long-term energy pricing forecast, assumptions around sales made over Basslink and capital costs expected to be incurred in the maintenance of generation assets.

Redundancy expenses

In October 2013, Hydro and Entura announced that between 30 and 40 positions would become redundant due to a severe contraction in Australia's engineering consulting market. Further to this, just prior to year end, Hydro was in the process of restructuring certain divisions and locations which was to result in a further 100 positions within the Corporation, including 30-40 further positions at Entura, being made redundant.

These restructurings resulted in $14.941m of redundancy expenses recognised in 2013-14, with a liability for $12.000m recognised at year end.

The average staff cost per full time equivalent staff member, which excludes redundancy expenses, increased from that of the previous three financial years due to inflationary increases. Conversely, the average leave balance per full time equivalent staff member has decreased from its peak in 2012-13 to be in line with 2011-12 and 2010-11.

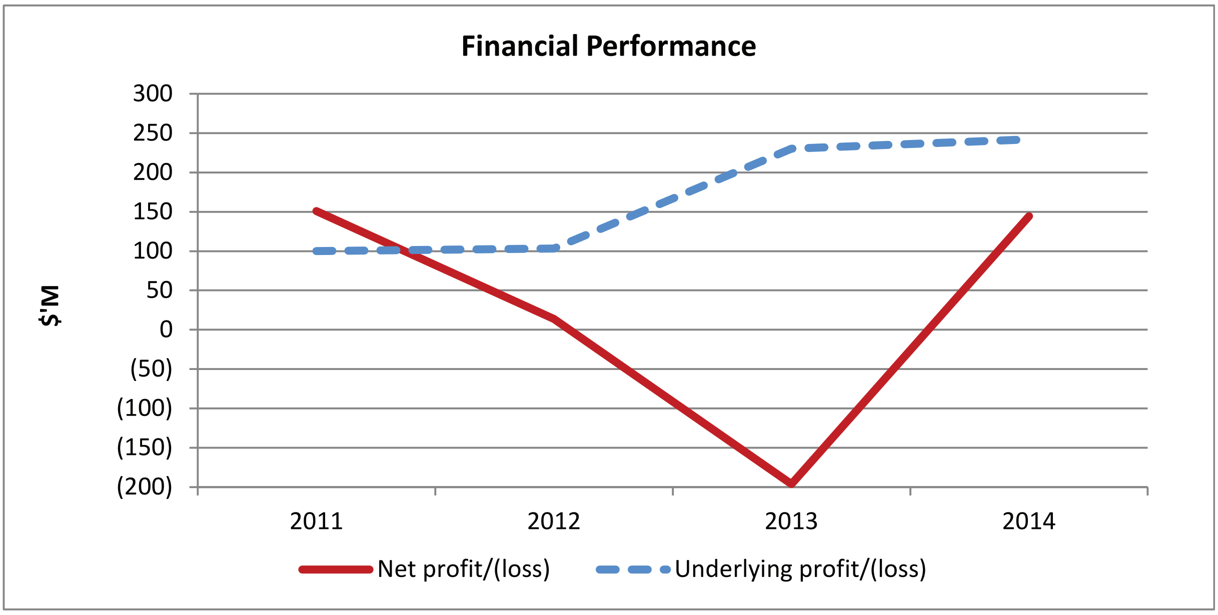
KEY FINDINGS

A number of recommendations were made to management regarding the monitoring of controls, governance of and inputs into significant financial models, monthly reporting procedures and information technology accesses and securities. None of these was considered to be significant, and did not impact on our ability to issue an unqualified audit opinion.

The audit was completed on time with no major items outstanding, however the signing of the auditor's report was delayed due to reassessment by management of the key management personnel remuneration disclosures.

FINANCIAL ANALYSIS

The graph below reports the Hydro's Underlying profit (being profit before asset write-down expenses and fair value movements) and its Net profit or loss before taxation over the past four financial years.



Hydro's Underlying profit was $242.112m for 2013-14, consistent with $230.261m for 2012-13. It continued to experience significant growth in retail sales through Momentum Energy, along with reasonable growth in generation revenue. Finance costs increased year on year due to higher levels of Tascorp debt being maintained throughout the period.

Asset write-downs and revaluation expenses recognised in the prior financial year resulted in a Net loss after tax of $196.280m in 2012-13. With elements of these expenses not recurring, along with the fair valuations of electricity derivatives and other financial instruments being favourable in 2013-14, the Net profit after tax recorded was $144.548m. Net profit after tax excludes items of other comprehensive income, including the fair value gains/losses on certain cash flow hedges which are taken directly to equity reserves and the actuarial gains on the RBF provision.

Total returns to the State for 2013-14 increased significantly from 2012-13, with a dividend relating to 2012-13 financial results of $116.058m and income taxes of $104.208m paid this year. In addition, Hydro paid loan guarantee fees of $11.224m.

Hydro's return on assets improved steadily over the last four financial years, from 3.4% in 2010-11 to 6.3% in 2013-14. This ratio, which compares EBIT to average total assets, indicates that for every dollar invested in the assets of the group, 6.3 cents earnings before interest and taxation is generated.

Operating profit before interest and taxation

Hydro's earnings before interest and tax improved by $24.190m, or 8.1%, in 2013-14. Total Expenses represented 84.0% of Total Revenue (80.4% in 2012-13). Total revenue increased by $452.400m, or 29.1%, primarily due to an increase in retail sales generated by Momentum Energy. Direct operating expenses increased by $358.674m, or 37.3% accordingly.

Hydro's operating margin has declined steadily over the last four financial years, from 1.47 times in 2010-11 to 1.26 times in 2013-14. By the nature of its business, Momentum Energy's operations are very low margin, and therefore increases in revenues have not translated to increases in profits from the group's retail arm. At the same time, expenses incurred in generating revenues have increased in line with the increases in those revenues, with employee expenses (including redundancy expenses), transmission and generation charges and Basslink related costs increasing. Additionally, a total of $23.487m of capital assets were scrapped or written off during 2013-14.

Finance costs

Although debt was lower at year end in 2014 compared with 2013, higher levels of debt were maintained throughout the year, including $205.000m that was transferred to Hydro with AETV effective 1 June 2013. As a result, finance costs increased year on year to 30 June 2014. A net total of $41.400m of debt was repaid across 2013-14.

Hydro's interest coverage over EBIT and EBITDA both declined from 2012-13 to 2013-14 but remain strong in comparison to the results of earlier financial years. Hydro capitalised on the inclusion of carbon pricing in its energy generation prices, and increased its annual generation and earnings. Its debt to equity ratio declined in 2013-14 following a decrease in debt held within the entity.

The cost of debt to Hydro increased to 7.4% from 6.9% in 2013-14 due to higher interest rates charged by lenders in line with prevailing market rates.

Fair value movements

Fair value movements in Hydro's Income statement include the following:

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

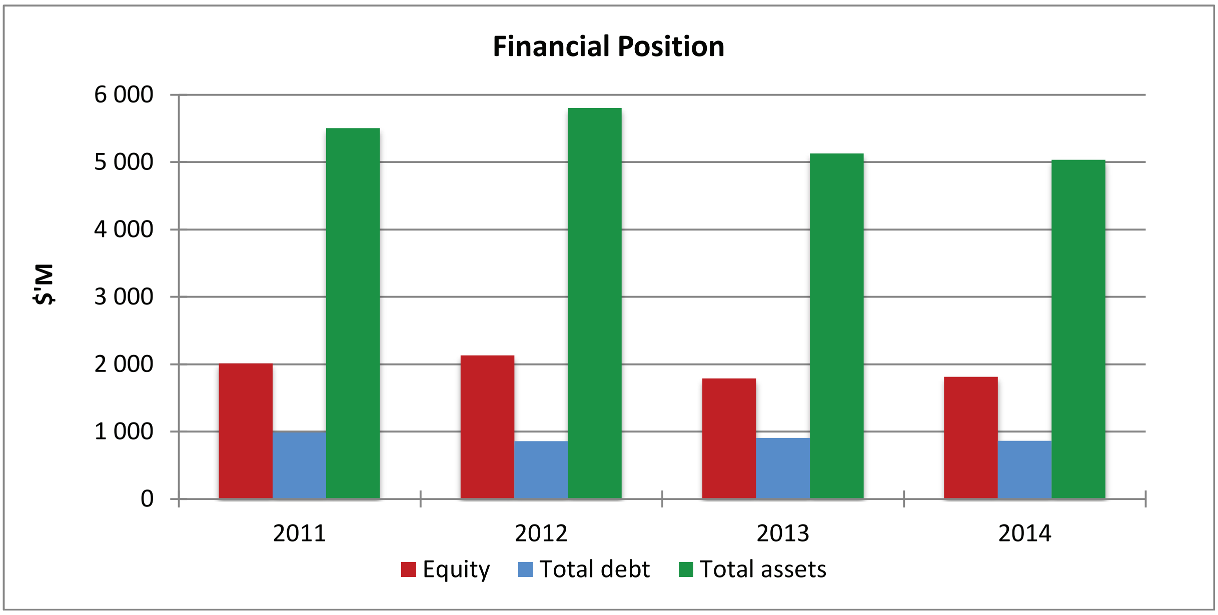
The net fair value gain of $162.110m recognised on these financial instruments is as a result of the following main factors:

- a decrease in the expected electricity imported from Victoria via Basslink, with an increase in the expected export of electricity to Victoria
- narrowing of the Tasmanian and Victorian price spreads over 2013-14; and
- a reduction in electricity prices between 2012-13 and 2013-14

Net cash generated by operations

Net Cash from Operations of $242.672m for 2013-14 represented a decrease of $18.877m from 2012-13. This result is a reflection of the increase in income taxes paid and energy purchase and generation costs, net of the increase in sales revenues collected and higher interest and guarantee fee payments.

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



Debt

Total debt remained relatively consistent over the past four financial years. Hydro continues to hold the $205.000m of debt that was acquired with the transfer of AETV within 2012-13.

Equity

Hydro's contributed equity decreased slightly due to a repayment of an amount in connection with the State of Tasmania's contribution of AETV to Hydro in 2012-13. The value of the repayment was $7.033m.

The value of reserves remained relatively consistent, with a slight reduction in reserves relating to derivative financial instruments.

Hydro's retained profits increased due to the recorded profit after tax, net of the dividend payment to the State of Tasmania.

Hydro's Debt to equity ratio has decreased by 2.9% year on year due to the reduction in debt held at year end, coupled with the increased net asset position.

Total assets

Total Assets decreased by $93.418m from 2012-13 to 2013-14 due to the downward revaluation of generation assets of $228.727m, Depreciation expense of $89.131m and capital additions and disposals made throughout the year. The further downward revaluation of generation assets was due to changes in assumptions around expected revenues to be generated over the five year Corporate Plan period, long-term energy pricing forecast made over Basslink and capital costs expected to be incurred in the maintenance of generation assets.

During 2012-13, Hydro completed the divestment of 75% of its investment in Musselroe Holdings Pty Ltd to Woolnorth Wind Farm holdings Pty Ltd, a joint venture with Shenhua Clean Energy Holdings Pty Ltd (SCE). The divestment resulted in a nil profit or loss accounting result for Hydro. $29.826m was capitalised from shareholder loans into equity in Woolnorth Wind Farm Holdings Pty Ltd, representing 25% of total equity. This is reflected in Hydro's investments balance. An amount of $89.447m was received from SCE for their 75% investment and primarily used for reduction of debt. Other line items presented in the consolidated statement of financial position that were impacted by this divestment from 2011-12 to 2012-13 include Assets held for sale and Property, plant and equipment.

Under the current directive, Hydro pays annual dividends representing 70% of profit before fair value movements, allowing for a 30% tax rate. The recent Tasmanian Budget saw the Government seek to increase dividends from GBEs, including Hydro, to 90% of underlying profits after tax. With cash payments of dividends trailing financial results by a year, and with the repeal of carbon pricing effective 1 July 2014 and resulting forecast declining earnings, Hydro will likely be in a position where it must borrow funds to fulfil its obligation to return dividends to the State. This will also mean that it must borrow in order to expand its asset base, or for investing back into its own business.

In its Corporate Plan, Hydro is forecasting underlying profits before tax of $26.000m in 2014-15, and underlying losses of $33.000m in 2015-16 and 2016-17. Despite this, dividend receipts from Hydro noted in the Budget were $126.100m in 2014-15 and $75.000m relating to a special dividend in 2016-17. It is important for Hydro to maintain its BBB credit rating, to minimise the Government Guarantee Fee expense, continue to service its debt as required, remain competitive with other market participants and to allow Hydro to operate more effectively in the NEM.

MOMENTUM ENERGY

Statement of Comprehensive Income

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Total revenue	1 033 232	800 143	458 997	244 856
Energy purchases and operating costs	(1 011 599)	(781 938)	(447 005)	(243 644)
Depreciation and amortisation	(485)	(619)	(893)	(452)
Profit before Fair Value Movements	**21 148**	**17 586**	**11 099**	**760**
Movements in fair value	0	0	0	0
Earnings Before Interest and Tax (EBIT)	**21 148**	**17 586**	**11 099**	**760**
Interest expense	0	0	0	0
Profit (loss) before tax	21 148	17 586	11 099	760
Income tax benefit (expense)	(4 268)	(5 390)	(3 351)	(298)
Net Profit (Loss)	**16 880**	**12 196**	**7 748**	**462**

Statement of Financial Position

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Current assets	156 936	122 022	98 659	41 002
Non-current assets	18 767	7 308	9 437	12 148
Total Assets	**175 703**	**129 330**	**108 096**	**53 150**
Current liabilities	(134 981)	(101 160)	(83 602)	(35 651)
Non-current liabilities	(232)	(4 561)	(13 080)	(13 176)
Total Liabilities	**(135 213)**	**(105 721)**	**(96 682)**	**(48 827)**
Equity	**40 490**	**23 609**	**11 414**	**4 323**

Momentum experienced increased operations in 2013-14, resulting in revenue from the sale of energy increasing to $1.033bn (up from $800.143m in 2012-13). This reflects higher sales volumes achieved as a result of improved market share. This had a corresponding increase in direct operating costs, which includes the cost of purchases of energy through the NEM, distribution costs, the cost of environmental energy products and employee related expenses.

The increase in Momentum Energy's current assets was attributable to the unbilled revenue accrual, which increased from $72.310m in 2012-13 to $107.535m in 2013-14. This was driven by the increase in customer numbers, customer pricing and kilowatt hours sold but not yet invoiced at balance date.

Non-current assets increased following the addition of $3.315m of capital works in progress during the period, and the recognition of a deferred tax asset (previously a deferred tax liability) in respect of temporary differences of $5.764m at year end. Deferred customer acquisition costs, which are capitalised to the balance sheet and amortised over the life of customer contract periods, increased by $2.865m year on year.

Similarly, the increase in current liabilities, being the accrual for network and distribution costs and energy purchases, was as a result of increased supply to the larger customer base, and the timing of the purchase settlement cycle in relation to balance date. Some of these payments are made by Hydro on behalf of Momentum Energy, and are therefore represented by a loan from the parent entity, Hydro. These accruals increased from $75.501m in 2012-13 to $110.540m in 2013-14.

Non-current liabilities decreased as Momentum Energy's deferred tax position moved from a net deferred tax liability to a net deferred tax asset as discussed previously.

Despite the stronger Net profit after tax this year, Momentum Energy's cash balance declined year on year to $0.277m at 30 June 2014. This was due to declining margins, increased employee costs and payments made for purchases of items of Property, plant and equipment. Additionally, cash is maintained by the parent entity for the Hydro group of companies, and surplus cash is swept from Momentum Energy to Hydro on a regular basis.

AETV

Statement of Comprehensive Income

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Total revenue	93 596	131 848	124 799	119 225
Energy purchases and operating costs	(126 135)	(112 526)	(86 445)	(62 871)
Depreciation and amortisation	(3 941)	(12 157)	(12 679)	(12 636)
Other expenses	(14 893)	(3 270)	(1 259)	(31 809)
Impairment expenses	1 202	(335 045)	0	0
Earnings Before Interest and Tax (EBIT)	**(50 171)**	**(331 150)**	**24 416**	**11 909**
Interest expense	(15 163)	(14 890)	(17 122)	(9 657)
Profit (Loss) before Tax	**(65 334)**	**(346 040)**	**7 294**	**2 252**
Income tax benefit (expense)	19 598	103 811	(2 189)	(676)
Net Profit (Loss)	**(45 736)**	**(242 229)**	**5 105**	**1 576**
Other Comprehensive Income				
Cash flow hedge fair value gain taken to equity	2 931	(3 996)	0	0
Income tax relating to other comprehensive income	(879)	1 198	0	0
Other Comprehensive Income (Expense)	**2 052**	**(2 798)**	**0**	**0**
Total Comprehensive Profit (Loss)	**(43 684)**	**(245 027)**	**5 105**	**1 576**

Statement of Financial Position

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Current assets	5 706	13 482	35 485	34 794
Non-current assets	187 028	192 030	341 740	564 327
Total Assets	**192 734**	**205 512**	**377 225**	**599 121**
Current liabilities	(280 045)	(37 322)	(10 912)	(39 912)
Non-current liabilities	(106 033)	(317 849)	(270 945)	(468 945)
Total Liabilities	**(386 078)**	**(355 171)**	**(281 857)**	**(508 857)**
Equity	**(193 344)**	**(149 659)**	**95 368**	**90 264**

Revenue generated by AETV has historically reflected the sale of electricity from the gas-fired power generation units under tolling arrangements to Aurora, however from 1 June 2013 when AETV was transferred to Hydro, these tolling arrangements ceased. Expenses increased significantly year on year due to the cessation of these tolling arrangements, which saw the previous owners receive a tolling fee which provided revenues to cover operating expenditure, depreciation, financing charges and return on capital. Revenues also decreased in 2013-14 due to a decrease in electricity volume generated and sold.

The net result in 2012-13 was significantly impacted by impairment expenses recognised in relation to the plant and equipment, particularly the gas-fired power generation units, and onerous gas transportation and tolling agreements. These expenses did not occur in 2013-14.

The decrease in AETV's current assets was primarily attributable to the reduction in the debtors balance due to significant reductions in sales into the NEM.

The value of Property, plant and equipment within Non-Current Assets remained consistent year on year, with movements in Non-Current Assets attributable to a decrease in deferred tax assets partially offset by an increase in long-term gas purchase prepayments.

The current portion of onerous contracts increased year on year due to the quantum of contracts to be realised within the next 12 months. The loan from Hydro to AETV which is also classified as a current liability increased by $55.278m year on year as Hydro continues to fund AETV's ongoing operations. These increases were partially offset by a reduction in creditors at balance sheet date.

Non-current liabilities are made up of the non-current portion of onerous contracts and a provision for the rehabilitation of the site at which the AETV gas fired power stations are situated. The rehabilitation provision increased due to the changes in inflation and discount rates. The non-current portion of the onerous contracts liability decreased by $23.945m year on year as the onerous contracts unwind and are realised through fulfilment of the contracts. The total liability, both current and non-current, for onerous contracts was $100.376m at 30 June 2014 ($112.390m at 30 June 2013).

Statement of Comprehensive Income

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Sales of goods and services	1 978 012	1 541 617	1 039 693	804 181
Share of profit of joint venture entities	3 070	1 756	0	0
Other operating revenue	26 551	11 860	11 438	8 591
Total Revenue	2 007 633	1 555 233	1 051 131	812 772
Direct operating expenses	1 319 456	960 782	590 001	374 930
Labour	149 941	123 242	104 802	104 660
Depreciation	88 230	91 373	82 273	79 873
Share of loss of joint venture	0	0	384	3 880
Other operating expenses	128 054	82 074	83 544	68 932
Total Expenses	**1 685 681**	**1 257 471**	**861 004**	**632 275**
Underlying Result before Interest and Taxation	**321 952**	**297 762**	**190 127**	**180 497**
Finance costs	(79 840)	(67 501)	(86 687)	(80 481)
Underlying Result Before Fair Value Movements, Impairment Expenses and Taxation	**242 112**	**230 261**	**103 440**	**100 016**
Revaluation and impairment expenses	(220 492)	(484 315)	0	0
Gain on R40s restructure	0	0	0	22 645
Movements in fair value	162 110	(1 923)	(85 571)	93 744
Profit (Loss) before Taxation	**183 730**	**(255 977)**	**17 869**	**216 405**
Income tax benefit/(expense)	(39 182)	59 697	(3 997)	(65 313)
Net Profit (Loss)	**144 548**	**(196 280)**	**13 872**	**151 092**
Other Comprehensive Income				
Cash flow hedge fair value gain taken to equity	5 904	5 122	(18 581)	2 653
Actuarial gains (losses) on RBF provision	232	53 592	(91 503)	6 210
Revaluation of property, plant and equipment	0	(321 351)	321 351	0
Other	79	96	(287)	(264)
Income tax relating to these items	(1 864)	76 574	(63 294)	(2 659)
Other Comprehensive Income (Loss)	**4 351**	**(185 967)**	**147 686**	**5 940**
Total Comprehensive Profit (Loss)	**148 899**	**(382 247)**	**161 558**	**157 032**

Statement of Financial Position

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Cash	13 001	15 669	7 029	7 680
Receivables	241 086	220 828	142 062	114 253
Investments	11	24 137	32	5 519
Inventories	60 133	38 928	54 706	65 461
Financial assets	165 022	84 353	202 368	201 892
Assets held for sale	0	0	116 731	0
Total Current Assets	**479 253**	**383 915**	**522 928**	**394 805**
Payables	176 073	142 732	124 700	81 260
Borrowings	369 286	135 669	211 252	380 283
Other financial liabilities	175 249	184 849	464 891	94 831
Tax liabilities	46 755	59 528	28 938	29 388
Provisions	100 399	58 570	54 114	44 610
Total Current Liabilities	**867 762**	**581 348**	**883 895**	**630 372**
Working Capital	**(388 509)**	**(197 433)**	**(360 967)**	**(235 567)**
Property, plant and equipment	3 969 767	4 188 436	4 484 569	4 414 220
Investments	68 866	66 696	34 557	0
Other financial assets	501 658	473 915	715 986	649 773
Goodwill	16 396	16 396	47 796	47 796
Total Non-Current Assets	**4 556 687**	**4 745 443**	**5 282 908**	**5 111 789**
Borrowings	494 717	770 126	645 554	603 083
Provisions	458 692	492 799	413 133	326 544
Other financial liabilities	890 797	934 355	958 432	1 157 846
Deferred tax liabilities	508 332	561 575	772 775	775 296
Total Non-Current Liabilities	**2 352 538**	**2 758 855**	**2 789 894**	**2 862 769**
Net Assets	**1 815 640**	**1 789 155**	**2 132 047**	**2 013 453**
Reserves	(13 242)	(19 226)	296 907	(5 576)
Contributed equity	353 206	360 239	271 100	271 100
Retained profits	1 475 676	1 448 142	1 564 040	1 747 929
Total Equity	**1 815 640**	**1 789 155**	**2 132 047**	**2 013 453**

Statement of Cash Flows

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	1 998 460	1 488 304	1 007 227	781 480
Government grants	9 264	7 756	8 032	9 467
Payments to suppliers and employees	(1 598 811)	(1 129 478)	(784 011)	(552 170)
Interest received	1 031	685	873	214
Finance costs	(51 842)	(44 354)	(61 289)	(55 290)
Government guarantee fee	(11 222)	(8 595)	(8 697)	(6 646)
Income tax equivalent paid	(104 208)	(52 769)	(54 799)	(16 249)
Cash from Operations	**242 672**	**261 549**	**107 336**	**160 806**
Proceeds from investments	900	91 576	88 082	0
Payments for investments	0	0	0	0
Proceeds for financial assets	15 792	31 679	0	0
Payments for financial assets	0	0	(13 041)	(27 674)
Payments for property, plant and equipment	(125 154)	(141 558)	(167 379)	(64 618)
Business acquisition	0	(4 326)	0	0
Proceeds from sale of property, plant and equipment	4 156	763	509	753
Cash (used in) Investing Activities	**(104 306)**	**(21 866)**	**(91 829)**	**(91 539)**
Proceeds from borrowings	185 700	427 000	565 600	262 600
Repayment of borrowings	(227 100)	(582 600)	(537 601)	(306 300)
Equity Contribution	(7 033)	0	0	0
Cash balances acquired in business acquisition	0	0	0	10 639
Repayment of finance lease	(669)	(652)	(636)	(535)
Dividend paid	(116 058)	(50 686)	(49 008)	(25 510)
Cash (used in) Financing Activities	**(165 160)**	**(206 938)**	**(21 645)**	**(59 106)**
Net Increase (Decrease) in Cash	**(26 794)**	**32 745**	**(6 138)**	**10 161**
Cash at the beginning of the year	39 806	7 061	13 199	3 038
Cash at End of the Year	**13 012**	**39 806**	**7 061**	**13 199**

Financial Analysis

	Bench Mark	2013-14	2012-13	2011-12	2010-11
Financial Performance					
Net profit (loss)		144 548	(196 280)	13 872	151 092
Underlying profit (loss)		242 112	230 261	103 440	100 016
EBIT ($'000s)		321 952	297 762	190 127	180 497
EBITDA ($'000s)		410 182	389 135	272 400	260 370
Operating margin	>1.0	1.26	1.33	1.35	1.47
Return on assets	5.21	6.3%	5.4%	3.4%	3.4%
Return on equity		8.0%	(10.0%)	0.7%	7.8%
Financial Management					
Debt to equity		47.6%	50.6%	40.2%	48.8%
Debt to total assets		17.2%	17.7%	14.8%	17.9%
Interest cover – EBIT	>2	4.03	4.41	2.19	2.24
Interest cover – EBITDA	>2	5.14	5.76	3.14	3.24
Interest cover – operating cash flows		5.68	6.90	2.75	3.91
Current ratio	>1	0.55	0.66	0.59	0.63
Cost of debt		7.4%	7.9%	7.1%	7.2%
Debt collection	30 days	44	52	50	52
Creditor turnover	30 days	18	19	20	24
Asset Management					
Investment gap %	100%	141.8%	154.9%	203.4%	80.9%
Returns to and from Government					
Dividends paid ($'000s)		116 058	50 686	49 008	25 510
Income tax paid ($'000s)		104 208	52 769	54 799	16 249
Government guarantee fees ('$000s)		11 222	8 595	8 697	6 646
Total return to the State ($'000s)		231 488	112 050	112 504	48 405
Dividends recommended ($'000s)		118 576[1]	116 481	50 686	49 008
Dividend payout ratio[2]	70%	82.0%	(59.34%)	365.4%	32.4%
Dividend to equity ratio		6.6%	5.9%	2.4%	2.5%
CSO funding ($'000s)		9 200	7 700	8 000	7 500
Other Information					
Average staff numbers (FTEs)		1 114	1 037	916	899
Average staff costs – excluding redundancy costs ($'000s)		121	118	114	116
Average leave balance per FTE ($'000s)		24	27	24	23

[1] *Declared post year end.*

[2] *The actual dividend paid to Treasury is based on the Underlying Profit.*

MOTOR ACCIDENTS INSURANCE BOARD (MAIB)

SNAPSHOT

- Recorded a profit before taxation of $171.942m, which included an underwriting profit of $10.136m.
- There was a 7.4 per cent reduction in the base premium rate.
- Strong net investment income of $171.135m.
- Dividends paid this year, based on results over the past five years, totalled $23.219m. The dividend payable for 2013-14, as recommended by the Directors in August 2014, was $44.570m.
- The State Budget, released in August 2014, confirmed a special dividend of $100.000m payable in 2014-15.
- At 30 June 2014, Total Equity was $484.380m.
- MAIB's funding ratio was 133.9%, within the Board's target range of 120% to 145%.

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

Major variations between the 2013-14 and 2012-13 financial years included:

- Claims expense increased by $37.156m
- Income tax expense decreased by $13.886m
- Total investments, including Cash, increased by $191.224m at 30 June
- Provision for tax increased by $32.862m
- Outstanding claims liability increased by $50.767m.

The audit was completed satisfactorily with no findings.

INTRODUCTION

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

At 30 June 2014, the MAIB's Board of Directors consisted of seven members, including the Chief Executive Officer. Directors are appointed by the Governor on the joint recommendation of the Treasurer and Portfolio Minister, the Minister for Infrastructure. The Chief Executive Officer is appointed by the Government.

KEY AREAS OF AUDIT ATTENTION

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

AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

Signed financial statements were received on 13 August 2014 and an unqualified audit report was issued on 18 August 2014.

KEY DEVELOPMENTS

Tasmanian Economic Regulator Review

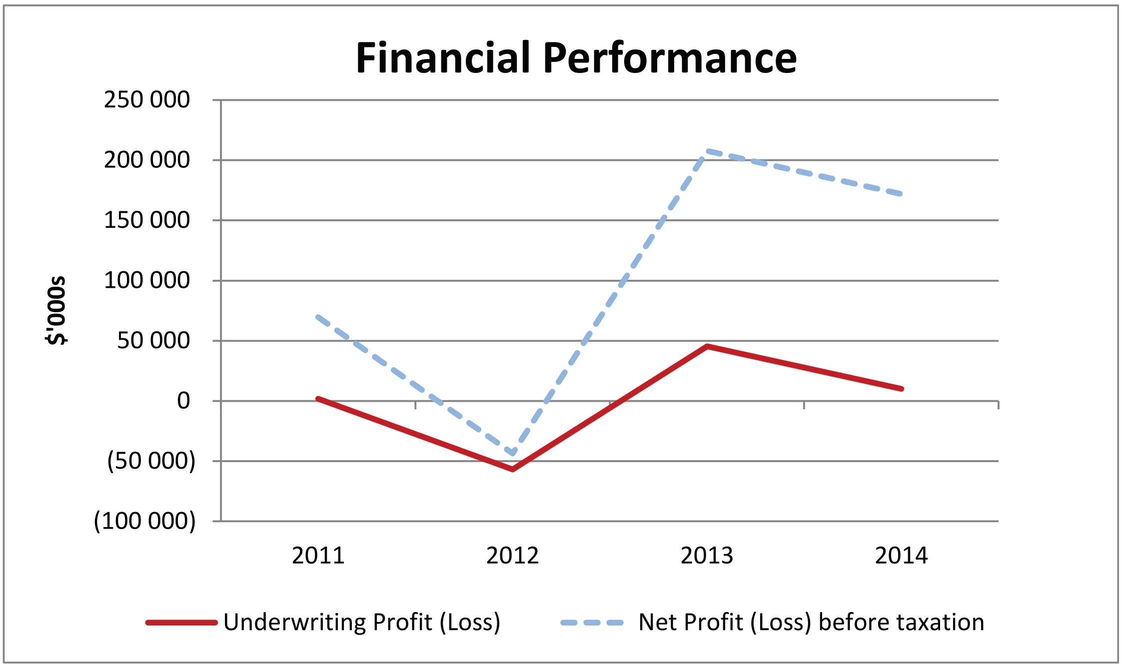
During 2012-13, MAIB's pricing policies were subject to review by the Regulator whose major recommendation was that, from 1 December 2013, the base premium for all vehicle classes be reduced by 7.4% (excluding duty and GST). Base premiums changed on 1 December 2013, in line with the Regulator's recommendation, which resulted in a 3.3% decrease in direct premiums collected in the year.

Vehicle numbers increased from the prior year by 1.6% which had the effect of partially mitigating the lower base premium.

KEY FINDINGS

The audit was completed without any audit findings.

FINANCIAL ANALYSIS



For the year ended 30 June 2014, MAIB generated a Net Profit before Taxation of $171.942m, compared to a 2012-13 profit of $207.767m. The change was due to a decrease in Underwriting profit of $35.177m. The lower Underwriting profit was due to higher Claims expenses of $37.156m.

Claims

The following table details claims expenses over the past four years.

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Claims paid	73 505	78 836	72 984	74 146
Movement in the outstanding claims liability	50 767	8 165	127 682	59 414
Other claims expenses	330	445	428	418
Total Claims Expenses	**124 602**	**87 446**	**201 094**	**133 978**

Claims expense reflected the combined impacts of the estimated costs of claims incurred in the year and revisions to economic and actuarial assumptions on prior years' claims. An independent Actuary undertakes the annual valuation of the year-end claims liability.

The movement in the claims expense is driven by the outstanding claims liability, which is impacted by a variety of factors including:

- the number of claims received as a result of motor accidents
- the nature, type and severity of claims received
- duration of liability
- statutory obligations to claimants
- movement in economic factors such as inflation and discount rates.

Over the four-year period claims expenses averaged $136.780m per annum. Claim payments were relatively consistent and averaged $74.868m. Variability in movement in the outstanding claims liability was mainly driven by the net impact of revisions to claims costs and movements in economic assumptions underlying the valuation of the claims liability. Discount rates, and the gap between discount and inflation rates, decreased during 2013-14 which increased the balance of both the claims liability and expense.

Investments, revenue and returns

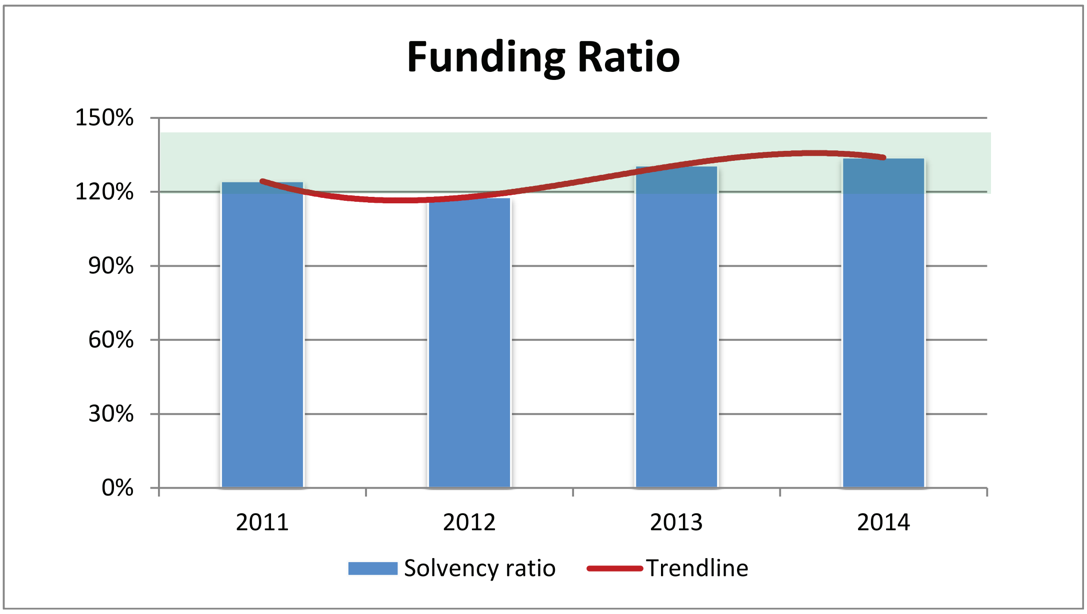
The following table shows the make-up of MAIB's investment revenue over the last four years.

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Investment income	42 970	52 216	47 799	74 307
Changes in fair value of investments				
Realised	51 237	(1 252)	9 637	1 808
Unrealised	78 866	123 149	(32 811)	2 730
Less investment related expenses	(1 938)	(1 430)	(1 333)	(1 697)
Total Investment Revenue	**171 135**	**172 683**	**23 292**	**77 148**
Return on Investments	**12.8%**	**15.5%**	**2.2%**	**8.0%**

In 2013-14 MAIB achieved a return on investments of 12.8%, compared to 15.5% in the prior year. Investment performance over both years was above target, due to strong investment markets performance.

MAIB's focus on maximising longer term investment returns introduces short term volatility in annual financial results mainly caused by movements in international and local financial markets. This volatility is further illustrated in the return on assets and return on equity ratios (refer to Financial Analysis in Chapter Appendices).

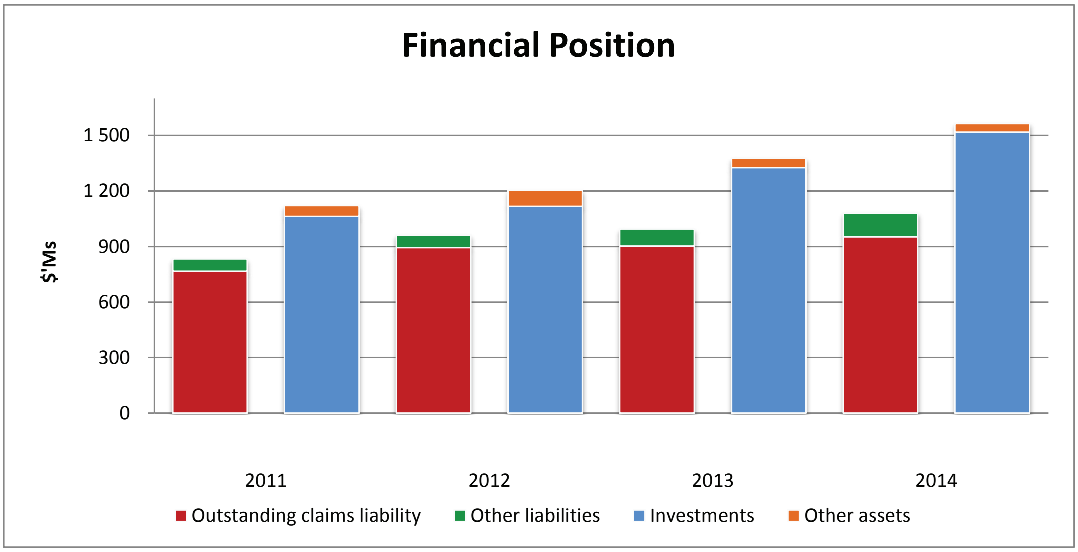
Capital management



MAIB, in conjunction with its actuary, developed an appropriate capital management policy that takes account of the capital requirements of MAIB's claims liability profile and investment strategy and balances those with being a monopoly provider and a GBE.

During 2013-14 MAIB requested its actuary to review the approach to capital management. Following consideration of the available capital measures and receipt of the actuary's advice, MAIB adopted the Funding Ratio as its measure of capital adequacy. A target range of 120% to 145% was established. This is the primary measure for all accident compensation schemes in Australia.

At 30 June 2014 the Funding Ratio was 133.9% (2013, 130.7%).



The major component of MAIB's Total Assets is its investment portfolio (including cash), which at 30 June 2014 totalled $1.518bn (2013, $1.326bn) and represented 97.0% of Total Assets (96.3%). Total investments increased by $191.224m, 14.4%, from 30 June 2013.

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 2014 the Board's actual investment holdings were 66% in the growth category (including Australian and international equities, property and infrastructure) and 34% defensive (including cash and fixed interest). Funds are transferred within asset classes to maintain target allocations or to implement strategic decisions to deviate from benchmark allocations where opportunities or material risks are identified.

The major component of the MAIB's Total Liabilities is its Outstanding claims liability, which at 30 June 2014 represented 88.2% of total liabilities (2013, 90.7%).

The composition of the claims liability is provided in the following table.

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Future care	675 203	638 841	628 166	529 059
Common law	230 002	217 613	210 292	190 847
Scheduled benefits	47 478	45 462	55 293	46 163
Outstanding Claims Liability	**952 683**	**901 916**	**893 751**	**766 069**
New Claims Received	**2 924**	**2 839**	**2 707**	**2 977**
Total Open Claims at 30 June	**2 619**	**2 749**	**2 676**	**2 800**

Future care – claimants requiring 'daily care' as defined by S27A of the Act.

Common law – claims where damages may be payable for personal injury caused by the negligence of a motorist.

Scheduled benefits – claims accepted on a no-fault basis for payments including medical and rehabilitation costs and disability allowance irrespective of who caused the accident.

The liability increased by $50.767m this year due to claims incurred of $124.272m offset by claim payments of $73.505m.

Discount rates and the gap between discount and inflation rates decreased during 2013-14 which increased the balance of the liability.

As can be seen above, the majority of the increase, 71.6%, was in Future care claims which represented 70.9% of the Outstanding claims liability.

Returns to Government

Dividends are payable to the State Government under the dividend averaging policy agreed between the Board and Government. In accordance with the policy, dividends are based on the average of profits and losses over the current and four preceding years. Over the four year period under review, MAIB paid $84.175m in dividends. The dividend payable for 2013-14, as recommended by the Directors in August 2014, was $44.570m.

The Board is also required under the *Government Business Enterprise Act 1995* to make tax equivalent payments to the State Government. Taxation payable for the 2013-14 year was $42.738m with instalments of $3.529m paid during the year and $39.209m to be paid in 2014-15.

Including tax equivalent payments, MAIB returned total cash payments to the State of $94.049m over the four year period under review.

The State Budget, released in August 2014 included a special dividend of $100.000m payable in 2014-15 by MAIB.

Statement of Comprehensive Income

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Premium revenue	139 539	139 143	139 167	136 475
Outwards reinsurance expense	(6 025)	(5 923)	(5 448)	(5 344)
Claims expense	(124 602)	(87 446)	(201 094)	(133 978)
Recovery revenue	4 767	3 514	13 490	7 340
Unexpired risk benefit (expense)	(912)	(1 331)	(428)	0
Other underwriting expenses	(2 631)	(2 644)	(2 665)	(2 680)
Underwriting Profit (Loss)	**10 136**	**45 313**	**(56 978)**	**1 813**
Investment income	171 135	172 683	23 292	77 148
General and administration expenses	(5 783)	(6 040)	(5 693)	(5 371)
Road safety strategy funding	(3 491)	(3 484)	(3 483)	(3 408)
Injury Prevention and Management Foundation	(55)	(680)	(698)	(687)
Net Profit (Loss) before Taxation	**171 942**	**207 792**	**(43 560)**	**69 495**
Income tax benefit (expense)	(46 444)	(60 330)	16 506	(17 829)
Net Profit (Loss)	**125 498**	**147 462**	**(27 054)**	**51 666**
Other Comprehensive Income – Net of Taxation				
Items that will not be classified to profit or loss				
Defined benefits plan actuarial gains/(losses)	(315)	706	(947)	103
Total Comprehensive Profit (Loss)	**125 183**	**148 168**	**(28 001)**	**51 769**

Statement of Financial Position

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Cash and cash equivalents	286 658	138 326	150 689	165 334
Trade and other receivables	1 357	2 161	2 144	1 306
Deferred acquisition costs	0	0	668	1 119
Reinsurance recoveries receivable	22 336	26 429	23 469	13 432
Debt securities and other investments	2 912	1 605	185	2 156
Listed instruments	23 960	97 274	78 636	114 369
Unlisted instruments	1 039 605	870 565	671 816	765 374
Bonds	149 901	203 907	200 015	0
Investment properties	14 605	14 740	15 040	15 300
Plant and equipment and intangibles	911	947	1 080	1 143
Deferred tax asset	22 273	20 952	51 541	34 835
Other assets	0	24	7 410	7 195
Total Assets	**1 564 518**	**1 376 930**	**1 202 693**	**1 121 563**
Trade and other payables	1 966	2 117	1 984	2 001
Provision for tax	39 209	6 347	0	0
Unearned premium liability	56 274	59 951	58 661	58 557
Injury Prevention and Management Foundation liability	89	781	815	889
Unexpired risk liability	1 486	640	0	0
Outstanding claims liability	952 683	901 916	893 751	766 069
Provision for employee benefits – leave	720	695	653	574
Provision for employee benefits – superannuation	4 967	4 217	4 924	3 305
Deferred tax liability	22 744	17 850	1 517	1 530
Total Liabilities	**1 080 138**	**994 514**	**962 305**	**832 925**
Net Assets	**484 380**	**382 416**	**240 388**	**288 638**
Retained Earnings	484 380	382 416	240 388	288 638
Total Equity	**484 380**	**382 416**	**240 388**	**288 638**

Statement of Cash Flows

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Receipts from premiums	150 155	154 452	152 463	152 004
Payments for claims	(79 050)	(84 129)	(78 228)	(79 252)
Other payments	(28 611)	(28 718)	(28 073)	(28 874)
Other receipts	11 294	3 032	6 323	8 130
Income tax paid	(9 874)	0	0	0
Dividends received	29 805	42 211	34 336	64 065
Interest received	10 837	8 880	8 669	7 927
Cash from Operations	**84 556**	**95 728**	**95 490**	**124 000**
Net payments for investments	87 221	(101 493)	(89 684)	(48 947)
Payments for property, plant and equipment	(246)	(552)	(208)	(412)
Proceeds from sale of property, plant and equipment	20	94	6	68
Cash used in Investing Activities	**86 995**	**(101 951)**	**(89 886)**	**(49 291)**
Dividends Paid	**(23 219)**	**(6 140)**	**(20 249)**	**(34 567)**
Net Increase (Decrease) in Cash	**148 332**	**(12 363)**	**(14 645)**	**40 142**
Cash at the beginning of the year	138 326	150 689	165 334	125 192
Cash at End of the Year	**286 658**	**138 326**	**150 689**	**165 334**

Financial Analysis

	Bench Mark	2013-14	2012-13	2011-12	2010-11
Financial Performance					
EBIT ($'000s)		171 942	207 792	(43 560)	69 495
Net profit (loss) ($'000s)		125 498	147 462	(27 054)	51 666
Operating margin	>1.0	2.21	2.96	0.80	1.46
Return on assets		11.7%	16.1%	(3.7%)	6.4%
Return on equity		29.0%	47.4%	(10.2%)	18.4%
Financial Management					
Funding ratio	120-145%	133.9%	130.7%	117.9%	124.3%
Returns to Government					
Dividends paid ($'000s)		23 219	6 140	20 249	34 567
Income tax paid ($'000s)[1]		9 874	0	0	0
Total return to the State ($'000s)		33 093	6 140	20 249	34 567
Dividends paid or payable ($'000s)		44 570	23 219	6 140	20 249
Dividend payout ratio[2]	50%	35.5%	15.7%	(22.7%)	39.2%
Dividend to equity ratio	6%	10.3%	7.5%	2.3%	7.2%
Other Information					
Average staff numbers (FTEs)		35	36	35	36
Average staff costs ($'000s)		88	85	81	78
Average leave balance per FTE ($'000s)		21	20	19	16

[1] *No Tax equivalent was payable in respect of 2011-12. Tax equivalent payable for 2010-11 and 2012-13 was offset against amounts prepaid in 2009-10.*

[2] *The actual dividend paid to Treasury is based on a five year average of the Underlying Profit.*

PORT ARTHUR HISTORIC SITE MANAGEMENT AUTHORITY (The Authority)

SNAPSHOT

- The Authority recorded a Net Profit for the year of $2.364m (2012-13, $0.231m Loss).
- It received annual support to fund conservation and tourism works from the State and Commonwealth Governments which in 2013-14 amounted to $5.686m ($3.267m) and $0.263m ($0.391m), respectively.
- The State Government contributed land at the Cascades Female Factory valued at $0.397m.
- Visitor numbers increased 18% in 2013-14 to 286 915 (243 761).
- Net Assets increased by $1.833m to $28.974m.

Key audit findings included three moderate risk items. These included the need for the Authority to independently review timesheets, maintain adequate audit trails for terminated employees and improve controls over 'free of charge' entry tickets. These matters were reported to and are being addressed by management.

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

Key developments this year included:

- a grant by the State Government in the form of land for the Cascades Female Factory valued at $0.397m
- change in accounting policy to recognise the Authority's heritage buildings valued at $9.314m
- additional grant funding of $3.000m was provided by the State Government for the Penitentiary stabilisation project.

INTRODUCTION

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

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

In recent years, State and Australian Governments have provided additional support in recognition of the unique heritage value and economic benefits of the sites to the Tasmanian economy. These funds have been, and are being, applied to significant works across the sites. In 2013-14 significant conservation works were undertaken within the Penitentiary precinct. This work was on-going at 30 June 2014.

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

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

KEY AREAS OF AUDIT ATTENTION

Description of Area	Audit Approach
The Authority receives a number of grants for a variety of purposes.	We tested grant transactions reported as they applied to the Penitentiary Precinct Project and other purposes as well as reviewed the status of this source of funding.
The Authority undertakes a revaluation of building and infrastructure assets every three years. The revaluation of buildings and infrastructure assets was performed as at 30 June 2014.	We tested the valuation methodology ensuring its appropriateness and compliance with the new accounting standard AASB13 *Fair Value Measurement*. We verified significant movements to supporting documentation and tested year end amounts.
Treasury released a new Guideline for Tasmanian Government Businesses entitled Director and Executive Remuneration in October 2013. The new Guideline outlines the expectations of the Stakeholder Ministers with respect to the remuneration arrangements for Directors and Senior Executives of Government Businesses. These guidelines establish the minimum requirements with respect to the setting of remuneration packages for the Chief Executive Officer and Senior Executives and the disclosure of Board fees and Executive remuneration.	We tested the disclosure of Director and Executive remuneration by the Authority to ensure it met the requirements of the Guideline.
Port Arthur Historic Site Management Authority Staff Agreement 2014 was signed on 31 January 2014.	We tested payroll payments were in accord the new Agreement.
Revised AASB 119 *Employee benefits* impacted on the following items: • classification of employee benefits by modifying the definition of short-term and long-term benefits • enhanced superannuation disclosures about defined benefit plans.	We tested employee provisions and superannuation in the light of the revised Standard.

AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

Signed financial statements were received on 14 August 2014 and an unqualified audit report was issued on 21 August 2014.

KEY DEVELOPMENTS

Cascades Female Factory

At the request of Government, the Authority assumed responsibility for the Cascades Female Factory Historic Site effective from December 2010. The Authority took full control of operations in 2011-12. During 2013-14 Government provided a grant of $0.375m ($0.440m in the previous year) to help meet operating costs. In 2013-14 Government also provided a grant, in the form of land at the site, valued at $0.397m. This was recognised as Contributed Non-Current Assets received by the Authority.

Change in accounting policy regarding heritage assets

Valuation and recognition of the Authority's historical buildings and collections has been raised in prior audits. It is a requirement of AASB 116 *Property, Plant and Equipment* that assets, including historical buildings and collections, are recognised if it is probable that future economic benefits will flow to an entity and the assets can be reliably measured. The Authority had previously not recognised such assets due to the large number of items involved and the complexity of valuation.

This year the Authority brought to account all heritage buildings, at a valuation of $9.314m, for the first time. This represented a change in accounting policy and, in accordance with the requirements of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, the Statement of Financial Position for the 2013 and 2012 years had to be re-stated. Both Property, plant and equipment and Retained earnings increased by $9.314m. We concurred with the accounting treatment and audited the valuation.

The valuation of remaining heritage assets, artefact collections and ruins will be considered in future years.

Penitentiary Precinct Project

The Penitentiary Precinct Project had a budget amount of approximately $8.500m. Government provided additional grant funding of $3.000m in 2013-14 for this project, of which $0.885m was unexpended at 30 June 2014 due to project delays.

The Australian Government will provide funding towards this project of $1.500m in the 2014-15 financial year.

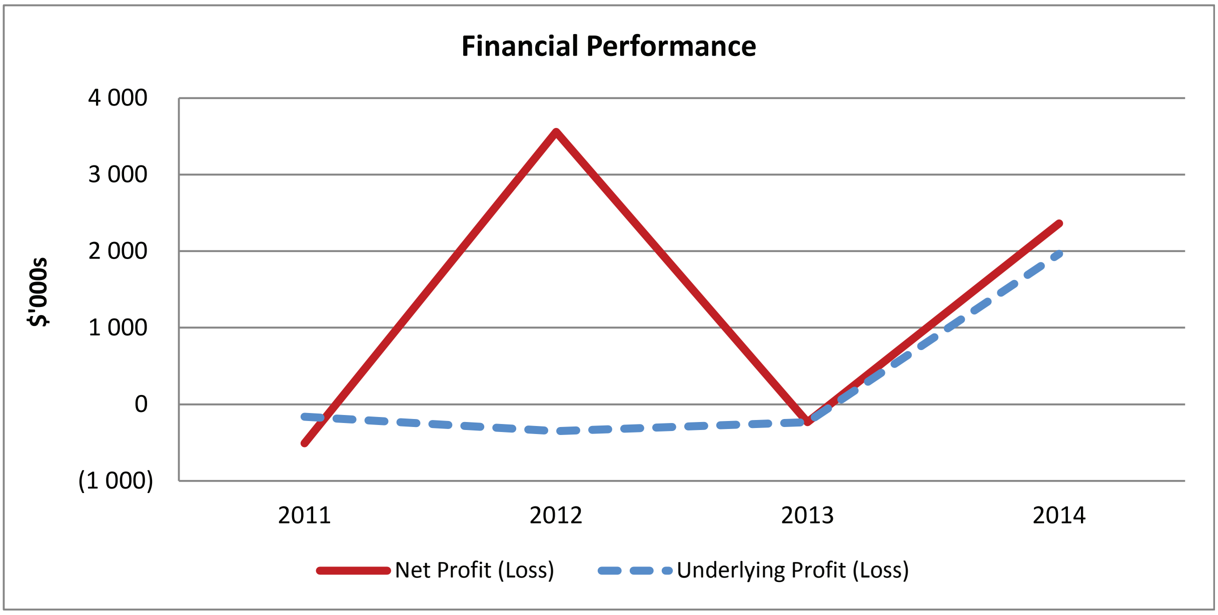
KEY FINDINGS

During the audit three moderate risk audit findings were identified and reported to management. These related to the Authority's need to:

- independently review timesheets
- maintain adequate audit trails for terminated employees
- improve controls over 'free of charge' entry tickets.

These matters were reported to and are being addressed by management.

FINANCIAL ANALYSIS



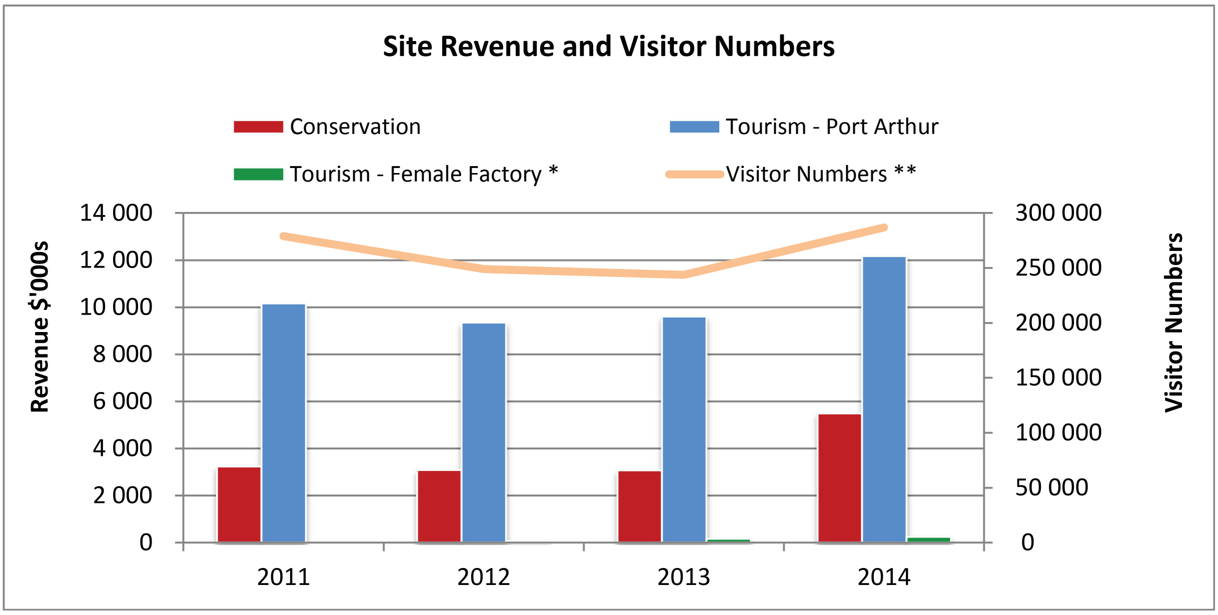
The Authority's Underlying losses were relatively consistent over the first three of the four years under review. Underlying losses are not, in our view, surprising bearing in mind the nature of the Authority's activities.

However, in 2013-14 the Authority recorded an Underlying Profit of $1.967m. This improved result was due mainly to higher earnings from Site revenue offset in part by higher operating expenses. Additional conservation funding was predominantly offset by increased conservation expenses.

The Authority received Government support to fund its conservation and tourism works. In 2013-14, it received funding of $5.948m (2012-13 $3.659m) which comprised of State and Commonwealth funding of $5.685m and $0.263m, respectively.

Conservation funding represented 28.22% of Total Revenue.

The Authority reported a significant Net Profit in 2011-12 due to the transfer from DPIPWE of ownership of land and buildings at Cascades Female Factory site, $0.829m, and other crown land at Port Arthur, $3.100m. Without these contributions, the Net Profit would have been a Net Loss of $0.372m, in line with other years. The improved Net Profit in 2013-14 was driven by the Underlying Profit result together with a further contribution of land related to the Female Factory site.



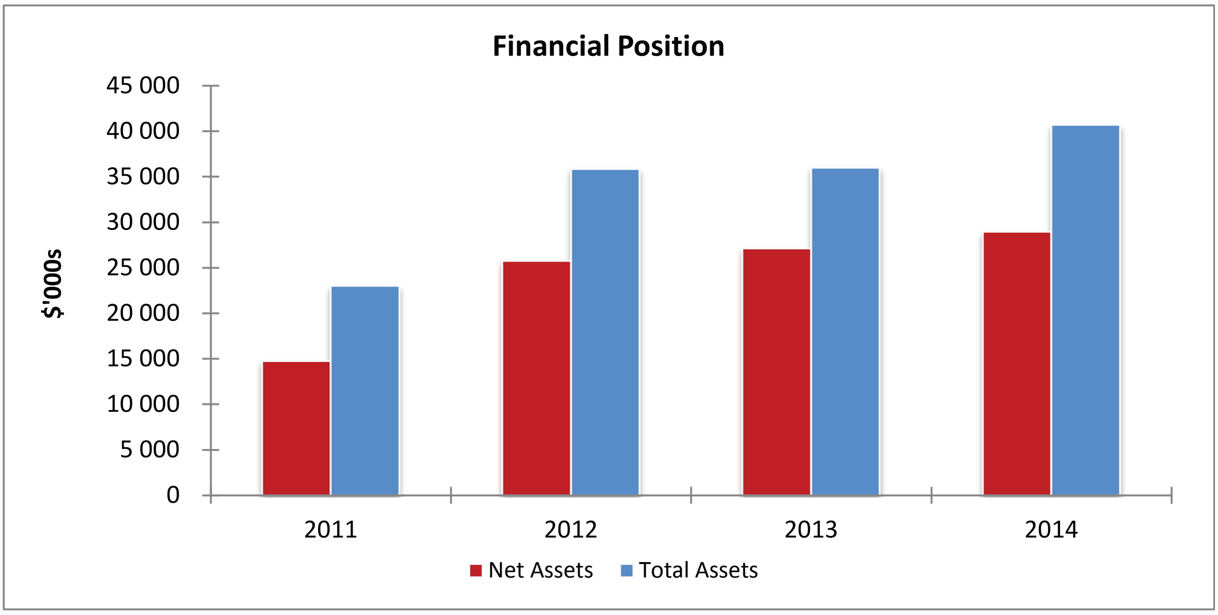
* *The Coal Mines Historic Site currently generates no income.*

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

Visitor numbers increased 18% in 2013-14 to 286 915 (2012-13, 243 761). In the previous three years visitor numbers to the Port Arthur Site had declined, as a result of a combination of the high Australian dollar, the global financial crisis, a sluggish Tasmanian economy and the impact of the closure of the site during the Tasmanian Bushfire Disaster in January 2013. Site revenue increased by $2.574m in 2013-14, primarily due to higher visitor numbers.

The Cascades Female Factory Site generated revenue of $0.248m (2012-13, $0.156m) mainly due to a combination of increased visitor numbers and higher average yield per visitor.

The graph shows that Conservation funding from Government remained fairly stable over the first three years followed by a significant increase in 2013-14 of $2.419m to $5.487m (2012-13, $3.068m).



Both Total Assets and Total Equity increased at consistent rates over the last three years. The increase in 2012 was the result of the change in accounting policy whereby heritage buildings were recognised for the first time, as mentioned previously.

Total Assets were greater in 2014 due predominantly to higher Cash, various infrastructure capital projects and the State Government grant of land at the Cascades Female Factory, offset in part by a revaluation decrement.

The Authority recorded Cash and deposits of $8.106m as at 30 June 2014 (2012-13, $4.054m), being the largest component of Current Assets. Cash and deposits increased by $4.052m from the prior year due to Cash flow generated from operations, $5.130m partially offset by spending on Property, plant and equipment of $1.113m.

Higher cash generated from operations resulted mainly from increased Receipts from customers, $2.658m, and higher Grants from government, $3.817m, of which $1.838m was unspent at year end and recognised as unearned revenue. These were partly offset by a $2.162m increase in Payments to suppliers and employees due to higher level of conservation work.

Total Equity increased by $1.833m to $28.974m in 2013-14 (2012-13, $27.141m) primarily due to Net Profit of $2.364m offset by a decrease in asset revaluation reserve of $0.115m and a superannuation defined benefit plan actuarial loss of $0.416m.

Statement of Comprehensive Income

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Site revenue	11 954	9 380	8 871	9 647
Interest and other income	519	390	547	539
Conservation funding	5 087	3 068	3 088	3 213
Grants – other	464	591	522	0
Total Revenue	**18 024**	**13 429**	**13 028**	**13 399**
Site operating expenses	8 892	8 227	7 761	8 136
Conservation expenses	5 181	3 424	3 804	3 701
Other operating expenses	1 984	2 009	1 812	1 722
Total Expenses	**16 057**	**13 660**	**13 377**	**13 559**
Underlying Profit (Loss)	**1 967**	**(231)**	**(349)**	**(160)**
Underlying Result	**1 967**	**(231)**	**(349)**	**(160)**
Contributed non-current assets	397	0	3 929	0
Impairment of non-current assets	0	0	(23)	(349)
Net Profit (Loss)	**2 364**	**(231)**	**3 557**	**(509)**
Other Comprehensive Income				
Increase (decrease) in asset revaluation reserve	(115)	252	(71)	795
Defined benefit plan actuarial gain (loss)	(416)	1 343	(1 791)	250
Total Comprehensive Profit (Loss)	**1 833**	**1 364**	**1 695**	**536**

Statement of Financial Position

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Cash assets	8 106	4 054	3 790	4 047
Receivables	352	167	161	156
Inventories	460	457	431	429
Other	60	43	59	64
Total Current Assets	**8 978**	**4 721**	**4 441**	**4 696**
Payables	1 129	577	614	1 250
Provisions	1 564	1 691	1 500	1 134
Unearned revenue	1 838	89	264	0
Total Current Liabilities	**4 531**	**2 357**	**2 378**	**2 384**
Working Capital	**4 447**	**2 364**	**2 063**	**2 312**
Property, plant and equipment	31 724	31 278	31 422	18 324
Total Non-Current Assets	**31 724**	**31 278**	**31 422**	**18 324**
Provisions	7 197	6 500	7 708	5 868
Total Non-Current Liabilities	**7 197**	**6 500**	**7 708**	**5 868**
Net Assets	**28 974**	**27 142**	**25 777**	**14 768**
Retained earnings	22 696	20 747	19 636	8 556
Reserves	6 278	6 394	6 141	6 212
Total Equity	**28 974**	**27 141**	**25 777**	**14 768**

** Comparative numbers in 2013 and 2012 have been restated in line with change in accounting policy by the Port Arthur Historic Site Management Authority.*

Statement of Cash Flows

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	12 254	9 596	9 419	10 711
Grants from government	7 301	3 484	3 874	3 213
Payments to suppliers and employees	(14 685)	(12 523)	(13 091)	(13 159)
Interest received	260	172	199	237
Cash from (used in) Operations	**5 130**	**729**	**401**	**1 002**
Payments for property, plant and equipment	(1 113)	(488)	(676)	(2 328)
Proceeds from sale of property, plant and equipment	36	23	18	56
Cash from (used in) Investing Activities	**(1 077)**	**(465)**	**(658)**	**(2 272)**
Net Increase (Decrease) in Cash	**4 052**	**264**	**(257)**	**(1 270)**
Cash at the beginning of the year	4 054	3 790	4 047	5 317
Cash at End of the Year	**8 106**	**4 054**	**3 790**	**4 047**

Financial Analysis

	Bench Mark	2013-14	2012-13	2011-12	2010-11
Financial Performance					
Profit (Loss) from operations ($'000s)		1 967	(231)	(349)	(160)
Operating margin	>1.0	1.12	0.98	0.97	0.99
Financial Management					
Current ratio	>1	1.98	2.00	1.87	1.97
Debt collection	30 days	11	6	6	9
Creditor turnover	30 days	13	15	17	34
Other Information					
Average staff numbers (FTEs)		96	85	87	88
Average staff costs ($'000s)		77	80	69	67
Average leave balance ($'000s)		14	14	11	12

PUBLIC TRUSTEE (PT)

SNAPSHOT

- PT's Underlying Profit, $1.036m, showed a marked improvement this year compared to the average over the previous three years of $0.673m.
- This improvement resulted mainly from higher Capital and Income commissions of $6.285m, which was $0.617m more than 2012-13. Capital commission results are driven by the number and value of property sales, and the value of other assets called in (e.g. cash, investments etc). It is difficult to forecast as actual results which may be impacted by one-off or unexpected estate assets sales. Commission income is charged at a flat rate of 6% (excluding GST) on all income receipted, for example investment returns and pension receipts.
- Community Service Obligation (CSO) funding from the State Government rose by $0.110m with $1.470m received in 2013-14 as per the CSO agreement with Treasury. In addition, an extra $0.050m funding was agreed to by the Shareholding Ministers to reduce the current gap between expenditure on CSO activities and funding over time.
- The Comprehensive profit included an after tax gain of $0.635m being a fair value movement on investments in managed funds. This amount was recognised as a Fair value reserve and arose because in 2013-14 PT early adopted AASB 9 *Financial Instruments* and elected to recognise fair value movements of its financial investments directly to reserves through other comprehensive income. As allowed under this Standards's transition provisions, PT was not required to restate prior year balances. The fair value reserve represented the fair value movements in investments of managed funds less any tax related expense.
- Total Equity was $5.268m, an improvement of $0.985m on the prior year principally due to the Net Profit after Tax for the year plus the Fair value reserve less an increase in the provision for accrued superannuation defined benefits.
- PT held funds in trust on behalf of clients totalling $139.756m.
- A dividend of $0.262m was declared subsequent to signing the financial statements.

Key developments this year included the completion of a funding operating model review conducted by the Department of Treasury and Finance which aimed at identifying options to improve PT's financial sustainability over the long term. Following the conclusion of the review, Government agreed to a new three year CSO agreement effective from 1 July 2014. Further, Government had agreed in 2012-13 to a dividend offset arrangement, whereby the State will not seek payment of a dividend when the gap in CSO funding exceeds dividends payable in any given year. A dividend was declared by PT this year because 90% of its net profit after tax was greater than the CSO underfunded amount. This arrangement is to be reviewed on an annual basis.

The audit was completed with no items outstanding.

INTRODUCTION

PT is a Government Business Enterprise (GBE) whose basic powers and duties are set out in 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 PT is appointed to act on their behalf.

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

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

KEY AREAS OF AUDIT ATTENTION

Description of Area	Audit Approach
PT's investment in financial assets Economic/market conditions cause volatility in investment market values. Investment values may not reflect their underlying value. The movement in investments can have a significant impact on PT's profitability and solvency.	Audit procedures undertaken included: • reconciliation and confirmation of investment balances • analytical review of revenue and investment balances • ensuring standards-compliant disclosures in the notes to the financial statements in particular regarding the fair value hierarchy • additional confirmation procedures noted immediately below.
Assets under management and trusteeship These assets included funds invested in both cash with banks and unlisted funds managed by fund managers. Valuations of unlisted funds are based on proprietary valuations prepared by fund managers under their respective valuation methodologies. There is no active market to support the valuation of unlisted funds of corporate and client investments held by Group Investment Funds (GIFs) No.1 and No.2.	As part of our confirmation process, we obtained additional information from fund managers on unlisted funds held by PT as follows: • extent to which the layers of investments downstream can be monitored by PT • transparency, independence and robustness of the valuation process including for offshore investments • adequacy of PT resources to evaluate and manage such investments • capacity of PT to drill-down to the level of constituent assets, documented triggers for such a drill down to occur and evidence of such occurrence. We used this information to evaluate the valuation risk of each investment and tailored our approach accordingly. We continued to seek confirmations of the number of units, the redemption value of those units at year-end and copies of audited financial statements directly from fund managers.

Description of Area	Audit Approach
Failure to identify and record correctly Commissions and Fees earned from several sources using journals.	We tested the completeness and accuracy of commission fee revenues. We performed analytical procedures (which compared) current year's balance with budget and prior year.
Taxation balances are determined at year-end based on PT's financial performance and balances. The tax balances are material.	We reviewed the 2012-13 tax return and 2013-14 tax calculation and assessed PT's compliance with tax legislation and AASB 112 *Income taxes*.
Employee provisions involve estimation.	We tested year-end employee provisions.
PT records a superannuation liability relating to RBF members. The liability is determined by an independent actuary. The liability also requires detailed disclosure in the annual financial statements.	We reviewed the superannuation note disclosure in PT's financial statements and ensured balances were in agreement with details provided by the actuary.

AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

Signed financial statements were received on 11 August 2014. An unqualified audit report was issued on the same day.

KEY DEVELOPMENTS

Review of funding and operational model

In June 2013 the Department of Treasury and Finance completed its Funding and Operating Model Review of PT. Recommendations included:

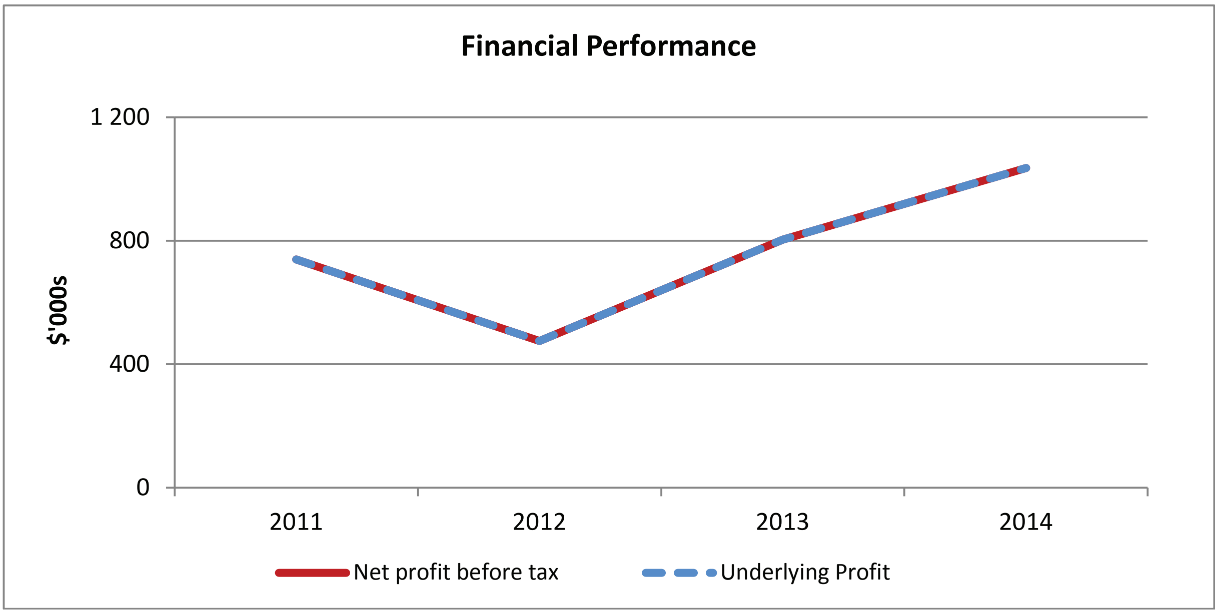
1. That the Shareholding Ministers approve PT retaining all of its dividends to be used to fund its CSO activities. This arrangement will be reviewed as part of the assessment of PT's Corporate plan each year.
2. PT is provided with an increase in CSO funding of $50,000 per annum over the 2013-14 budget and forward estimates to reduce the current gap between expenditure on CSO activities and funding over time.
3. The net avoidable cost methodology continues to be used as the basis for calculating the cost of providing the CSO.
4. That the Board of PT consider undertaking a review of its policies and procedures to ensure that Represented Persons are being dealt with in accordance with the *Guardianship and Administration Act 1995*.

Recommendations 1 and 2 were approved by the Shareholding Ministers and all recommendations were implemented in 2013-14.

KEY FINDINGS

No key findings were made during the audit.

FINANCIAL ANALYSIS



PT's Underlying Profits before Tax varied between $0.740m and $1.036m over the past four years with the average, over the period, being $0.764m. The stronger results in 2010-11 and 2012-13 to 2013-14 were due to higher income from investments, mainly dividends, and this year due primarily to increased fees and commissions, $0.617m and increased CSO funding of $0.110m offset by lower investment returns, $0.327m.

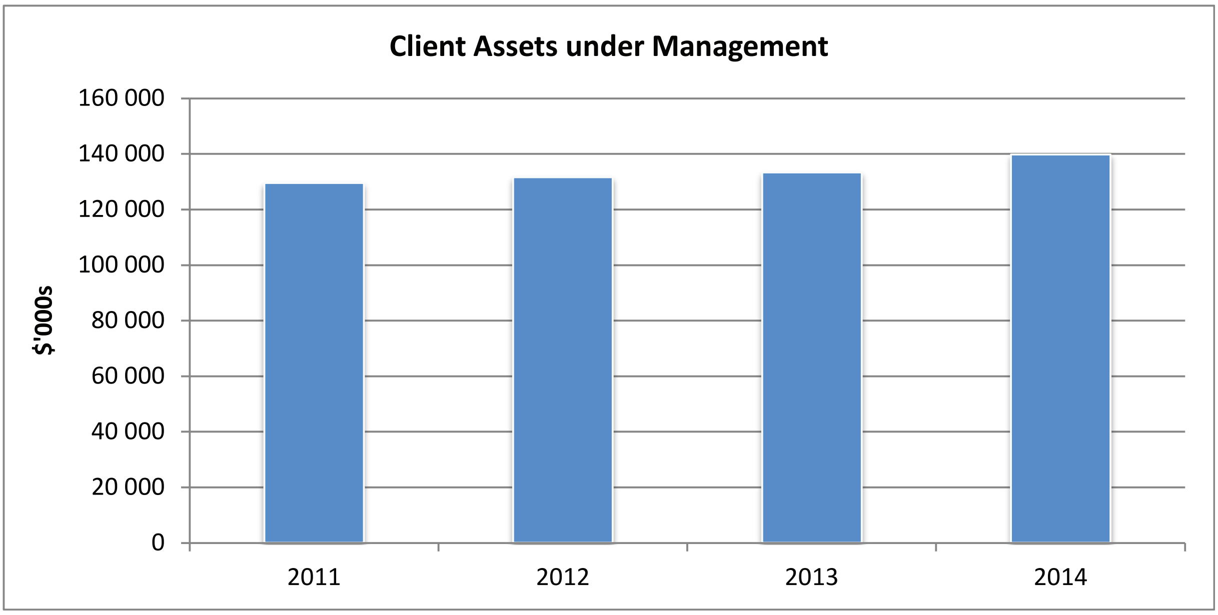
Commission and fees revenue increased markedly this year and steadily over the prior three year period. Commission income was $0.617m more than 2012-13. Capital commissions were $0.151m over budget due to additional property sales and included the sale of a one-off significant asset which accounted for 20% of the over budget amount. Income commissions were $0.149m over budget resulting from higher than expected income receipts.

This higher revenue was offset by increases in Employee costs, which were principally due to wage increases.

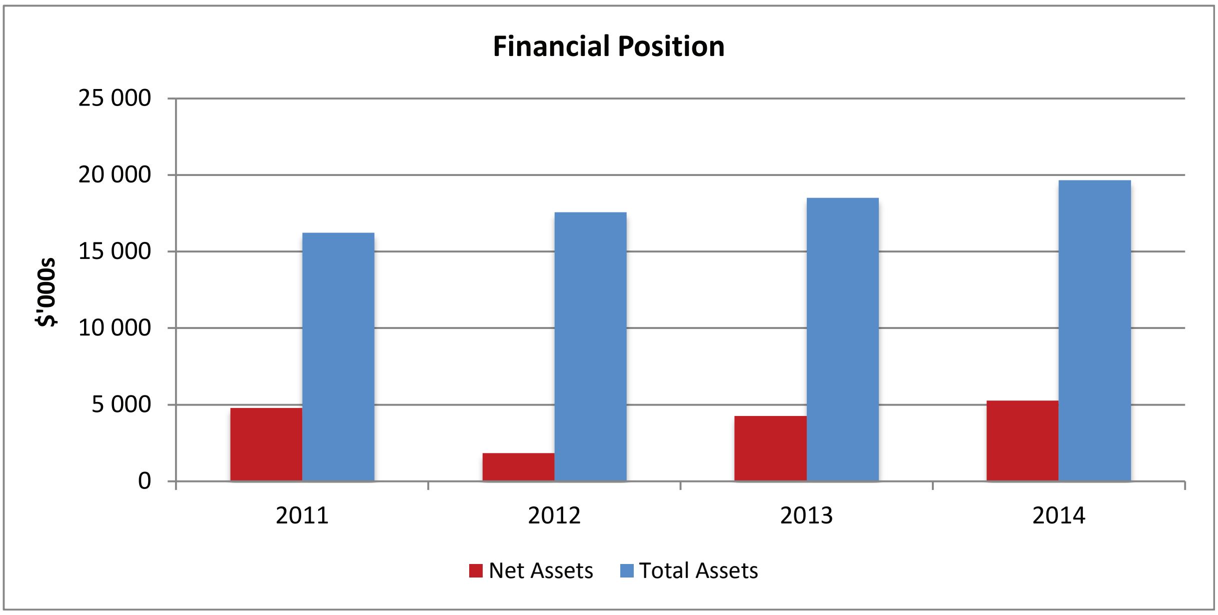
The 2013-14 Net Profit before Tax of $1.036m was the strongest result over the four years.

The more volatile fluctuations in Comprehensive income were driven by movements in the unrealised values of PT's investments together with Fair value gains and losses on superannuation liabilities. As expected, unrealised increases or decreases in the value of investments fluctuated in line with market movements each 30 June. In 2013-14 a gain of $0.635m was recognised (2012-13, $0.757m).

PT manages significant funds on behalf of clients which are not recognised in the Statement of Financial Position. Details are provided in Note 27 to its Financial Report and are summarised in the following graph.



Funds managed on behalf of clients grew from $129.476m to $139.756m this year with growth mainly in financial assets due to improvements in the financial markets and increases in guardianship.



Total assets increased each year since 2011. This was almost entirely in line with higher cash balances, up by $2.117m over the period, and higher investments, up by $1.404m.

PT had no borrowings during this period.

Equity movements over the period reflected movements in the provision for accrued superannuation defined benefits and Net profits after tax. In 2013-14 an actuarial loss on the superannuation liability of $0.389m was recorded compared to a $1.274m gain in 2012-13. This reflects changes in the financial assumptions used by the actuary. This year equity also includes the establishment of a fair value reserve of $0.635m representing the fair value movements in investments of managed funds less any tax related expense.

Statement of Comprehensive Income

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Commission and fees	6 285	5 668	5 591	5 170
Funding of community service obligations	1 470	1 360	1 311	1 260
Income from investments	629	956	608	1 043
Total Revenue	**8 384**	**7 984**	**7 510**	**7 473**
Employee costs	4 623	4 394	4 081	3 989
Accommodation expenses	439	433	422	435
Administration expenses	1 647	1 685	1 754	1 558
Finance expenses	533	573	679	672
Depreciation	106	95	98	79
Total Expenses	**7 348**	**7 180**	**7 034**	**6 733**
Underlying Profit	**1 036**	**804**	**476**	**740**
Net Profit (Loss) before Tax	**1 036**	**804**	**476**	**740**
Income tax expense (benefit)	297	247	98	327
Net Profit (Loss)	**739**	**557**	**378**	**413**
Other Comprehensive Income				
Change in value of investments*	635	757	(252)	120
Fair value gains (losses) on super liabilities, net of tax	(389)	1 274	(2 854)	0
Income tax on other comprehensive income	0	0	0	(79)
Other Comprehensive Income	**246**	**2 031**	**(3 106)**	**41**
Total Comprehensive Profit (Loss)	**985**	**2 588**	**(2 728)**	**454**

* *In 2013-14 PT early adopted AASB 9 and elected to disclose Change in value of its financial investments directly to reserves through other comprehensive income. As part of the transition provisions PT were not required to restate prior year balances. For this comparative we have placed prior year Change in value of investments under other comprehensive income.*

Statement of Financial Position

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Cash	3 351	2 732	2 297	1 234
Receivables	332	508	196	934
Other	37	36	37	23
Total Current Assets	**3 720**	**3 276**	**2 530**	**2 191**
Payables*	528	623	629	491
Provisions	1 016	1 122	1 008	923
Income tax liability	97	68	(19)	(30)
Total Current Liabilities	**1 641**	**1 813**	**1 618**	**1 384**
Working Capital	**2 079**	**1 463**	**912**	**807**
Financial Assets	11 700	10 802	10 044	10 296
Property, plant and equipment	437	461	444	436
Deferred tax asset	3 791	3 964	4 548	3 291
Total Non-Current Assets	**15 928**	**15 227**	**15 036**	**14 023**
Provisions	12 739	12 407	14 101	10 031
Total Non-Current Liabilities	**12 739**	**12 407**	**14 101**	**10 031**
Net Assets	**5 268**	**4 283**	**1 847**	**4 799**
Retained Profits	**4 633**	**4 283**	**1 847**	**4 799**
Asset revaluation reserve	635	0	0	0
Total Equity	**5 268**	**4 283**	**1 847**	**4 799**

* *Payables does not include proposed dividend.*

Statement of Cash Flows

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Receipts from clients, Government and Common Fund	8 354	7 543	7 731	7 076
Payments to suppliers and employees	(8 273)	(7 423)	(7 259)	(7 113)
Interest received	74	76	65	34
Taxation paid	(200)	(121)	(121)	(226)
Cash from (used in) Operations	**(45)**	**75**	**416**	**(229)**
Proceeds from financial assets	746	623	978	502
Payments for property, plant and equipment	(82)	(112)	(106)	(152)
Cash from (used in) Investing Activities	**664**	**511**	**872**	**350**
Dividends paid	0	(151)	(225)	0
Cash (used in) Financing Activities	**0**	**(151)**	**(225)**	**0**
Net Increase in Cash	**619**	**435**	**1 063**	**121**
Cash at the beginning of the year	2 732	2 297	1 234	1 113
Cash at End of the Year	**3 351**	**2 732**	**2 297**	**1 234**

Financial Analysis

	Bench Mark	2013-14	2012-13	2011-12	2010-11
Financial Performance					
Net profit (loss) ($'000s)		739	557	378	413
EBIT ($'000s)		1 569	1 377	1 155	1 412
EBITDA ($'000s)		1 675	1 472	1 253	1 491
Operating margin		1.14	1.11	1.07	1.11
Return on assets		5.4%	4.5%	2.8%	4.6%
Return on equity		15.5%	18.2%	11.4%	9.3%
Financial Management					
Current ratio		2.27	1.81	1.56	1.58
Creditor turnover		26	48	28	47
Returns to Government					
Dividends paid ($'000s)		0	151	225	0
Income tax paid ($'000s)		200	121	121	226
Total return to the State ($'000s)		200	272	346	226
Dividends payable ($'000s)		262	0	151	225
Dividend payout ratio		25.3%	0.0%	31.7%	50.0%
Dividend to equity ratio	0%	5.5%	0.0%	4.5%	5.1%
Other Information					
Average Staff numbers (FTEs)		53	52	52	49
Average staff costs ($'000s)		87	85	78	81
Average leave balance per FTE ($'000s)		14	14	17	12

TASMANIAN PUBLIC FINANCE CORPORATION (TASCORP)

SNAPSHOT

- TASCORP reported a Net Profit before tax of $14.961m in 2013-14. This $6.116m improvement on last year's profit was largely due to a change in client advances valuation methodology as well as a decrease in hedging and funding costs.
- Client advances increased to $3.009bn at 30 June 2014.
- TASCORP's borrowings increased to $5.620bn at 30 June 2014.
- It paid dividends of $2.346m during the year (2012-13, $7.629m) and income tax of $2.654m ($3.371m).
- TASCORP reverted to a methodology it used prior to June 2009 for fair valuing its client advances. Had this methodology been applied last year, client advances designated at fair value through profit or loss would be $3.180m higher at 30 June 2013.

The audit was completed satisfactorily with no findings.

INTRODUCTION

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

TERMS USED IN THIS CHAPTER

- **Credit Margin gains/(losses)** means fair value changes attributable to change in credit risk for investments.
- **Liability Margin gains/(losses)** means the fair value attributable to the movement between the swap curve and TASCORP yield curve as applied to its borrowings and client loans.
- **Commercial paper** means a form of borrowing that is an unsecured promissory note with a fixed maturity of no more than 364 days.
- **Preferred stock** means fixed bonds with semi-annual interest payments that are traded in the market place.

KEY AREAS OF AUDIT ATTENTION

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

AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

Signed financial statements were received on 8 August 2014 and an unqualified audit report was issued the same day.

KEY DEVELOPMENTS

Valuation of client advances

Previously, TASCORP fair valued client advances designated at fair value through profit or loss by reference to a curve comprising actively traded Australian State Bonds. In 2013-14, TASCORP reverted to a methodology it used prior to June 2009 which calculates the fair value of client advance at a margin relative to the TASCORP yield curve. The margin is the difference between the relevant client loan yield and the TASCORP yield curve at the time the loan was written. If this methodology was used last year, fair value of client advances designated at fair value through profit or loss would have been $3.180m higher at 30 June 2014.

Interest rates

Cost of borrowings decreased from a weighted average cost at 30 June 2013 of 4.18% to 4.09% at 30 June 2014, which is the result of lower interest rates. The interest rate achieved on investments increased from a weighted average interest return of 3.49% at 30 June 2013, to 3.81% at 30 June 2014.

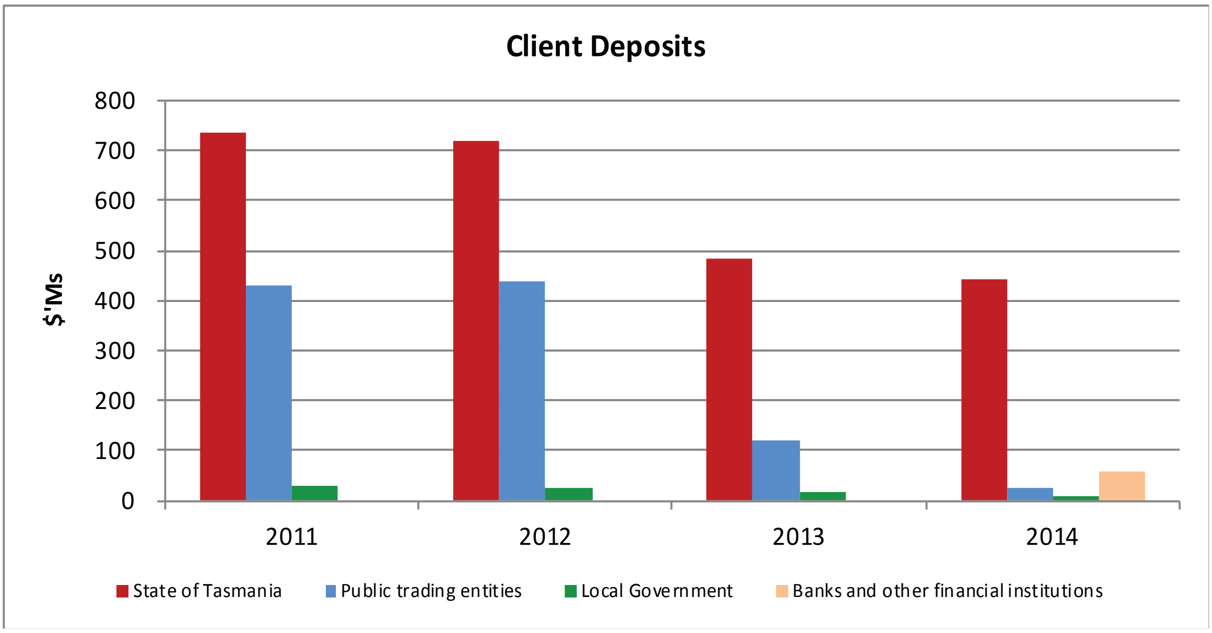
The difference in the return received from investments and the cost of borrowings represents the cost of hedging surplus long-term borrowings with bonds issued by other Australian states. Surplus long-term borrowings are invested in other semi-government bonds. The difference in the return from these is the cost of hedging surplus long-term borrowings. The surplus borrowings are invested in this manner to ensure sufficient funds are available to meet funding requirements of state entities. These percentages represent the weighted average effective interest rates received and paid based on the assets and liabilities held at 30 June each year. The marginal improvement in both the cost of borrowings and returns from investments led to the higher profit this year.

Financial instruments

Borrowings increased by $533.397m to $5.620bn at 30 June 2014. This was due to an increase in commercial paper borrowings of $1.016bn, which was partly offset by a decrease in preferred stocks of $483.179m. The decrease in preferred stocks was due to the maturity of $0.962bn during the year.

At the same time, Investments increased by $427.638m to $3.175bn at 30 June 2014. There was also a change in the composition, as bank and other financial institutions investments increased by $817.672m, while Government and government institutions investments decreased by $407.216m during the year.

Client deposits, which represent cash held on deposit with TASCORP, decreased by $83.572m to $536.589m at 30 June 2014. This decline followed the trend seen in previous years. Over the last four years, there has been a significant decrease in client deposits held with TASCORP, as seen in the following graph.



In total, TASCORP deposits over the past four years declined by $1.123bn, a decrease of 67.88%. The main driving factors were less cash available for deposit by public sector entities and more attractive rates offered by other financial institutions.

KEY FINDINGS

There were no key findings.

FINANCIAL ANALYSIS

TASCORP achieved a Net Profit before tax in 2013-14 of $14.961m (2012-13, $8.845m) and at 30 June 2014 it had Net Assets of $49.585m ($41.458m) that consisted of:

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Investments	3 175 371	2 747 733	3 081 251	4 126 711
Advances to State entities	3 009 298	2 974 507	3 141 851	2 970 648
Deposits received from State entities	(536 589)	(620 161)	(1 177 998)	(1 195 980)
Borrowings	(5 620 442)	(5 087 045)	(5 040 617)	(5 790 389)
Net derivatives	21 858	20 529	9 444	(78 791)
Other assets and liabilities	89	5 895	28 965	9 276
Total	**49 585**	**41 458**	**42 896**	**41 475**

A significant factor in the overall increase in both borrowings and investments was the issue of commercial paper to fund the refinancing of Client advances, $0.600m, due to occur in July 2014.

Impact of overnight loan

On 30 June 2014 the Department of Treasury and Finance took a Client advance from TASCORP of $920.000m ($900.000m) and simultaneously entered into an equal and offsetting transaction for a client deposit of the same amount. The nature of this transaction met the definition of a derivative transaction as outlined in AASB 139 *Financial Instruments: Recognition and Measurement* and as such the two transactions were recognised on a net basis with only the resulting derivative, interest receivable, being recognised on the Statement of Financial Position and in the Statement of Comprehensive Income.

Had this transaction not been recorded on a net basis, Advances to State entities and Deposits from State entities would have each been $920.000m higher with the same net outcome. However, recognition of Advances and Deposits on this basis would have been inconsistent with the nature of the transaction and thus not in compliance with AASB 139.

Profitability

The increase in Net Profit before Tax of $6.116m for the year was driven by an increase in Net Interest income of $4.277m, as illustrated in the following table:

	2013-14	2012-13
	$'000s	$'000s
Interest revenue	249 406	290 570
Interest expense	(218 772)	(264 213)
Net Interest	**30 634**	**26 357**

This increase in Net interest was due to a decrease in hedging and funding costs. The table below outlines TASCORP's assets and liabilities from 2011 through to 2014, showing the weighted average effective interest rate at 30 June each year.

The declining interest rate follows the trend of the declining cash rate, which drives the rates paid and the rates earned:

	June 2014		June 2013		June 2012		June 2011	
	%	$ mil	%	$ mil	%	$ mil	%	$ mil
Assets								
Investments	3.81	3 175	3.49	2 748	4.17	3 081	5.24	4 127
Client advances	5.03	3 009	5.3	2 975	5.59	3 142	6.05	2 971
Liabilities								
Client deposits	2.51	537	2.78	620	3.5	1 178	4.87	1 196
Borrowings	4.09	5 620	4.18	5 087	4.61	5 041	5.22	5 790

Dividends and taxes paid

Dividends paid for the year were $2.346m (2012-13, $7.629m) and income tax equivalents paid were $2.654m ($3.371m). In total, TASCORP returned $5.000m ($11.000m) to Government. Income tax expense incurred in 2013-14 was $4.488m ($2.654m).

Alternative presentation of Net Revenue

TASCORP also presented its financial information in an alternative form. This was done in Note 4 to the financial statements and reflected its profit drivers. Set out in the following table is an extract from Note 4 which summarises TASCORP's net operating revenues.

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Net Margin Income	24 521	24 080	26 222	19 755
Credit Margin Gains (Losses)	(3 034)	(5 531)	(2 287)	1 345
Liability Margin Gains (Losses)	(7 595)	(3 713)	(7 246)	(6 350)
Fee Income	975	509	535	673
Net Revenue*	**20 935**	**15 345**	**17 224**	**15 423**

* *Net revenue is before accounting for other operational expenses of $5.974m (2012-13, $6.500m, 2011-12, $5.987m and 2010-11, $5.819m).*

Net Revenue from operations increased by $5.590m during 2013-14 reflecting lower costs for financial liabilities, compared to the return on financial assets as well the change in client advances valuation methodology.

CHAPTER APPENDICES

Statement of Comprehensive Income

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Interest revenue	249 406	290 570	365 831	348 184
Other operating revenue	975	509	535	673
Net gains/losses from financial instruments	(10 674)	(11 521)	(11 668)	(6 434)
Total Revenue	**239 707**	**279 558**	**354 698**	**342 423**
Interest expense	218 772	264 213	337 474	327 000
Other operating expenses	5 974	6 500	5 987	5 819
Total Expenses	**224 746**	**270 713**	**343 461**	**332 819**
Profit (Loss) before:	**14 961**	**8 845**	**11 237**	**9 604**
Income tax expense (benefit)	4 488	2 654	3 371	2 881
Net Profit (Loss)	**10 473**	**6 191**	**7 866**	**6 723**
Other comprehensive income	0	0	0	0
Total Comprehensive Income	**10 473**	**6 191**	**7 866**	**6 723**

Statement of Financial Position

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Cash	3 104	1 144	1 121	974
Investments	3 175 371	2 747 733	3 081 251	4 126 711
Client advances	3 009 298	2 974 507	3 141 851	2 970 648
Derivative instruments receivable	153 297	149 305	153 517	44 956
Property, plant and equipment	167	199	147	204
Intangibles and other	2 198	8 214	119 078	12 068
Total Assets	**6 343 435**	**5 881 102**	**6 496 965**	**7 155 561**
Payables	465	519	87 501	647
Deposits	536 589	620 161	1 177 998	1 195 980
Borrowings	5 620 442	5 087 045	5 040 617	5 790 389
Derivative instruments payable	131 439	128 776	144 073	123 747
Current tax liabilities	4 488	2 654	3 371	2 881
Provisions	427	489	509	442
Total Liabilities	**6 293 850**	**5 839 644**	**6 454 069**	**7 114 086**
Net Assets	**49 585**	**41 458**	**42 896**	**41 475**
Reserves	10 000	10 000	10 000	10 000
Retained earnings	39 585	31 458	32 896	31 475
Total Equity	**49 585**	**41 458**	**42 896**	**41 475**

Statement of Cash Flows

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Interest and other receipts	271 249	293 458	373 928	407 721
Interest payments	(269 316)	(310 463)	(456 815)	(310 390)
Net receipt of goods and services tax	582			
Payments to suppliers and employees	(6 035)	(6 472)	(5 852)	(5 749)
Tax paid	(2 654)	(3 371)	(2 881)	(4 866)
Net increase (decrease) in deposits	(381)	400	0	(3 609)
Net increase (decrease) in short term borrowings	952 400	(266 640)	(2 221 690)	2 747 944
Net (increase) decrease in advances	88 261	(156 848)	126 902	(39 199)
Net (increase) decrease in investments	(408 340)	(163 522)	316 166	(1 192 994)
Cash from (used in) Operations	**625 766**	**(613 458)**	**(1 870 242)**	**1 598 858**
Payments for property, plant and equip.	(109)	(88)	0	(51)
Proceeds from sale of property, plant and equip.	61	0	0	3
Cash from (used in) Investing Activities	**(48)**	**(88)**	**0**	**(48)**
Receipts from new issues of preferred stock	472 960	1 202 717	1 375 354	752 202
Repayment of preferred stock	(971 188)	(816 101)	0	(1 367 043)
Dividends paid	(2 346)	(7 629)	(6 445)	(3 714)
Cash from (used in) Financing Activities	**(500 574)**	**378 987**	**1 368 909**	**(618 555)**
Net Increase (Decrease) in Cash	**125 144**	**(234 559)**	**(501 333)**	**980 255**
Cash at the beginning of the year	492 533	727 092	1 228 425	248 170
Cash at End of the Year	**617 677**	**492 533**	**727 092**	**1 228 425**

Cash and cash equivalents includes highly liquid short term investments and "at call" elements of advances, borrowings and client deposits.

Financial Analysis

	Bench Mark	2013-14	2012-13	2011-12	2010-11
Financial Performance					
Profit (loss) ($'000s)		14 961	8 845	11 237	9 604
Return on equity		30.2%	21.3%	26.2%	23.2%
Returns to Government					
Dividends paid ($'000s)		2 346	7 629	6 445	3 714
Dividend payout ratio		22.4%	123.2%	81.9%	55.2%
Dividend to equity ratio		4.7%	18.4%	15.0%	9.0%
Income tax expense ($'000s)		4 488	2 654	3 371	2 881
Effective tax rate	30%	30.0%	30.0%	30.0%	30.0%
Total return to the State ($'000s)		6 834	10 283	9 816	6 595
Total return to equity ratio		15.0%	24.4%	23.3%	16.5%
Other Information					
Staff numbers (FTEs)		15	15	16	16
Average staff costs ($'000s)		177	166	156	149
Average leave balance per FTE ($'000s)		21	18	23	21

AUDIT SUMMARY - STATE OWNED CORPORATIONS

BACKGROUND

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

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

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

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

This summary provides financial information on all SOCs, being:

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

KEY OUTCOMES FROM AUDITS

Audits of the financial statements of the nine SOCs, and where relevant their subsidiary companies, were completed with unqualified audit opinions issued in each case.

All audits were completed satisfactorily with no major items outstanding.

All SOCs submitted financial statements within the statutory deadline being 45 days following the end of the financial year.

FINANCIAL ANALYSIS

Tasmania's SOCs collectively had Net Assets of $2.027bn (2013, $1.977bn), employed 2 573 (2 639) people, and recorded after tax profits of $58.741m ($54.620m).

Table 1 Summarised Financial Results

	Underlying Profit (Loss)	Net Profit (Loss) Before Tax	Net Profit (Loss) After Tax	Total Comprehensive Profit (Loss)	Net Assets
	$'000s	$'000s	$'000s	$'000s	$'000s
Aurora	57 793	65 081	63 991	65 896	563 016
Metro	(375)	(375)	(268)	(1 145)	28 540
TIPL	636	(3 563)	(3 563)	(3 563)	103 779
Tasports	(1 334)	(120)	(169)	18 157	193 785
Tasracing	(573)	(75)	(75)	(252)	40 635
TasRail	(6 284)	(47 950)	(48 882)	(51 057)	118 167
TasNetworks*	0	0	0	0	0
Transend	52 642	53 348	37 324	56 771	708 907
TT-Line	11 642	14 846	10 383	10 364	280 864
Total	**114 147**	**81 192**	**58 741**	**95 171**	**2 037 693**

* *Incorporated 4 February 2014 but did not commence trading until 1 July 2014.*

SOCs recorded Underlying profits from their operations of $114.147m and combined Net Profits after Tax of $58.741m. The two energy businesses recorded the highest profits. In comparison, TIPL and TasRail recorded material losses. These two entities are currently completing significant infrastructure projects which are predominantly funded by State and Commonwealth grants, which have in some cases been treated as equity contributions.

Table 2 Debt, Working Capital, Relevant Ratios and employee data

	Borrowings	Debt to Equity	Net Working Capital	Current Ratio	Return on Assets	Return on Equity	Average Staff Costs	Employee Numbers
	$'000s		$'000s					
Aurora	762 570	135%	(122 708)	0.7	6.5%	11.4%	117	886
Metro	0	0%	(131)	1.0	0.8%	(1.3%)	79	385
TIPL	31 187	30%	(36 511)	0.3	1.3%	(4.0%)	107	43
Tasports	27 884	14%	22 142	2.5	0.6%	0.8%	138	219
Tasracing	12 025	30%	5 069	2.0	(0.1%)	(0.2%)	86	66
TasRail	0	0%	11 454	2.0	(5.3%)	(44.7%)	102	278
TasNetworks*	0	0%	0	0.0	0.0%	0.0%	0	0
Transend	664 349	94%	(191 745)	0.2	5.5%	5.2%	141	234
TT-Line	0	0%	70 298	3.0	3.0%	3.8%	106	446
Total	**1 498 015**		**(242 132)**					**2 557**

* *Incorporated 4 February 2014 but did not commence trading until 1 July 2014.*

SOCs had borrowings of $1.498bn at 30 June 2014, with the two energy companies' loans representing 95% of total debt. The nature of energy companies' activities requires a heavy investment in infrastructure. However, the Debt to equity ratios of Aurora and Transend of 135% and 94%, respectively, are considered high.

Both energy companies recorded net working capital deficits at 30 June 2014, which is reflected in current ratios below our benchmark of one. However, recording large components of borrowings as current liabilities significantly impacts this ratio.

TIPL also recorded a net working capital deficit due to borrowings to fund capital construction activity, which included a short term borrowing and increased unearned revenue.

Excluding Aurora and Transend, none of the other SOCs provided strong returns on assets and equity. Metro, TIPL, Tasracing and TasRail are all reliant on government funding and struggle to generate profits.

Average staff costs fluctuated between the SOCs and will vary due to the qualifications and activities undertaken by each entity.

Table 3 Returns to Government

	Dividends	Taxation	Guarantee Fees	Total Returns
	$'000s	$'000s	$'000s	$'000s
Aurora	25 000	29 881	9 679	64 560
Metro	0	0	0	0
TIPL	0	0	0	0
Tasports	0	268	0	268
Tasracing	0	0	0	0
TasRail	0	0	0	0
TasNetworks*	0	0	0	0
Transend	28 686	31 187	0	59 873
TT-Line	0	0	0	0
Total	**53 686**	**61 336**	**9 679**	**124 701**

* *Incorporated 4 February 2014 but did not commence trading until 1 July 2014.*

SOCs paid $124.701m to the State during 2013-14. The majority of these returns were made by the two energy companies, Aurora and Transend. Apart from TT-Line, Aurora and Transend, all other SOCs recorded losses. TT-Line's shareholders have agreed to forgo dividend payments to enable it to generate cash to assist in financing future vessel replacement and/or refurbishment.

RESPONSIBLE MINISTERS

The Ministers responsible for the various SOCs at 30 June 2014 were:

Entity	Responsible Minister
Aurora Energy Pty Ltd	Minister for Energy
Metro Tasmania Pty Ltd	Minister for Infrastructure
Tasmanian Irrigation Pty Ltd	Minister for Primary Industries and Water
Tasmanian Networks Pty Ltd	Minister for Energy
Tasmanian Ports Corporation Pty Ltd	Minister for Infrastructure
Tasmanian Railway Pty Ltd	Minister for Infrastructure
TasRacing Pty Ltd	Minister for Racing
Transend Networks Pty Ltd	Minister for Energy
TT-Line Company Pty Ltd	Minister for Infrastructure

AURORA ENERGY PTY LTD (Aurora)

SNAPSHOT

- Aurora recorded operating revenue of $1.195bn in 2013-14, down 23.0% on the previous year due to the effects of the divestment of the Aurora Energy Tamar Valley Pty Ltd (AETV) power station, the cessation of retailing activities on mainland Australia and a regulated price reduction of 5.22% which took effect on 1 January 2014.
- Aurora experienced lower demand from customers (continuing a downward trend in recent years) and reduced revenue from external contracting activities.
- Aurora made an Underlying Profit before Tax and customer contributions of $57.793m (which included $25.329m of energy reform costs). This Underlying Profit before Tax result was consistent year on year, marginally down from $58.529m in 2012-13 (which included $5.655m of energy reform costs).
- Aurora reported a Net Profit after Tax of $63.991m (2012-13, $51.486m) with the increase of $12.505m from the prior period driven by the change in income tax treatment of unbilled revenue.
- Total Equity increased by $8.098m as a result of a $18.682m increase in the asset revaluation reserve (net of tax) arising from the revaluation of distribution assets and land and buildings and a $7.203m increase in share capital from the State relating to finalisation of the transfer of AETV in June 2013. These increases were partially offset by the impact of dividends paid or provided for of $65.000m and a decline in the Cash flow hedge reserve of $11.622m.
- Total debt remained relatively steady at $762.570m (increase of $12.757m) with a greater portion of the debt classified as current as a result of the transfer of debt to Tasmanian Networks Pty Ltd (TasNetworks) on 1 July 2014.
- Aurora made a return on equity of 11.4% and contributed $64.560m to the State comprising a $25.000m dividend, $29.881m in income taxes and $9.679m in government guarantee fees. The improvement in return from 8.9% in the previous year was due to a slight increase in Net Profit for the year and the impact of the loss of equity resulting from the transfer of AETV. A further dividend of $40.000m was declared on 30 June 2014 and fully provided for.

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

Key developments in the year included:

- withdrawal of the planned divestment in the Tasmanian retail customer base. Aurora will continue to operate as a standalone retail business, with full retail contestability commencing from 1 July 2014
- preparation for the transfer of Aurora's distribution and telecommunications businesses to a new entity, TasNetworks, on 1 July 2014.

Major variations between the 2013-14 and 2012-13 financial years related to:

- declining revenue and energy and transmission purchases resulting from the divestment of AETV, cessation of mainland retail activities and increased emphasis on consumption patterns and related energy efficiency by customers (resulting in an overall 16% decline in load consumption)
- a saving of $22.956m as a result of the effect of the change in income tax treatment on unbilled revenue
- a year-on-year movement of $87.555m in electricity derivatives driven by the realised loss of $78.814m on energy derivatives. In the prior year, derivatives of this nature were designated in hedge accounting relationships and the realises losses were included in energy purchases costs

- lower depreciation expense of $17.348m or 14.5%, predominantly as a result of the divestment of AETV and the revision of the useful life of the Customer Care and Billing (CC&B) system (from two years to eight years) as a result of the withdrawal of the sale of Aurora's retail customers
- reduced finance costs (amounting to a saving of $16.237m or 24.3%) mainly driven by lower average debt in 2013-14 due to the transfer of $205.000m in debt with the divestment of AETV on 1 June 2013
- a year-on-year actuarial loss of $12.784m (net of tax) on the superannuation valuation as a result of movements in valuation inputs that are largely outside the control of Aurora
- a year-on-year net $18.682m (net of tax) gain on the revaluation of distribution assets as per the regulated asset base as prescribed by the Australian Energy Regulator (AER)
- higher operating cash flows of $8.023m predominantly due to $16.156m in lower borrowing and guarantee fee costs and reductions in prior year payments including $17.296m to Hydro Tasmania as part of the AETV settlement process and $19.790m in carbon costs. These operating cash flow increases were partially offset by higher current year income tax related payments of $29.881m (predominantly relating to prior year profits)
- increases in cash and cash equivalents of $39.866m due to cash requirements for Aurora's stand-alone retail business from 1 July 2014
- reductions in trade receivable and trade payable balances driven by reduced business activity
- increases in provisions of $49.447m primarily due to a $40.000m dividend declared prior to 30 June 2014.

INTRODUCTION

Aurora was established on 17 June 1998 under the *Electricity Companies Act 1997* and is subject to the Corporations Act 2001. The Treasurer and the Minister for Energy held shares in Aurora on behalf of the State of Tasmania. Currently, the Board is comprised of four directors.

In May 2005 Tasmania joined the National Electricity Market (NEM) with Aurora purchasing wholesale electricity from the Australian Energy Market Operator (AEMO) (formerly the National Electricity Market Management Company Limited - NEMMCO). In order to provide retail electricity, Aurora pays for energy at the market spot price and enters into hedge contracts with counterparties to manage risks associated with fluctuations in the market spot price. Aurora enters into electricity hedge contracts with Hydro Tasmania.

To 30 June 2014 the AER regulated the revenue that Aurora received for distribution services. The Tasmanian Economic Regulator set the maximum revenues that Aurora could receive from residential and non-contestable business customers which, during the 2013-14 period, represented approximately 27% (2013, 27%) based on consumption of Aurora's retail business.

For 2013-14 Aurora consisted of two core operating units:

- Distribution Business: responsible for the management, development and operation of the distribution system including poles, lines and substations, asset stewardship and network management. The Distribution Business also included:
  - distribution resource and response centres, designing and programming, including arranging contracts and service agreements for carrying out construction, operations and maintenance activities
  - management of customers' connections, meter reading, distribution capabilities, and the Aurora Training Centre
  - with effect from the 2012-13 year, a wholesale Telecommunications Division.

- Energy Business: responsible for the on-going activities in retail customer service, including electricity and gas sales to business and residential customers, and wholesale energy activities, including contracting and risk management of electricity.

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

- **Ezikey Group Pty Ltd (Ezikey)** was responsible for the commercialisation of broken neutral detection technology owned by Aurora. For the year ended 30 June 2014, the company had no significant activity.
- **Auroracom Pty Ltd** which holds Aurora's Telecommunications Carrier Licence. To date, this subsidiary has not traded.

KEY AREAS OF AUDIT ATTENTION

Description of Area	Audit Approach
Transfer of assets and liabilities to TasNetworks Transfer of assets and liabilities to TasNetworks (effective 1 July 2014) in accordance with the Transfer Notice.	We reviewed the proposed accounting for the transfer of the distribution business assets and liabilities to TasNetworks on 1 July 2014 and concluded that the transfer should be accounted for as an Administrative Agreement in accordance with relevant Australian Accounting Standards. We ensured that disclosure of the transfer was appropriately included in the financial statements. We concluded that the disclosures met the requirements of AASB110 *Events after the Reporting Period*.
Finalisation of AETV transfer During the year the transfer of AETV (to Hydro Tasmania) was finalised.	Aurora received $7.203m from Hydro Tasmania in relation to the final settlement of the AETV transfer. This amount was accounted for as an equity injection from the shareholder. We reviewed the accounting treatment and concluded that the transfer was accounted for appropriately in accordance with relevant Australian Accounting Standards.

Description of Area	Audit Approach
Hedge Accounting for Electricity Derivatives In the prior year Aurora had discontinued cash flow hedge accounting on electricity derivatives in contemplation of the planned retail business sale. Upon the withdrawal of the sale process Aurora recommenced hedge accounting for its electricity derivatives. The Hedge Accounting policy states that all derivatives shall be deemed to be in a cash flow hedge relationship unless otherwise declared at inception. Electricity derivatives entered into prior to 26 September 2013 (official withdrawal of the sale of the retail customers) were accounted for as being held at fair value through profit or loss (i.e. not designated in a hedge relationship). Electricity derivatives entered into post that date were designated as being in a cash flow relationship.	We obtained external confirmations from a sample of counter-parties and reviewed the current/non-current split of derivative asset and liability values. We also reviewed the appropriateness of Aurora's hedge accounting in accordance with the hedge accounting policy.
Effective useful life of the Customer Care & Billing System On inception of the CC&B system management estimated its useful life to be 12 years. In the prior year management revised the estimate of useful life down to three years on the expectation that the retail business would be sold by 31 December 2013 (and a Transitional Service Agreement (TSA) would be in place until 30 June 2015.) Due to the withdrawal of the sale process, management revised the useful life to eight years commencing effective 1 July 2013.	Revised CC&B depreciation recorded in the current financial year was calculated effective from 1 July 2013 (rather than prospectively from the withdrawal of the retail sale process on 26 September 2013). As the accounting standards require changes in estimates to be recorded prospectively, the accelerated CC&B depreciation for the period 1 July 2013 to 26 September 2013 should not have been reversed. The impact of this change in estimate effective 1 July 2013 was not deemed to be material.
Defined Benefit Pension (DBP) Scheme The defined benefit pension obligation is a material balance. Fluctuations in the value of the DBP liability can have a significant impact on the Aurora balance sheet.	The valuation of the DBP liability was performed by Mercer based on data provided by the RBF. We reviewed the Mercer Report (and engaged actuarial experts where relevant) and ensured that the accounting was appropriate.

Description of Area	Audit Approach
Going concern/net current asset deficiency Aurora had a net current asset deficiency of $122.708m at 30 June 2014. As a result of this deficiency, consideration was given as to whether or not Aurora was able to pay its debts as and when they fall due.	The financial statements included appropriate disclosure as to why the Directors believed that they were able to conclude that all debts would be met as and when they fell due. We examined the rationale provided to support the assessment, to ensure that it was not considered unreasonable in the circumstances given expected financial results (as articulated in the corporate plan), the impact of the reform process, the nature of assets held and the extent of the financing facilities in place. On this basis the assessment made by the Directors was deemed appropriate.
Redundancy Expense/ Provision at 30 June 2014 Redundancy expenses and related provisions were recognised as a result of the implementation of electricity reforms. Redundancy payments were made effective 30 June 2014 to eligible employees.	Aurora engaged a consultant to undertake a review of redundancy payments. We reviewed this work and undertook other procedures to ensure that the redundancy payments were appropriately stated and disclosed in the financial statements.
Government Remuneration and Key Management Personnel (KMP) Additional Disclosures Government-issued remuneration and KMP disclosure guidelines were required to be complied with in the financial statements.	We reviewed the disclosures required by Government related to remuneration and KMP compensation in the financial statements. The disclosures made were consistent with guidance released by the Department of Treasury and Finance (DTF).
Taxation treatment of Alinta EATM Pty Ltd (AEATM) contracts The taxation treatment of the AEATM contracts was reassessed during the year as a result of ongoing discussions with the Australian Tax Office (ATO).	Based on taxation advice received from the company's tax advisors, Aurora had previously sought an amendment to prior year tax assessments of $15.000m ($4.500m tax effected) in relation to the acquisition of the AEATM contracts in the 2009 income year. The tax receivable associated with the prior year amendment was reflected in the 30 June 2013 accounts. At 30 June 2014 the amended assessment outcome was still pending. As a result, Aurora prudently reversed the prior year tax receivable. Discussions with the ATO regarding the amended assessment are ongoing.
Taxation of Unbilled Energy The taxation treatment of unbilled energy was changed during the year. This change was agreed with the ATO and was based on acceptable industry practice.	We reviewed Aurora's treatment of taxation relating to unbilled energy. As a result of adopting the agreed treatment, Aurora received a one-off deduction of $22.956m (tax effected) in the current year tax calculation.

Description of Area	Audit Approach
Retail unbilled revenue accrual valuation The unbilled revenue accrual is a significant estimation in the financial statements.	We reviewed the methodology for the calculation of the unbilled energy accrual. We also recalculated an estimate of unbilled revenue based on purchased versus sold electricity (load) for the period. Our review and recalculation identified that the unbilled energy accrual was materially correct as at 30 June 2014.
Solar Feed in Tariff The introduction of the Electricity Supply Industry Amendment (Feed-in Tariffs and Other Matter) Bill 2013 (FiT Bill) on 19 September 2013, resulted in Aurora being liable to pay approximately 28 cents per kwh to customers with solar installations who applied for the tariff by 31 August 2013. Aurora's position in relation to the FiT Bill was that no provision or onerous contract should be recognised on Aurora's balance sheet on the basis that each individual customer contract is profitable.	We reviewed Aurora's position and concluded that no provision or onerous contract should be recognised in the financial statements at 30 June 2014.

AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

The Directors signed the financial statements on 12 August 2014 and an unqualified audit report was issued on the same day.

KEY DEVELOPMENTS

Transfer of distribution business

On 15 May 2012 the Minister for Energy announced a comprehensive and integrated reform package for the Tasmanian electricity industry which significantly affected Aurora's principal activities. Many changes to Aurora's operations occurred in 2012-13 and 2013-14.

On 1 July 2014 Aurora's distribution and telecommunication businesses were transferred to a new entity TasNetworks, which now includes Aurora's distribution and telecommunications businesses, and Transend's transmission business. Relevant assets and liabilities were transferred by a gazetted Transfer Notice dated 25 June 2014. At the same time, Aurora's facility limits under its Master Loan Agreement were amended as follows:

- $902.000m of the facility limit was transferred to TasNetworks
- an amount of $80.000m was added to the facility limit.

The transfer was accounted for as an administrative arrangement under the Australian Accounting Standards Board's Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*, as a distribution to Aurora's shareholders equivalent to the net assets (at book value) of approximately $523.000m for nil cash consideration.

Following the transfer, and with the introduction of full retail contestability from 1 July 2014, Aurora's principal activity in 2014-15 will be the retailing of electricity to Tasmanian customers.

Finalised transfer of AETV

On 1 June 2013 Aurora transferred the AETV power station to Hydro Tasmania in accordance with the Transfer Notice issued by the Tasmanian Treasurer pursuant to section 19 of the

Electricity Reform Act 2012. The AETV power station was previously considered as part of Aurora's integrated Energy Business. The transfer resulted in $89.139m of equity being returned to Aurora's shareholder (who subsequently contributed the equity in AETV to Hydro Tasmania at the same amount). In the current period Aurora received $7.203m in share capital from the State to finalise the transfer. The amount was treated as an equity contribution consistent with the administrative transfer.

Aurora retail divestment

A process was implemented during 2012-13 to prepare for and undertake the divestment of Aurora's retail customers in bundles to new, competing private sector retailers by 1 January 2014. This process was instituted in accordance with the Tasmanian Electricity Supply Industry (TESI) reform plans. On the 26 September 2013, following advice from Treasury that it did not believe the current divestment process would achieve a fair and reasonable price at that time for Aurora's retail customers, the Minister resolved, at that point in time, to withdraw the sale process. The retail business then refocused to prepare for full retail contestability from 1 July 2014. Initiatives undertaken included implementing a new organisational structure, processes and systems transformation activities to prepare Aurora to operate on a smaller scale and as a standalone entity following the separation of the previously described distribution and telecommunications businesses on 1 July 2014.

Electricity reform costs

Capital expenditure incurred during the year to prepare Aurora for full retail contestability was $28.458m, consisting of $26.735m for software and $1.723m for IT network infrastructure. Operating expenditure of $25.329m included $13.724m in redundancy and retention expenses and $7.521m on operating costs of employees who spent greater than 80% of their time on reform activities. This was disclosed in the financial statements in accordance with guidance provided by Treasury.

Audit of Regulatory Information Notices (RINs)

During 2013-14 the AER issued two RINs to Aurora seeking audited economic benchmarking and category analysis information for a five year period, 2008-09 to 2012-13. The RINs required Aurora to develop, maintain and present both financial and non-financial information detailing assumptions and methodologies in relation to the distribution business, in a format stipulated in AER guidelines. The AER also issued RINs to Transend's transmission business.

The two RINs completed during the year were:

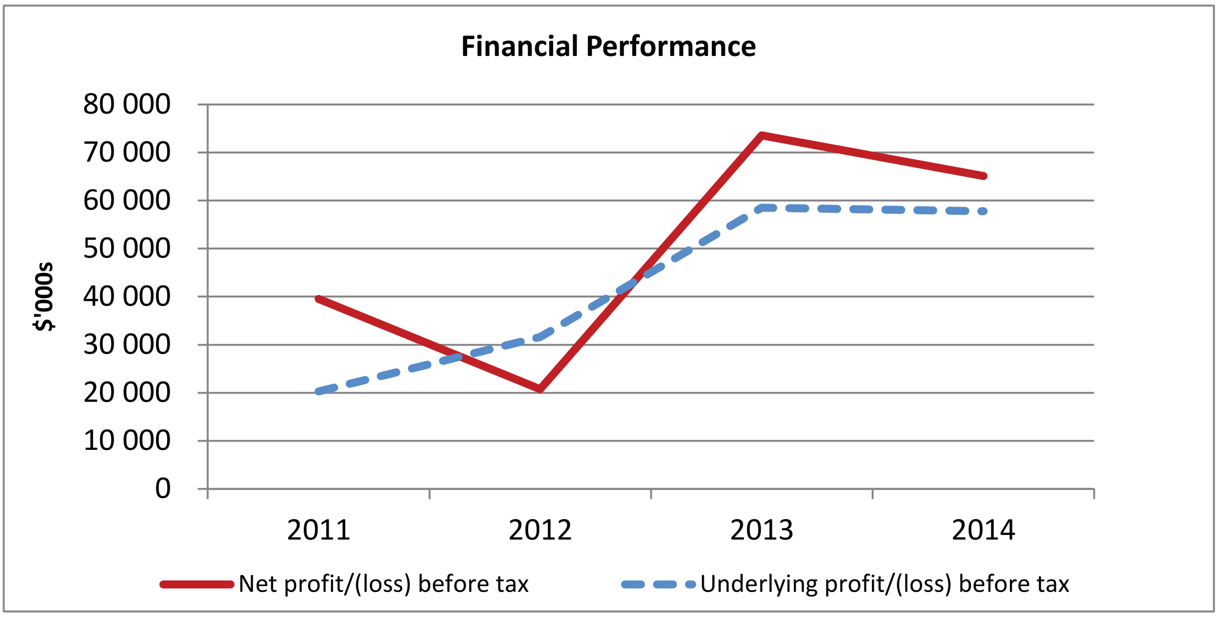
- economic benchmarking RIN: the information was requested to assist the AER with measuring the efficiency of Aurora in the use of its inputs to produce outputs
- category analysis RIN: the information was requested to assist the AER with its assessment of network management.

Both RINs were audited or reviewed within the statutory deadline at a cost to Aurora of $0.250m. Following the transfer of the distribution business to TasNetworks, all future distribution RIN requirements will be met by TasNetworks.

KEY FINDINGS

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

FINANCIAL ANALYSIS



In 2013-14 Aurora reported consistent results with Underlying Profit before Tax decreasing by only $0.736m from prior year to $57.793m[1] and a Net Profit before Tax decreasing by $8.516m to $65.081m. Our calculation of Underlying profit differs from that disclosed by Aurora in the financial statements due to different treatment of electricity reform and restructuring costs.

During the year Aurora's operating revenue decreased by $355.863m to $1.195bn (excluding customer contributions of $8.432m) due to a variety of factors including the divestment of AETV on 1 June 2013, the cessation of retailing activities on mainland Australia and a regulated price reduction of 5.22% effective 1 January 2014. Lower consumption and reduced external contracting activities also contributed to the reduced result.

The most significant non-energy purchase expense decline related to a reduction of Depreciation and amortisation expenses of $17.348m, or 14.5%, to $102.344m (2012-13, $119.692m). The decrease was attributed to the divestment of AETV and the revised useful life of the CC&B system as a result of the withdrawal of the sale of Aurora's retail customers.

Borrowing costs and guarantee fees on the finance provided by TASCORP reduced to $50.710m (2012-13, $66.947m) due to the divestment of AETV on 1 June 2013.

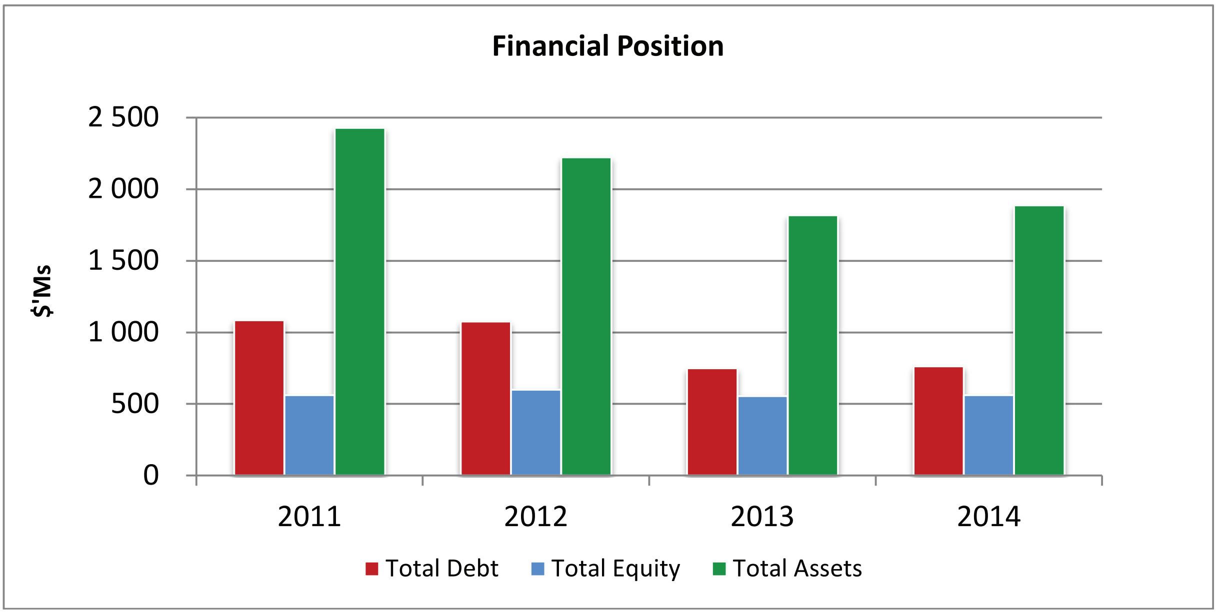
While in general there was a trend of lower expenses in 2013-14, Aurora's Net Profit before Tax decreased due to lower energy consumption and the impact of electricity reform and restructuring costs.

Aurora experienced increased Employee expenses of $4.297m, to $104.026m. While year-on-year head count reduced by 14.3%, redundancy and retention expenses of $13.724m occurred as a result of TESI reforms.

Significant taxation savings occurred in 2013-14 due to the previously described change in the tax treatment of unbilled energy. Aurora received a one-off deduction of $22.956m (tax effected) in the current year tax calculation which resulted in an improved Net Profit after Tax result of $63.991m (2012-13, $51.486m).

Aurora returned $125.693m to the State in the form of dividends, tax equivalents and guarantee fees over the past four years, an average of $31.423m per year. During 2013-14, Aurora's Board recommended/approved a dividend of $40.000m which was accrued at 30 June 2014. This dividend will be paid by TasNetworks in December 2014 (as prescribed in the Transfer Notice).

[1] *This calculation of underlying profit differs from that used by Aurora in its financial statements due to different treatment of electricity reform costs and restructuring costs.*



While Aurora's Total Equity increased by only $8.098m, the increase was due to a number of offsetting factors. These factors included:

- $18.682m increase in asset revaluation (net of tax) arising from the revaluation of distribution assets in line with the regulated asset base as prescribed by the AER
- a $7.203m increase in share capital from the State to finalise the transfer of AETV to Hydro Tasmania.

These equity increases together with Net Profit after Tax for the year of $63.991m were almost entirely offset by:

- $65.000m in dividends paid and or provided for in 2013-14
- Cash flow hedge losses taken to equity of $11.622m (net of tax) and
- superannuation losses (net of tax) of $5.155m. The latter was mainly due to changes in the defined benefit plan assumptions including discount rates and the expected compulsory contributions for certain plan members largely beyond Aurora's control. The majority of the liability obligations regarding the defined benefits plan will be transferred to TasNetworks.

The 2013-14 debt to equity position remained relatively steady and the Debt to equity ratio was 135.4% (2012-13, 135.1%) which was within the Aurora corporate plan bench marks.

Aurora had a net current liability position of $122.708m at 30 June 2014. However, it had access to an 11am cash management facility and a treasury strategy in place to ensure that the business could meet its commitments as and when they fell due. We reviewed management's budget forecasts and were satisfied that Aurora can meet its obligations over the next twelve months. In addition, $103.000m of current borrowings were transferred to TasNetworks on 1 July 2014 via the Transfer Notice.

Overall Cash increased by $39.866m to $44.679m at 30 June 2014 ($4.813m), primarily driven by additional borrowings prior to year end to meet cash requirements of Aurora's stand-alone retail business from 1 July 2014.

Aurora experienced reductions in trade receivables of $55.137m, or 23.8%, and in trade payables of $25.074m, or 16.9%, year on year. Trade receivable decreases were driven by reduced activity in the current period through the impact of the transfer of AETV, reduced electricity consumption and the divestment of mainland Australia customers, while creditor turnover reduced by 16.9% in line with the reduction in trade payables over the period. The reduction in both balance and turnover implies that the driver of the reduction in accounts payable was that Aurora was paying their liabilities more quickly.

Increases in Aurora provisions of $49.447m were primarily due to a $40.000m dividend declared prior to 30 June 2014 and unfavourable movements in the DBP liability.

Payments for Property, plant and equipment were in line with the capital expenditure allowances provided under the AER regulatory pricing determination. Payments for intangible assets related to software upgrades required for the distribution and retail divisions to prepare for full retail contestability from 1 July 2014. Total capital expenditure incurred during the year to prepare Aurora for Full Retail Contestability was $28.458m, consisting of $26.735m for software and $1.723m for IT network infrastructure.

Statement of Comprehensive Income

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Sales revenue	1 134 514	1 483 343	1 427 235	1 322 689
Other revenue	60 025	67 059	59 470	60 352
Total Revenue	**1 194 539**	**1 550 402**	**1 486 705**	**1 383 041**
Energy and transmission purchases	626 602	997 377	935 741	895 557
Electricity derivative fair value movements (Realised)	78 814	0	0	0
Renewable energy credit purchases	54 822	65 846	72 935	47 657
Employee expenses	104 026	99 729	119 294	108 493
Depreciation	102 344	119 692	109 103	101 204
Other expenses	115 605	137 447	135 546	117 844
Billing system direct expensing	0	0	0	11 654
Total Expenses	**1 082 213**	**1 420 091**	**1 372 619**	**1 282 409**
Earnings before Interest and Tax	**112 326**	**130 311**	**114 086**	**100 632**
Borrowing costs	41 031	54 759	66 814	67 118
Guarantee fee	9 679	12 188	8 519	6 315
Nominal interest on superannuation liability	3 823	3 456	5 848	5 644
Unwinding discount on decommissioning	0	1 379	1 314	1 244
Underlying Profit (Loss) before Tax[1]	**57 793**	**58 529**	**31 591**	**20 311**
Income tax (expense) benefit[2]	1 096	(17 591)	(10 181)	(2 628)
Net Profit (Loss) after Tax before Customer Contributions, Financial Instrument Fair Value Unrealised Movements and Superannuation	**58 889**	**40 938**	**21 410**	**17 683**
Customer contributions	8 432	7 471	6 174	9 084
Superannuation actuarial movement	0	0	(17 377)	4 660
Electricity derivative fair value movements (Unrealised)	(1 144)	7 597	331	5 473
Income tax (expense) benefit[2]	(2 186)	(4 520)	3 262	(5 765)
Net Profit (Loss) for the Year[2]	**63 991**	**51 486**	**13 800**	**31 135**
Other Comprehensive Income Net of Tax				
Revaluation of property, plant and equipment	18 682	(2 352)	28 993	20 116
Superannuation actuarial movement	(5 155)	7 629	0	0
Cash flow hedge fair value gains taken to equity	(11 622)	2 218	9 099	8 496
Other Comprehensive Income (Loss)	**1 905**	**7 495**	**38 092**	**28 612**
Total Comprehensive Profit (Loss)	**65 896**	**58 981**	**51 892**	**59 747**

[1] *This calculation of underlying profit differs from Aurora's in its financial statements due to different treatment of electricity reform and restructuring costs.*

2. Net Profit before Taxation was $65.081m

Statement of Financial Position

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Cash	44 679	4 813	89 928	53 662
Receivables	176 550	231 687	204 774	203 745
Inventories	20 732	27 219	29 853	28 639
Financial assets	6 514	18 741	9 938	40 935
Current tax asset	0	0	0	7 610
Other (including held for sale)	6 126	4 911	14 808	20 560
Total Current Assets	**254 601**	**287 371**	**349 301**	**355 151**
Payables	123 208	148 282	155 742	159 075
Borrowings	103 290	75 545	118 325	25 000
Provisions	61 052	21 514	20 137	30 718
Current tax payable	22 294	19 957	1 752	0
Financial liabilities	28 033	11 669	9 622	70 657
Other	39 432	41 548	40 679	19 908
Total Current Liabilities	**377 309**	**318 515**	**346 257**	**305 358**
Working Capital	**(122 708)**	**(31 144)**	**3 044**	**49 793**
Property, plant and equipment	1 466 593	1 420 910	1 747 139	1 697 295
Deferred tax asset	59 484	46 053	54 537	115 374
Intangible assets	69 670	52 938	59 331	68 810
Financial assets	34 597	8 924	448	170 678
Other	0	0	10 404	19 802
Total Non-Current Assets	**1 630 344**	**1 528 825**	**1 871 859**	**2 071 959**
Borrowings	659 280	674 268	956 257	1 060 246
Provisions	104 139	94 200	104 533	87 967
Provisions – decommissioning costs	0	0	24 565	23 251
Deferred tax liability	143 062	159 942	175 915	222 869
Financial liabilities	38 139	14 353	9 778	163 021
Other	0	0	2 779	3 335
Total Non-Current Liabilities	**944 620**	**942 763**	**1 273 827**	**1 560 689**
Net Assets	**563 016**	**554 918**	**601 076**	**561 063**
Capital	232 319	225 116	314 255	314 255
Reserves	184 434	177 375	177 603	141 095
Retained earnings	146 263	152 427	109 218	105 713
Total Equity	**563 016**	**554 918**	**601 076**	**561 063**

Statement of Cash Flows

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	1 334 960	1 634 420	1 605 813	1 450 717
Payments to suppliers and employees	(1 089 640)	(1 371 243)	(1 361 709)	(1 250 713)
Payments to Australian Government for carbon	1 490	(18 300)	0	0
Interest received	965	1 832	3 784	2 250
Settlement of AETV	0	(17 296)	0	0
Borrowing costs and guarantee fee paid	(50 332)	(66 488)	(72 201)	(72 980)
Taxation paid	(29 881)	(3 386)	0	(2 846)
Cash from Operations	**167 562**	**159 539**	**175 687**	**126 428**
Payments for intangible assets	(31 644)	(14 840)	(5 510)	(24 001)
Payments for property, plant and equipment	(107 038)	(99 017)	(113 257)	(147 230)
Proceeds from sale of property, plant and equipment	3 256	4 972	1 889	652
Cash (Used In) Investing Activities	**(135 426)**	**(108 885)**	**(116 878)**	**(170 579)**
Proceeds from borrowings	582 483	801 056	756 486	55 329
Repayment of borrowings	(569 726)	(920 825)	(767 150)	0
Dividends paid	(25 000)	(16 000)	(11 879)	0
Funds received pending issue of equity	0	0	0	0
Proceeds from contribution of equity	7 203	0	0	4 900
Cash from (Used In) Financing Activities	**(5 040)**	**(135 769)**	**(22 543)**	**60 229**
Net Increase (Decrease) in Cash	**27 096**	**(85 115)**	**36 266**	**16 078**
Cash at the beginning of the year	4 813	89 928	53 662	37 584
Cash at End of the Year	**31 909**	**4 813**	**89 928**	**53 662**

Financial Analysis

	Bench Mark	2013-14	2012-13	2011-12	2010-11
Financial Performance					
Net profit (loss) ($'000s)		63 991	51 486	13 800	31 135
EBIT ($'000s)		119 614	145 379	103 214	119 849
EBITDA ($'000s)		221 958	265 071	212 317	221 053
Operating margin[1]	>1.0	1.06	1.05	1.01	1.03
Return on assets[1]	5.6%*	6.5%	7.2%	4.4%	5.0%
Return on equity[1]	3.7%*	11.4%	8.9%	2.4%	5.9%
Financial Management					
Debt to equity		135.4%	135.1%	178.8%	193.4%
Debt to total assets		40.5%	41.3%	48.4%	44.7%
Interest cover - EBIT	>1.4*	2.2	2.1	1.3	1.5
Interest cover - cash from operations	>2	4.0	3.2	3.1	2.5
Current ratio	>1	0.67	0.90	1.01	1.16
Cost of debt		7.2%	7.7%	7.5%	7.5%
Debt collection	30 days	49	50	48	51
Creditor turnover	30 days	19	23	20	20
Asset Management					
Investment gap %		135.5%	95.1%	108.9%	169.2%
Returns to Government					
Dividends paid ($'000s)		25 000	16 000	11 879	0
Income tax paid ($'000s)		29 881	3 386	0	2 846
Government guarantee fees ($'000s)		9 679	12 188	8 519	6 315
Total return to the State ($'000s)		64 560	31 574	20 398	9 161
Dividends payable ($'000s)		40 000	25 000	16 000	11 879
Dividend payout ratio[2]	50%	62.5%	48.6%	115.9%	38.2%
Dividend to equity ratio		7.2%	4.3%	2.8%	2.2%
Other Information					
Average staff numbers (FTEs)		886	973	1 113	1 294
Average staff costs ($'000s)		117	103	107	84
Average staff costs - excluding redundancy costs ($'000s)		102	97	85	74
Average leave balance per FTE ($'000s)		24	22	22	21

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

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

[2] *The actual dividend paid to Treasury is based on the Underlying Profit.*

METRO TASMANIA PTY LTD (Metro)

SNAPSHOT

- On a turnover of $48.220m, Metro incurred a Net Loss before Tax of $0.375m in 2013-14. The loss was after $3.250m of funding provided to Metro outside of the contract for service delivery. Metro received this additional funding each year for the past four years. Without the additional funding the Net Loss before Tax would have been $3.625m.
- Positive operating cash flows were achieved despite the loss.
- Equity totalled $28.540m at 30 June 2014.
- Metro reported negative working capital at 30 June 2014.

Key developments this year included:

- the following reviews involving Metro were undertaken this year:
  - a review of Metro's funding and operating model to assess its financial sustainability
  - an investigation by the Tasmanian Economic Regulator into Metro's pricing policies.
- contracts for delivery of passenger transport services were extended until 2018.
- Metro is trialling a high frequency bus service along Main Road between Hobart CBD and Glenorchy.

Major variations between the 2013-14 and 2012-13 financial years were:

- Government contributions were $1.554m higher
- Employee expenses increased by $0.752m
- Fuel costs increased $0.565m
- Metro incurred a Defined benefit plan actuarial loss of $1.238m (2012-13, $3.587m gain)
- Income tax benefit on other comprehensive income was $0.377m ($1.011m expense)

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

INTRODUCTION

Metro is a State-Owned Company that provides public urban road transport services in the urban areas of Hobart, Launceston and Burnie under service contracts with Government through the Department of State Growth (previously the Department of Infrastructure, Energy and Resources (DIER)). It also provides passenger transport services to a number of urban fringe areas in the regions of Wynyard, Ulverstone, the South Arm peninsula and the D'Entrecasteaux Channel through a series of individual route contracts.

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

Metro is predominantly funded by Government through service delivery contracts, making it economically dependent on the State for its continued operations.

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

KEY AREAS OF AUDIT ATTENTION

Description of Area	Audit Approach
Metro is reliant on Government funding for 76% of its operating revenue. It has agreements for the provision of passenger transport services until 2018. Shareholders do not expect Metro to achieve a commercial rate of return on capital under its service contracts.	We obtained an external confirmation from the former DIER of payments made under the service delivery contracts.
Metro recorded 10.07m total boardings in 2012-13 which was a decrease of around 2%, when adjusted for several instances of industrial action. Over the last three years, patronage has reduced by 0.3% across the State.	For 2013-14 we noted a slight increase in total boardings to 10.080m. We considered the impact on fares revenue and performed a detailed analytical review. We examined and documented the ticketing system and tested revenue controls on a rotational basis.
Property, plant and equipment is a material item, with the major classes, Land and buildings and Buses, recorded at fair value. Metro has a significant capital expenditure program for bus replacement and incurs significant maintenance costs.	We audited the valuation methodology, which included ensuring values were current and not materially mis-stated, assessing the independent expert's qualifications as appropriate and agreeing the values to independent valuation reports. We also reconciled valuation movements and ensured these were accounted for correctly. We tested expenditure to ensure capital and maintenance costs were accounted for correctly.
Metro records a superannuation liability related to its RBF members. The liability is determined by an independent actuary. The liability also requires detailed disclosure in the annual financial statements.	We audited defined benefit liabilities to the actuary report and reviewed the actuary's assumptions for reasonableness and compliance with changes to accounting standards.

AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

Signed financial statements were received on 7 August 2014 and an unqualified audit report was issued on the same day.

KEY DEVELOPMENTS

Financial sustainability review

A review of Metro's funding and operating model to assess its financial sustainability was completed but no outcomes have yet been announced.

Extension of service contracts

Contracts for passenger transport services between Metro and the former DIER were extended for a further five years.

'Turn Up and Go' initiative

Metro is trialling a high frequency bus service along Main Road between Hobart Central Business District and Glenorchy. The 12-month trial concludes in November 2014. Metro was provided with additional funding to partially/fully cover additional staff and fuel costs.

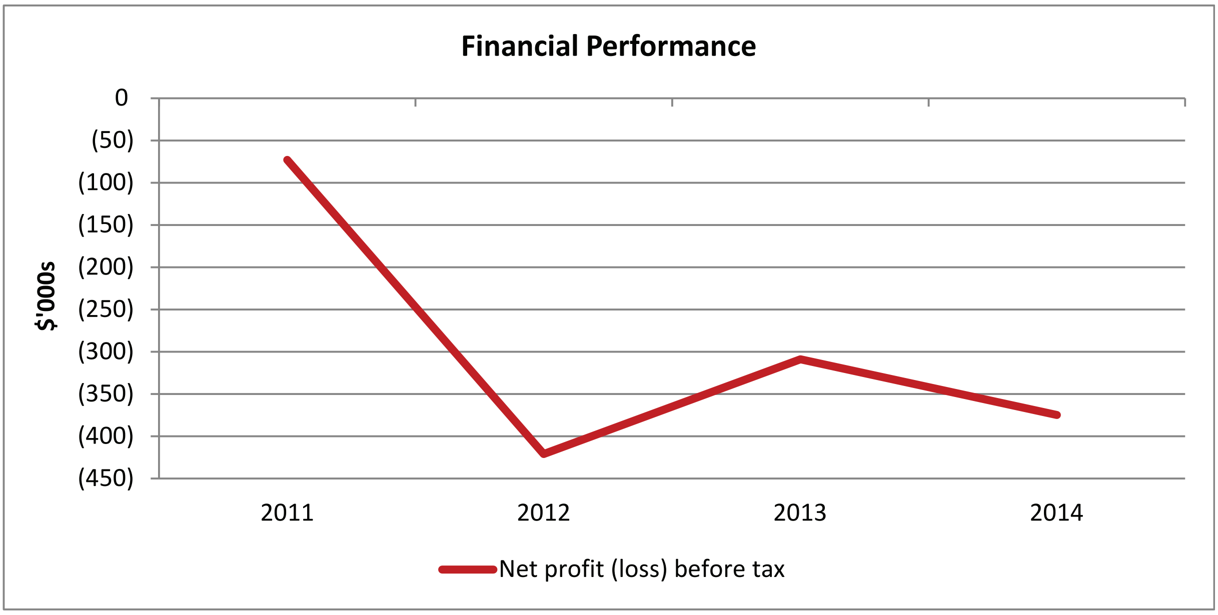
Pricing policy review

The Tasmanian Economic Regulator finalised an investigation into Metro's pricing policies that was requested by the former Minister for Finance, with agreement from the then Minister for Sustainable Transport. The Regulator made several recommendations none of which impacted Metro in 2013-14.

KEY FINDINGS

No significant findings were made during the audit. Two low risk matters were reported to management for consideration.

FINANCIAL ANALYSIS



Metro made a Net Loss before Tax of $0.375m after inclusion of additional funding of $3.250m from State Growth. Metro was not able to generate sufficient revenue in combination with the government contributions to cover its increasing operating expenditure.

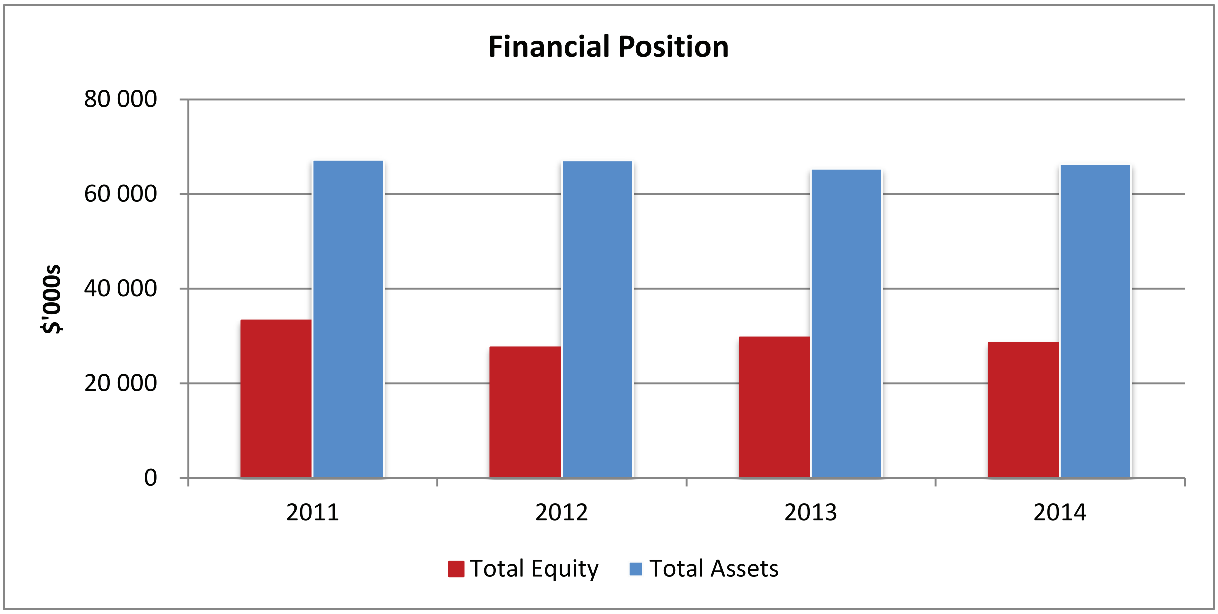
On average, Metro relied on Government for 75% of its revenue. In the current year, it received:

- $35.844m (2012-13, $34.290) under service delivery contracts for passenger transport bus services in the metropolitan and urban fringe areas, including the new 'Turn Up and Go' services
- $3.250m ($3.250m) outside of the contract for service delivery to pursue a range of priorities. Metro predominantly used this to fund its fleet replacement program. In 2013-14, it purchased 11 (4) new buses.

Ticket sales represented, on average, 23% of Metro's Total Revenue. This year saw a 2.23% increase in Fare revenue, $0.245m, as a result of increased patronage and fares.

Total Expenses grew by 3.25%, with increases across all categories.

Net Losses resulted in negative returns on assets in all years under review, which is not sustainable. Without the additional $3.250m in Government funding, Net Loss before Tax would have been $3.625m ($3.559m).



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

Metro's Cash was $6.758m at 30 June 2014, which was consistent with last year's balance. It had no capital commitments at 30 June 2014 (2013, $1.803m). Metro had a negative working capital of $0.131m, and a Current ratio 0.99 which was just below the benchmark of 1.0.

Equity fluctuated between years primarily as a result of movements in the Defined benefit plan superannuation liability. In 2013-14, Metro's unfunded superannuation liability increased by $1.865m to $23.167m due to a reassessment of its obligations which resulted in actuarial losses of $1.238m.

Statement of Comprehensive Income

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Government service contract revenue	35 844	34 290	32 343	30 659
Fare revenue	11 256	11 011	11 125	10 886
Additional government funding	3 250	3 250	3 250	3 250
Other revenue	1 109	1 282	1 337	1 595
Gain on sale of non-financial assets	11	69	16	64
Total Revenue	**51 470**	**49 902**	**48 071**	**46 454**
Depreciation	4 790	4 605	4 734	4 260
Maintenance	4 368	4 260	3 810	3 699
Employee expenses	30 300	29 548	27 905	27 122
Fuel	5 945	5 380	5 408	4 980
Finance costs	926	1 046	1 329	1 361
Other expenses	5 516	5 372	5 306	5 105
Total Expenses	**51 845**	**50 211**	**48 492**	**46 527**
Net Profit (Loss) before Tax	**(375)**	**(309)**	**(421)**	**(73)**
Income tax benefit	107	92	125	22
Net Profit (Loss)	**(268)**	**(217)**	**(296)**	**(51)**
Revaluation of property, plant and equipment	0	(274)	(954)	0
Net change in fair value of available-for-sale				
financial assets	(16)	(34)	(137)	(18)
Defined benefit plan actuarial gains (losses)	(1 238)	3 587	(6 113)	1 115
Income tax on other comprehensive income	377	(1 011)	1 875	(327)
Other Comprehensive Income	**(877)**	**2 268**	**(5 329)**	**770**
Total Comprehensive Profit (Loss)	**(1 145)**	**2 051**	**(5 625)**	**719**

Statement of Financial Position

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Cash	6 758	6 564	3 808	2 866
Receivables	520	448	572	504
Inventories	1 687	1 518	1 385	1 237
Assets classified as held for sale	14	0	99	204
Other	746	686	882	901
Total Current Assets	**9 725**	**9 216**	**6 746**	**5 712**
Payables	4 077	3 663	4 279	4 092
Provisions – leave and other	4 596	4 576	4 416	4 390
Provisions – superannuation	1 183	1 141	1 254	793
Total Current Liabilities	**9 856**	**9 380**	**9 949**	**9 275**
Working Capital	**(131)**	**(164)**	**(3 203)**	**(3 563)**
Property, plant and equipment	46 555	46 016	49 245	51 147
Intangible assets	178	201	151	124
Deferred tax assets	9 872	9 891	10 950	10 227
Total Non-Current Assets	**56 605**	**56 108**	**60 346**	**61 498**
Provisions – leave and other	1 241	928	735	629
Provisions – superannuation	23 167	21 302	24 605	18 601
Deferred tax liabilities	3 526	4 030	4 170	5 447
Total Non-Current Liabilities	**27 934**	**26 260**	**29 510**	**24 677**
Net Assets	**28 540**	**29 684**	**27 633**	**33 258**
Capital	15 503	15 503	15 503	15 503
Retained earnings/(Accumulated losses)	680	1 686	(668)	4 178
Reserves	12 357	12 495	12 798	13 577
Total Equity	**28 540**	**29 684**	**27 633**	**33 258**

Statement of Cash Flows

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Receipts from Government	39 245	37 935	35 865	33 186
Receipts from customers	13 505	13 275	13 812	14 501
Payments to suppliers and employees	(47 371)	(46 973)	(44 519)	(44 803)
Interest received	140	178	155	386
Interest paid	0	(20)	(26)	(23)
Cash from Operations	**5 519**	**4 395**	**5 287**	**3 247**
Payments for property, plant and equipment	(5 419)	(1 862)	(4 465)	(5 969)
Proceeds from sale of property, plant and equipment	94	223	120	153
Cash from (used in) Investing Activities	**(5 325)**	**(1 639)**	**(4 345)**	**(5 816)**
Net increase (decrease) in cash	194	2 756	942	(2 569)
Cash at the beginning of the year	6 564	3 808	2 866	5 435
Cash at End of the Year	**6 758**	**6 564**	**3 808**	**2 866**

Financial Analysis

	Bench Mark	2013-14	2012-13	2011-12	2010-11
Financial Performance					
Net Profit (Loss) ($'000s)		(268)	(217)	(296)	(51)
EBIT ($'000s)		551	737	908	1 288
EBITDA ($'000s)		5 341	5 342	5 642	5 548
Operating margin	>1.0	0.99	0.99	0.99	1.00
Return on assets		0.8%	1.1%	1.4%	1.9%
Return on equity		(1.3%)	(1.1%)	(1.4%)	(0.2%)
Financial Management					
Current ratio	>1	0.99	0.98	0.68	0.62
Debt collection	30 days	5	5	6	6
Creditor turnover	30 days	22	24	29	34
Other Information					
Average staff numbers (FTEs)		385	380	386	390
Average staff costs ($'000s)		79	78	72	70
Average leave balance per FTE ($'000s)		15	14	13	13

TASMANIAN IRRIGATION PTY LTD (TIPL)

SNAPSHOT

- TIPL recorded an Underlying Profit of $0.636m in 2013-14.
- It continues to be heavily dependent on Government funding. From July 2011 to 30 June 2014 equity contributions, operating grants and interest subsidies totalled $111.705m.
- Net Assets totalled $103.779m at 30 June 2014.
- Asset impairment losses over the last three years totalled $67.961m.

The audit was completed satisfactorily with no major matters outstanding.

Key developments included commissioning the Kindred North Motton Irrigation Scheme at a total cost of $10.513m. Upon commissioning of the scheme, water rights valued at $1.854m were recognised as revenue and the scheme was subsequently impaired by $10.133m.

TIPL has proposed a suite of five additional Tranche Two projects that are currently in the development stage. These proposed schemes will require $140.000m of public capital, with Government committing $30.000m.

The Dial Blythe Irrigation Scheme was originally a Tranche Two project but construction of the scheme was brought forward, funded by proceeds from the Tasmanian Forest Agreement.

Other major financial impacts in 2013-14 included:

- Impairment losses, related to irrigation and dam assets, of $12.526m
- payments for Property, plant and equipment, $83.068m.

During 2013-14, TIPL paid no dividends or income tax equivalents.

INTRODUCTION

TIPL was established under the *Irrigation Company Act 2011* (the Act). It is a State Owned Corporation responsible for the management of Government owned irrigation schemes and progressing new water and irrigation developments.

TIPL is instrumental in delivering the Government's vision for the future of agriculture in the State, outlined in the Tasmanian Infrastructure Strategy. It is pursuing projects to deliver irrigated water to areas in Northern, Eastern, South Eastern and Central Tasmania. Water entitlement revenue and equity injections from the State and Commonwealth Governments are used to fund construction of the irrigation schemes.

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

Its shares are held by the Treasurer and Minister for Primary Industries and Water on behalf of the State of Tasmania. The Board consists of the Chairman, Deputy Chairman and three non-executive directors. Directors are appointed by the two shareholder Ministers.

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

KEY AREAS OF AUDIT ATTENTION

Description of Area	Audit Approach
TIPL receives significant Government contributions. Contributions are paid as either equity injections or operational grants.	To test these figures we: • obtained confirmation from DPIPWE • tested the balance of deferred grant income for accuracy at year end.
TIPL is a "for profit" entity, but operates on a "cost recovery" basis. Consequently, each completed irrigation project is assessed for impairment. The cash generating capability of a project is restricted by the limitations of 'cost recovery' principles. As a result, projects are generally subject to impairment based on expected future cash flows.	We verified impairment worksheets and models to ensure the carrying value of an irrigation scheme did not exceed its fair value. Fair value is determined using an income approach, based on projected net cash inflows from operation of the project.
TIPL is a small operation and its administrative capability is constrained in terms of resources. Consequently not all accounting duties and functions are fully segregated or independently reviewed.	We took a substantive audit approach to verify the accuracy of financial transactions.

AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

Signed financial statements were received on 14 August 2014 and an unqualified audit report was issued on 20 August 2014.

KEY DEVELOPMENTS

Projects commissioned or under construction

TIPL commissioned the Kindred North Motton Irrigation Scheme during 2013-14, at a cost of 10.513m, which resulted in an impairment loss of $10.133m being recognised as an expense. The Midlands Water Scheme was commissioned in July 2014 and any impairment will be recorded in 2014-15. At 30 June 2014, capitalised work in progress for the Midlands Water Scheme totalled $95.150m.

Since the commencement of its Tranche One construction program, TIPL has received $125.284m and constructed six irrigation schemes. In addition, there are currently another three schemes under construction to finalise Tranche One funding. The schemes are the Midlands Water Scheme, South East Irrigation Scheme and the Upper Ringarooma Scheme.

The Dial Blythe Irrigation Scheme commenced construction during the year, with $4.357m spent up to 30 June 2014. The project was originally a Tranche Two project, however construction was brought forward, funded by proceeds from the Tasmanian Forest Agreement.

Projects under way or in development

TIPL has proposed a suite of five Tranche Two projects that are currently in the development stage. These proposed schemes will require $140.000m of public capital, with Government committing $30.000m towards the projects and a further $110.000m funding contribution currently being sought from the Australian Government. In addition, farmers and investors will need to commit $53.000m through the sale of water entitlements.

All Tranche Two projects are in the pre-feasibility or feasibility stages of development. These schemes are the Scottsdale, Southern Highlands, Circular Head, North Esk and Swan River Irrigation Schemes.

Segment reporting

TIPL prepared its financial results on a segment basis for the first time this year. This highlighted the significance of the development segment in its operations.

Maintenance plans

TIPL is in the process of developing asset maintenance plans for each of the schemes. Once developed, these plans will underpin the quantum of future asset renewal levy recoveries to be charged to irrigators.

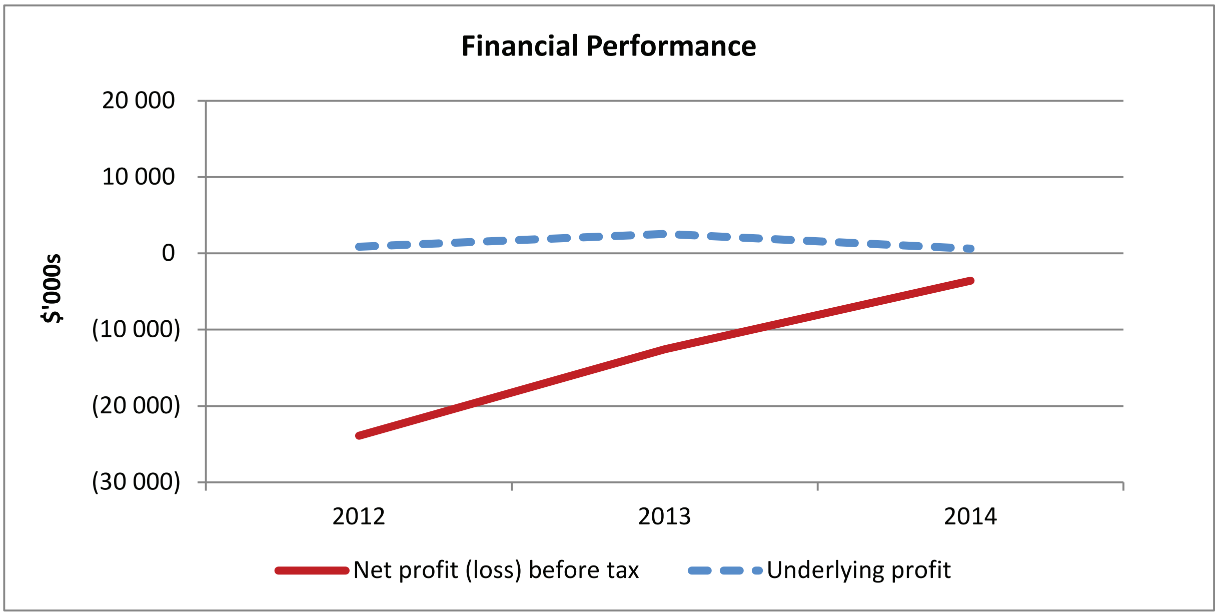
KEY FINDINGS

There were no high or moderate risk findings identified during audit.

We identified a small number of low risk issues related to IT security and application policy, and inactive suppliers in the creditor's masterfile.

The audit was completed satisfactorily with no other items outstanding.

FINANCIAL ANALYSIS



TIPL's Underlying Profit for the year, $0.636m (2012-13, $2.538m), reduced by $1.902m due to:

- a significant reduction in finance income of $1.519m, due to TIPL entering a borrowing phase to complete Tranche One capital works
- prior year revenue included a one-off adjustment for the reversal of defined benefit superannuation obligation of $0.388m.

The Net Loss before Tax for the current year, $3.563m (2012-13, $12.550m) reduced by $8.987m on the previous year due to higher water entitlement revenue of $8.104m and lower Impairment losses of $2.785m.

Water entitlement revenue is recognised when settlement of the purchase contract occurs. Deposits received from irrigators under purchase contracts are held as unearned revenue until the scheme has been commissioned. Once commissioned, the balance of water entitlement revenue receivable is invoiced. The Lower South Esk Irrigation Scheme was commissioned in 2012-13, however revenue recognition relating to the completion of water entitlement contracts did not occur until 2013-14.

Water entitlement revenue in 2013-14 also included sales from the commissioning of the Kindred North Motton Irrigation Scheme.

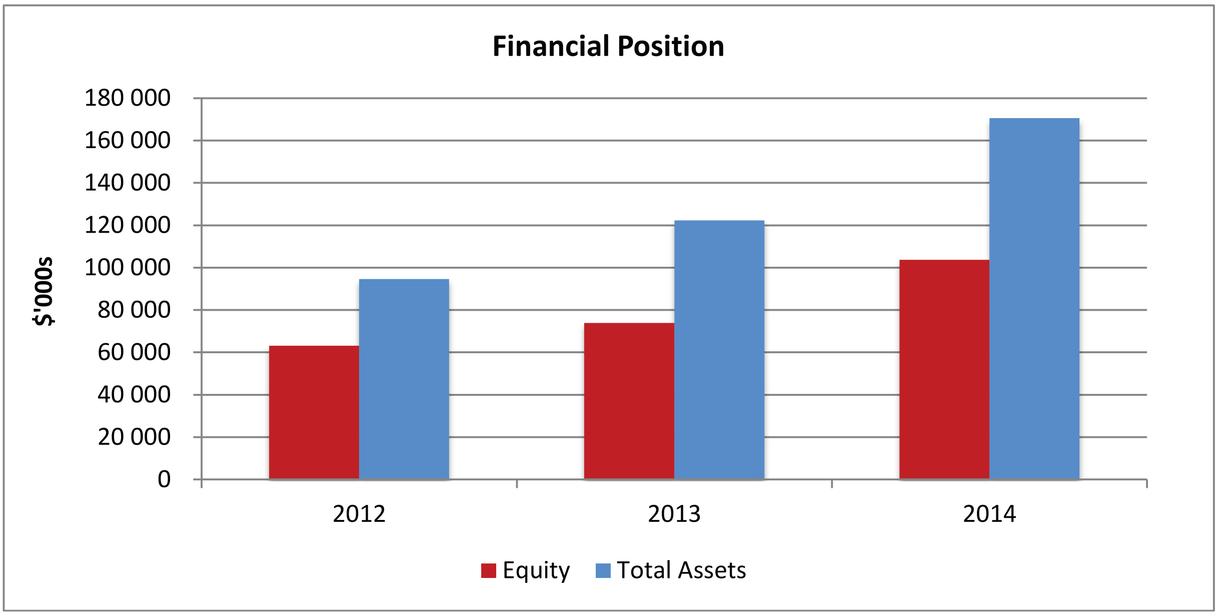
Under the current funding model, TIPL receives irrigation water charges from users of the schemes. The charges include a reimbursement of annual operational costs and an asset renewal levy. The levy is collected to assist in funding future maintenance of the irrigation assets. TIPL maintain an asset renewal reserve to monitor this funding. It is in the process of developing asset maintenance and replacement plans for each of the schemes. These plans will underpin the quantum of future asset renewal levy recoveries required to be paid by irrigators.

Capital funding of the schemes is a combination of State and Commonwealth contributions and proceeds from the sales of water entitlements. As the current pricing model will not generate surplus revenues from operations, TIPL impaired the individual schemes on a value in use basis. The level of impairment will depend upon the remaining number of unsold water entitlements, which reflects a future revenue stream for the scheme. With the sale of all water entitlements within a scheme, the impairment model records the asset values at zero, reflecting no future revenue streams to be received. Most schemes still have a carrying value, due to unsold water entitlements. For example, the Meander Valley Irrigation Scheme has a carrying value of $11.483m, as there are entitlements to 11 062 megalitres, or 31% of the scheme, still to be sold.

The significant Net Loss recorded in 2011-12 was due to the commissioning and subsequent part impairment of four irrigation schemes (Headquarters Road Dam, Whitemore Irrigation Scheme, Sassafras Wesley Vale Irrigation Scheme and Winnaleah Irrigation Scheme) that year.

Although TIPL has recorded an Underlying profit in the last three years, it remains heavily dependent on Government funding, which averaged $6.698m per annum. This support consists of operating grants and interest expense subsidies, without which losses would have been incurred each year.

On a segment basis, the majority of TIPL's activity is conducted in the development segment, with its results impacted by the water entitlement revenue and the impairment of assets. The financial results for this segment are consistent with the discussion detailed above. The results from the other segments indicate that revenue generated from the Mini-Hydro systems helping to fund the operational needs of TIPL. A summary of segment results is provided in the appendix to this Chapter.



Total Assets were higher at 30 June 2014, $170.564m (2013, $122.399m), due to construction of new irrigation schemes. A total of $79.328m was spent on capital works during the year, including significant works on the following:

- Midlands Water Scheme, $40.062m,
- Upper Ringarooma Irrigation Scheme, $15.889m,
- South East Irrigation Scheme, $15.728m.

This capital expenditure was funded by:

- proceeds from water sales, $16.760m,
- Government contributions, $35.668m,
- new short term Borrowings, $12.500m,
- existing cash resources.

Total Liabilities increased by $18.395m to $66.785m at 30 June 2014 primarily due to:

- higher Borrowings of $11.163m to fund capital construction activity, which primarily included a new short term Borrowing. Borrowings are reassessed annually, depending on the timing of the commissioning of schemes under construction
- increased Unearned revenue of $10.910m, taking the balance to $24.875m. The balance consisted of unearned water entitlements revenue of $10.176m and other deferred income of $14.699m at 30 June 2014. TIPL is holding $4.115m for the Dial Blythe irrigation scheme milestone one and two payments, with the revenue to be recognised upon commissioning the project and commencement of operations, expected to occur in the following year. TIPL also received approximately $6.000m in advance from a major customer for water entitlement rights, which will be recognised as revenue when the related scheme is commissioned in 2014-15.

Total Equity increased to $103.779m at 30 June 2014, due to equity contributions from Government of $33.333m, offset by the loss for the year of $3.563m. The higher equity balance at 30 June 2014 had a positive impact on financial management ratios such as debt to equity and debt to total assets.

The following table details the level of Government funding provided to TIPL (and Rivers and Water Supply Commission (RWSC) prior to 2012).

Funding and Asset Movement	2013-14	2012-13	2011-12	2008-11	Total
	$'000s	$'000s	$'000s	$'000s	$'000s
State equity contribution	0	0	11 549	42 966	54 515
Commonwealth capital contribution	33 333	23 292	24 389	13 584	94 598
State and Commonwealth operating grants	5 383	5 866	6 219	17 132	34 600
State Government interest contribution	386	680	608	3 209	4 883
Total Government contributions	**39 102**	**29 838**	**42 765**	**76 891**	**188 596**
Equity Return (Meander Valley)	0	0	0	(6 710)	(6 710)
Net Government Contributions	**39 102**	**29 838**	**42 765**	**70 181**	**181 886**

Financial information in the table above is presented on an accruals basis.

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

Under the current funding model, TIPL receives irrigation water charges from users of the schemes. The charges include a reimbursement of annual operational costs and an asset renewal levy. The levy is collected to assist in funding the future replacement of the irrigation assets. TIPL maintained an asset renewal reserve to monitor this funding. TIPL is in the process of developing asset maintenance plans for each of the schemes, which will underpin the quantum of future asset renewal levy recoveries.

TIPL does not record any tax balances, as it recorded taxation losses related to the impairment of the irrigation schemes. The tax benefit of these losses was not recognised, as it is not probable that future taxable profit will be available.

TIPL recorded a decrease in its current ratio at 30 June 2014. The ratio dropped to 0.3, well below our benchmark of 1.0 due to Current Liabilities including:

- a short term borrowing of $12.500m. It is expected the borrowing will be re-negotiated in 2014-15 and repaid over an extended time period
- higher unearned revenue of $24.875m (as noted above).

The ratio was also affected by a $13.989m decrease in Cash and deposits used to fund the construction of infrastructure.

CHAPTER APPENDICES

Statement of Comprehensive Income

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Revenue	3 829	3 798	3 850	2 962
Government grants	4 784	5 897	6 219	7 023
State Government interest contributions	985	649	608	628
Finance income	397	1 916	802	856
Other revenue	930	1 143	845	363
Total Revenue	**10 925**	**13 403**	**12 324**	**11 832**
Employee benefits	3 767	3 948	4 121	4 316
Finance costs	1 734	1 568	1 661	1 703
Depreciation	567	415	593	905
Operational and other	4 221	4 934	5 094	5 360
Total Expenses	**10 289**	**10 865**	**11 469**	**12 284**
Underlying Profit	**636**	**2 538**	**855**	**(452)**
Impairment losses	(12 526)	(15 311)	(40 124)	(27 252)
Water entitlement revenue	8 327	223	15 361	9 269
Net Loss before Tax	**(3 563)**	**(12 550)**	**(23 908)**	**(18 435)**
Income tax benefit (expense)	0	0	582	5 530
Net Loss	**(3 563)**	**(12 550)**	**(23 326)**	**(12 905)**
Other Comprehensive Income	0	0	0	0
Total Comprehensive Loss	**(3 563)**	**(12 550)**	**(23 326)**	**(12 905)**

Statement of Financial Position

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Cash and deposits	9 454	23 443	47 494	17 635
Receivables	1 910	3 602	4 710	912
Fixed repayment plans	783	1 955	1 341	1 278
Water stock	204	261	275	584
Other	312	212	107	0
Total Current Assets	**12 663**	**29 473**	**53 927**	**20 409**
Payables	10 037	13 671	4 573	3 712
Unearned revenue	24 875	13 965	4 654	6 569
Borrowings	13 934	1 337	3 970	1 196
Provisions	328	469	488	355
Total Current Liabilities	**49 174**	**29 442**	**13 685**	**11 832**
Working Capital	**(36 511)**	**31**	**40 242**	**8 577**
Property, plant and equipment	154 911	88 226	33 634	55 002
Deferred tax asset	0	0	0	13 760
Fixed repayment plans	2 474	4 274	6 802	8 454
Other	516	426	426	876
Total Non-Current Assets	**157 901**	**92 926**	**40 862**	**78 092**
Borrowings	17 253	18 687	17 290	21 260
Provisions	358	261	549	413
Total Non-Current Liabilities	**17 611**	**18 948**	**17 839**	**21 673**
Net Assets	**103 779**	**74 009**	**63 265**	**64 996**
Reserves	1 364	1 004	746	0
Accumulated losses	(40 728)	(36 805)	(23 998)	(24 560)
Capital	143 143	109 810	86 517	89 556
Total Equity	**103 779**	**74 009**	**63 265**	**64 996**

Statement of Cash Flows

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	13 515	10 550	3 799	6 950
Government grants and contributions	8 389	14 136	6 126	6 925
Interest received	786	2 435	1 694	1 341
Payments to suppliers and employees	(15 510)	(14 988)	(7 798)	(8 794)
Finance costs	(1 735)	(1 568)	(1 661)	(1 655)
Other				
Cash from (used in) Operations	**5 445**	**10 565**	**2 160**	**4 767**
Payments for property, plant and equipment	(83 068)	(62 138)	(18 841)	(23 782)
Proceeds from sale of property, plant and equipment	134	541	4	42
Loans	(90)	0	0	(261)
Proceeds from sale of water entitlements	16 760	4 924	11 794	2 621
Cash from (used in) Investing Activities	**(66 264)**	**(56 673)**	**(7 043)**	**(21 380)**
Capital contribution from Government	35 668	23 292	35 939	21 536
Cash from acquisition of RWSC & TIS	0	0	1 867	0
Return of equity to Government	0	0	0	(6 710)
Proceeds from borrowings	11 163	0	0	0
Repayment of borrowings	0	(1 236)	(1 196)	(112)
Cash from (used in) Financing Activities	**46 831**	**22 056**	**36 610**	**14 714**
Net Increase (Decrease) in Cash	**(13 988)**	**(24 052)**	**31 727**	**(1 899)**
Cash at the beginning of the year	23 442	47 494	15 767	19 534
Cash at End of the Year	**9 454**	**23 442**	**47 494**	**17 635**

Financial Analysis

	Bench Mark	2013-14	2012-13	2011-12	2010-11 RWSC
Financial Performance					
Underlying profit (loss) ($'000s)		636	2 538	855	(452)
Net profit (loss) ($'000s)		(3 563)	(12 550)	(23 326)	(12 905)
Operating margin	>1.0	1.1	1.2	1.1	1.0
Return on assets		1.3%	2.0%	1.8%	0.4%
Total return to equity ratio		(4.0%)	(18.3%)	(36.4%)	(20.2%)
Financial Management					
Debt to equity		30.1%	27.1%	33.6%	34.5%
Debt to total assets		18.3%	16.4%	22.4%	22.8%
Interest cover - EBIT	>2	1.1	1.4	1.0	0.2
Current ratio	>1	0.3	1.0	3.9	1.7
Returns to Government					
Dividends paid ($'000s)		0	0	0	0
Income tax paid ($'000s)		0	0	0	0
Other Information					
Average staff numbers (FTEs)		43	39	38	36
Average staff costs ($'000s)		107	105	90	111
Average leave balance per FTE ($'000s)		16	19	27	21

SEGMENT INFORMATION

	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13
	Development		Operations		Mini-Hydros		Total	
	$'000s		$'000s		$'000s		$'000s	
Segment Revenue	15 390	9 450	2 972	3 333	890	843	**19 252**	**13 626**
Segment profit/(loss) before tax	(3 826)	(13 152)	(231)	59	494	544	**(3 563)**	**(12 549)**
Interest income	746	2 351	28	26	0	0	**774**	**2 377**
Interest expense	1 528	1 334	12	6	194	228	**1 734**	**1 568**
Depreciation and amortisation	467	285	27	57	73	73	**567**	**415**
Impairment of property, plant and equipment	12 043	15 269	0	0	0	0	**12 043**	**15 269**
Underlying result	373	1 935	(231)	59	494	544	**636**	**2 538**
Segment assets	162 088	113 763	3 747	4 186	4 729	4 450	**170 564**	**122 399**
Capital expenditure	79 238	70 322	0	266	0	0	**79 238**	**70 588**
Segment liabilities	(63 849)	(45 457)	(409)	(191)	(2 527)	(2 742)	**(66 785)**	**(48 390)**

TASMANIAN NETWORKS PTY LTD (TasNetworks)

SNAPSHOT

- TasNetworks was incorporated on 4 February 2014.
- It did not trade prior to 1 July 2014 and all transactions in the current financial period were paid by Transend Networks Pty Ltd (Transend) and Aurora Energy Pty Ltd (Aurora).
- Provisions for long service leave and annual leave for key management personnel resulted from balances transferring to TasNetworks from Transend and Aurora. Leave balances for key management personnel from Hydro were recognised by TasNetworks and reimbursed from Hydro.
- Provision for superannuation for key management personnel was included in the accounts of Transend.
- Receivables represented monies owed by Aurora and Transend.

The audit was completed satisfactorily with no matters outstanding.

INTRODUCTION

TasNetworks is a proprietary limited company incorporated on 4 February 2014. Its principal activities are to build, own and operate the transmission, communication and distribution networks of the Tasmanian electricity network.

The *Electricity Reform Act 2012 (Tas),* (the Act), enacted in December 2012, facilitated implementation of reforms to the electricity supply industry in Tasmania. The Act resulted in the merger of the electricity network businesses owned by Aurora and Transend.

On 1 July 2014 the assets and liabilities of Transend and the electricity distribution network owned by Aurora were transferred to TasNetworks via a gazetted Transfer Notice dated 25 June 2014.

The Board is comprised of five non-executive directors. It appointed a Chief Executive Officer. Directors were appointed by the two shareholder Ministers.

AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

Signed financial statements were received on 14 August 2014 and an unqualified audit opinion was issued on the same day.

KEY FINDINGS, DEVELOPMENTS AND AREAS OF AUDIT ATTENTION

There were no key findings, developments or areas of particular audit attention.

The audit was completed satisfactorily with no matters outstanding.

SUMMARY OF FINANCIAL RESULTS

Statement of Comprehensive Income

	5 Months to 30 June 2014
	$'000s
Revenue	966
Total Revenue	**966**
Staff costs	966
Total Expenses	**966**
Profit/(Loss)	**0**

Statement of Financial Position

	2014
	$'000s
Receivables	1 083
Total Assets	**1 083**
Payables	305
Provisions	778
Total Liabilities	**1 083**
Net Assets	**0**
Total Equity	**0**

Revenue consisted of reimbursement of staff costs. All TasNetworks' financial transactions for the period ended 30 June 2014 were paid by Transend and Aurora.

Receivables were monies owed to TasNetworks by Aurora and Transend for staff costs and employee entitlements for senior management personnel. These amounts were not collected but offset once assets and liabilities are transferred to TasNetworks on 1 July 2014.

Payables represented PAYG payable and accrued salaries at 30 June 2014.

Provisions for long service leave and annual leave for key management personnel resulted from balances transferring to TasNetworks from Transend and Aurora. Leave balances for key management personnel from Hydro were recognised by TasNetworks and reimbursed from Hydro.

Superannuation of approximately $1.400m due to key management personnel who are members of the Retirement Benefits Fund Defined Benefit Scheme was included in the accounts of Transend because TasNetworks was only registered with the Retirement Benefits Fund from 1 July 2014. This balance was recoverable from Hydro Tasmania.

TASMANIAN PORTS CORPORATION PTY LTD (Tasports)

SNAPSHOT

- Tasports recorded an Underlying Loss of $1.334m, which was consistent with the prior year. The Underlying Loss was recorded despite a 12% increase in Net Revenue.
- However, before maintenance on non-commercial assets of $4.717m, there was an Underlying surplus of $3.383m.
- Tasports Net Loss after Tax of $0.169m was an improvement on the prior year predominantly due to an Impairment reversal of $2.027m following a revaluation of infrastructure assets.
- At 30 June 2014, Total Equity was $193.785m, an increase of $18.657m from the prior period mainly due to a revaluation increment for infrastructure assets, $18.326m, net of tax.
- No dividends were paid.

Key developments this year included:

- Tasports acquired the Burnie woodchip loading facility from Gunns Forest Products Pty Ltd's receiver, KordaMentha.
- Tasports commenced the first year of its five-year non-commercial asset maintenance program with a total budget of $27.500m. During 2013-14 Tasports spent $4.717m and completed 18 priority projects.
- The Hobart and Devonport Cold Stores ceased operations effective 30 June 2014. This resulted in an impairment expense of $0.728m.

Major variations between the 2013-14 and 2012-13 financial years were:

- higher Trade revenue of $7.390m from greater shipping and freight volumes largely due to increased exports in the forestry and mineral sectors
- an increase in maintenance expenditure, with greater spending on commercial assets of $2.738m and non-commercial assets of $2.785m
- increased Property, plant and equipment, $22.580m, primarily as a result of the revaluation of infrastructure assets
- new Borrowings of $7.500m obtained for infrastructure investments.

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

INTRODUCTION

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

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

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

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

Key Subsidiary and Associated companies

King Island Ports Corporation Pty Ltd retains ownership of infrastructure and operational assets. These assets are leased to Tasports and KIPC does not trade.

Flinders Island Ports Company Pty Ltd is an entity which did not trade during the year.

KEY AREAS OF AUDIT ATTENTION

Description of Area	Audit Approach
Infrastructure assets (land, buildings, wharves, harbour improvements and land infrastructure) were recognised at Fair Value, which was the recoverable market value, or when there was no market value, the lower of depreciated replacement cost and amount or the higher of fair value and value in use.	We tested the valuation methodology used to determine fair value, including significant assumptions, the valuation model and underlying data. We assessed possible impairment indicators, and verified that Tasports' procedures for impairment assessment were in place and operating as designed.
Tasports is responsible for maintaining and operating major port infrastructure assets across the State. It is also undertaking significant strategic infrastructure investment and maintenance expenditure.	We ensured capital costs were appropriately accounted for including classification of balance sheet items into current and non-current. This was relevant because such classification impacts a number of financial ratios and potentially loan covenants.
Tasports carried goodwill of $2.801m associated with the acquisition of North West Shipping and Towing in 2007-08. Goodwill was not amortised and instead tested for impairment.	We audited the valuation methodology and examined management's application of the impairment test.
Tasports had a wide range of revenue streams and raises a high volume of manual invoices based upon shipping documents.	Detailed analytical review procedures were performed over revenue account balances, including comparison with prior year, budget and shipping statistics. We obtained sales and debtor confirmations for a significant portion of large customers in order to ensure revenue and debtor accounts were not materially mis-stated.
Tasports operates from a number of locations around the state.	We tested internal controls over receipting, payment, payroll and journal systems as part of our rotational testing.
TasPorts holds a significant balance of fuel. This balance is predominantly managed at King Island Port. Fuel is considered to be an attractive item that is susceptible to misappropriation.	We tested the stock taking controls in place over the fuel dips, attended a selection of stock takes and agreed the year end balances to stock reports. Furthermore, a detailed analytical review over the cost of goods sold to sales revenue was performed.
Tasports' operations required management of significant cash and loan balances.	Detailed testing over the bank reconciliation was performed, and year end bank balances were verified by external bank confirmation. Year-end loan balances were verified by external confirmation and we confirmed compliance with loan covenants.

AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

Signed financial statements were received on 13 August 2014 and an unqualified audit report was issued on the same day.

KEY DEVELOPMENTS

Burnie woodchip export facility

Tasports acquired the Burnie woodchip loading facility from Gunns Forest Products Pty Ltd receiver, KordaMentha.

Tasports commenced year one of its five year non-commercial asset maintenance program, which has a total budget of $27.500m over the five years. The project is to be funded by $17.500m in equity contributions, to be received over four years, and $10.000m by Tasports. The Equity contributions commenced in 2013-14 with $0.500m received.

During 2013-14 Tasports spent $4.717m as part of the program and completed 18 priority projects. This was, however, under the budgeted amount of $8.588m for the first year with the shortfall in expenditure due to delays in the commencement of the project.

This program puts pressure on Tasports profitability both at the underlying and net profits levels. While the program commenced in earnest this year, $4.826m had been spent in the previous three years. Provision of equity funding by Government will assist cash flow but not change impacts on profitability.

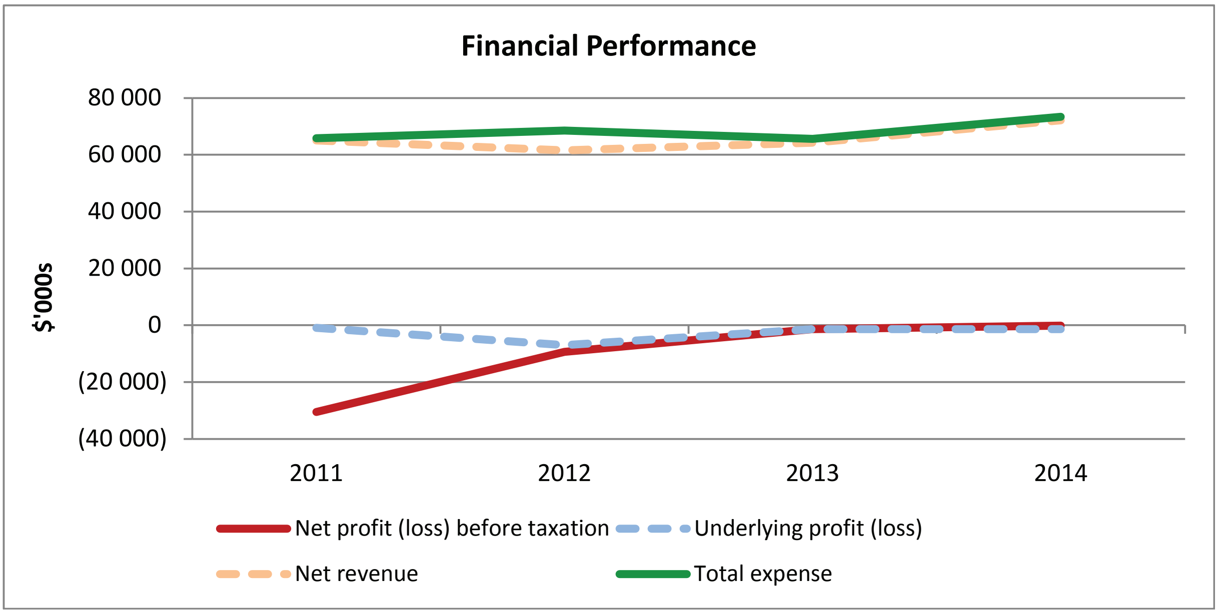
Cold Stores cease operation

The Hobart and Devonport Cold Stores ceased operations effective 30 June 2014. There will be no future income stream from these operations with associated plant and equipment to be disposed of. The decision to cease operations resulted in an Impairment expense of $0.728m.

KEY FINDINGS

The audit was completed satisfactorily with no items outstanding.

FINANCIAL ANALYSIS



Tasports Underlying Loss was $1.334m for 2013-14 (2012-13, $1.334m) The loss was made despite a $7.780m growth in Net revenue. Tasports' Trade revenue increased by $7.390m. This was attributed to an increase in shipping and freight volumes with 12.591m tonnes shipped in 2013-14 compared to 11.317m in the prior year. This increase of 11.2% was largely due to higher exports in the forestry and mineral sectors.

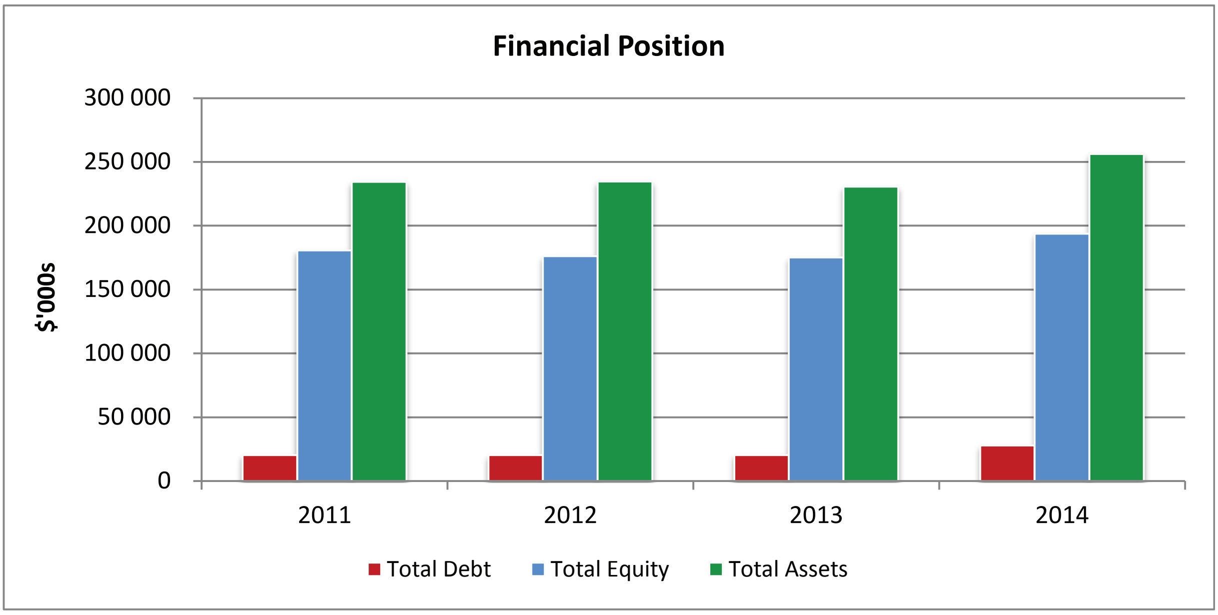
However, higher revenues were offset by:

- Higher maintenance costs, which included the commencement of the five year non-commercial asset maintenance program. This program cost $4.717m this year while maintenance costs on commercial assets increased by $2.738m.
- An increase in Eeployee costs of $1.893m or 6.67%. This was despite a small decrease in FTE this year. FTE dropped by 39 since 2011 primarily as a result of Tasports' Operational Efficiency Program that came to a close during 2012-13. During 2013-14 average staff costs per FTE increased 9.5% due to wages increases from negotiated and contracted enterprise bargaining agreements, contracts renewals and additional employee costs associated with the Burnie woodchip facilities.
- An increase in operating expenses of $0.652m or 4.2% although, as a percentage of Total Revenue, these costs declined by one per cent.

Tasports Underlying surplus before non-commercial asset maintenance of $4.717m was $3.383m, an improvement of $2.785m from 2012-13.

The impact of the non-commercial asset maintenance is further highlighted by the fact that the Operating margin before non-commercial asset maintenance is above the benchmark of one for three of the four years under review and Return on assets and Return on equity ratios, when adjusted for this cost, are approaching more commercial returns.

Tasports made a Net Loss after Tax of $0.169m in 2013-14, an improvement on the prior year loss of $1.223m. This was primarily due to an Impairment reversal of $2.027m arising from the revaluation of Infrastructure assets, offset by the Impairment expenses of $0.728m related to the closure of Cold stores. The impairment reversal resulted from improved revenue generation from commercial assets.



Tasports' Total Equity remained consistent over the first three years under review, but increased by $18.657m to $193.785m at 30 June 2014. This increase was predominantly due to the revaluation of infrastructure assets referred to in the next paragraph.

The increase in Total Assets was mainly due to Tasports' major asset, Property, plant and equipment, which was $22.580m higher at 30 June 2014 primarily as a result of a revaluation of Infrastructure assets.

Borrowings increased by $7.500m following receipt of a loan used for infrastructure investments.

Statement of Comprehensive Income

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Trade revenue	66 849	59 459	57 398	61 092
Airport revenue	2 821	2 649	1 696	1 715
Interest revenue	683	728	787	612
Other revenue	278	24	8	24
Total Revenue	**70 631**	**62 860**	**59 889**	**63 443**
Sale of goods	11 750	11 718	13 472	12 496
Cost of goods sold	(10 298)	(10 275)	(11 776)	(10 923)
Net Revenue	**72 083**	**64 303**	**61 585**	**65 016**
Employee expenses	30 275	28 382	29 507	29 549
Operating expenses	16 171	15 519	15 357	16 460
Maintenance – commercial assets	9 404	6 666	8 994	8 504
Maintenance – non-commercial assets	4 717	1 932	1 007	1 887
Depreciation	11 268	11 687	12 218	8 049
Finance costs	1 582	1 451	1 497	1 423
Total Expenditure	**73 417**	**65 637**	**68 580**	**65 872**
Underlying Profit (Loss)	**(1 334)**	**(1 334)**	**(6 995)**	**(856)**
Impairment expense	(728)	0	(719)	0
Impairment reversal	2 027	0	0	0
Stamp duty recovered from sale of HIAPL	0	0	0	600
Gain on sale of shares in associate	0	0	0	290
Provision for restructure	0	0	(1 008)	(1 330)
Revaluation decrement of infrastructure assets	(85)	0	(630)	(29 198)
Net Profit (Loss) before Tax	**(120)**	**(1 334)**	**(9 352)**	**(30 494)**
Income tax benefit (expense)	(49)	(58)	2 687	6 710
Net Profit (Loss)	**(169)**	**(1 392)**	**(6 665)**	**(23 784)**
Revaluation of infrastructure assets	20 780	0	3 137	102 309
Income tax expense on revaluation	(2 454)	(75)	(2 144)	(20 395)
Total Comprehensive Profit (Loss)	**18 157**	**(1 467)**	**(5 672)**	**58 130**

Statement of Financial Position

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Cash	27 057	24 244	23 548	16 488
Receivables	7 607	6 917	6 869	7 476
Inventories	1 096	1 221	1 332	1 596
Assets classified as held for sale	0	0	290	205
Other	1 016	1 059	663	865
Total Current Assets	**36 776**	**33 441**	**32 702**	**26 630**
Payables	8 454	11 280	12 786	8 712
Borrowings	0	0	13 024	1 555
Tax payable	760	243	(289)	(227)
Employee benefits	5 237	4 654	5 491	5 945
Deferred revenue	183	213	213	83
Total Current Liabilities	**14 634**	**16 390**	**31 225**	**16 068**
Working Capital	**22 142**	**17 051**	**1 477**	**10 562**
Property, plant and equipment	212 525	189 945	193 755	200 770
Goodwill	2 800	2 800	2 800	2 800
Deferred tax asset	4 136	4 283	5 230	4 117
Total Non-Current Assets	**219 461**	**197 028**	**201 785**	**207 687**
Borrowings	27 884	20 383	7 359	18 829
Deferred tax liabilities	18 490	16 935	18 281	17 743
Employee benefits	962	937	902	722
Deferred revenue	482	696	624	187
Total Non-Current Liabilities	**47 818**	**38 951**	**27 166**	**37 481**
Net Assets	**193 785**	**175 128**	**176 096**	**180 768**
Capital	116 297	115 797	115 297	114 297
Reserves	101 157	82 831	82 907	84 058
Retained earnings/(accumulated losses)	(23 669)	(23 500)	(22 108)	(17 587)
Total Equity	**193 785**	**175 128**	**176 096**	**180 768**

Statement of Cash Flows

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	88 975	81 952	81 438	83 088
Payments to suppliers and employees	(81 592)	(73 350)	(70 849)	(75 785)
Interest received	724	732	777	593
Finance costs	(1 451)	(1 575)	(1 503)	(1 363)
Income tax	(268)	0	(94)	(241)
Net Cash from (used in) Operating Activities	**6 388**	**7 759**	**9 769**	**6 292**
Payments for assets	(11 994)	(8 317)	(5 395)	(3 436)
Proceeds from sale of assets	419	754	1 686	257
Recovery of investments	0	0	0	2 400
Net Cash from (used in) Investing Activities	**(11 575)**	**(7 563)**	**(3 709)**	**(779)**
Dividends paid	0	0	0	(1 284)
Net proceeds from borrowings	7 500	0	0	0
Equity contribution received	500	500	1 000	585
Net Cash from (used in) Financing Activities	**8 000**	**500**	**1 000**	**(699)**
Net increase (decrease) in cash	2 813	696	7 060	4 814
Cash at the beginning of the year	24 244	23 548	16 488	11 674
Effect of cash included in assets classified as held for sale	0	0	0	0
Cash at End of the Year	**27 057**	**24 244**	**23 548**	**16 488**

Financial Analysis

	Bench Mark	2013-14	2012-13	2011-12	2010-11
Financial Performance					
Net Profit (Loss) ($'000s)		(169)	(1 392)	(6 665)	(23 784)
Underlying profit (loss) ($'000s)		(1 334)	(1 334)	(6 995)	(856)
Underlying profit (loss) before Non-Commercial Asset Maintenance ($'000s)		3 383	598	(5 988)	1 031
EBIT ($'000s)		1 462	117	(7 855)	(29 071)
EBIT and Non-Commercial Asset Maintenance ($'000s)		4 597	598	(8 345)	(28 607)
EBITDA ($'000s)		12 730	11 804	4 363	(21 022)
Operating margin	>1.0	0.98	0.98	0.91	0.99
Operating margin before Non-Commercial Asset Maintenance	>1.0	1.04	1.01	0.92	1.01
Return on assets - based on EBIT	5.21	0.6%	0.1%	(3.4%)	(14.6%)
Return on assets - based on EBIT and Non-Commercial Asset Maintenance		1.9%	0.3%	(3.6%)	(14.4%)
Return on assets - based on Underlying profit (loss)		(0.5%)	(0.6%)	(3.0%)	(0.4%)
Return on equity - based on EBIT		0.8%	0.1%	(4.4%)	(19.1%)
Return on equity - based on EBIT and Non-Commercial Asset Maintenance		2.5%	0.3%	(4.7%)	(18.8%)
Return on equity - based on Underlying profit (loss)		(0.7%)	(0.8%)	(3.9%)	(0.6%)
Financial Management					
Debt to equity		14.4%	11.6%	11.6%	11.3%
Debt to total assets		10.9%	8.8%	8.7%	8.7%
Interest cover - based on EBIT	>2	0.92	0.08	(5.25)	(20.43)
Interest cover - based on EBIT and Non-Commercial Asset Maintenance		2.91	0.41	(5.57)	(20.10)
Interest cover - based on Underlying profit (loss)		(0.84)	(0.92)	(4.67)	(0.60)
Interest cover - based on operating cash flows		4.04	5.35	6.53	4.42
Current ratio	>1	2.51	2.04	1.05	1.66
Cost of debt	6.9%	6.6%	7.1%	7.3%	7.0%
Debt collection	30 days	42	42	44	45
Creditor turnover	30 days	6	54	21	28

	Bench Mark	2013-14	2012-13	2011-12	2010-11
Asset Management					
Asset investment ratio	>100%	106.4%	71.2%	44.2%	42.7%
Asset renewal ratio	>100%	9.3%	63.8%	35.6%	30.7%
Consumption ratio (infrastructure assets)		50.3%	50.4%	51.2%	53.1%
Returns to Government					
Dividends paid ($'000s)		0	0	0	684
Special dividends paid ($'000s)		0	0	0	600
Income tax paid ($'000s)		268	0	94	241
Total return to the State ($'000s)		268	0	94	1 525
Dividends paid or payable ($'000s)		0	0	0	0
Dividend payout ratio	50%	0.0%	0.0%	0.0%	0.0%
Dividend to equity ratio	6%	0.0%	0.0%	0.0%	0.0%
Other Information					
Average staff numbers (FTEs)		219	223	244	258
Average staff costs ($'000s)		138	126	118	113
Average leave balance per FTE ($'000s)		22	19	21	21

TASMANIAN RAILWAY PTY LTD (TasRail)

SNAPSHOT

- TasRail continued to record Underlying Losses and to be reliant on State and Commonwealth Government funding.
- It incurred an Underlying Loss of $6.284m before asset impairments expenses in 2013-14.
- After accounting for asset impairment, $41.666m, TasRail recorded a Net Loss before Taxation of $47.950m.
- It operated two reportable segments; above and below rail, which recorded segment losses before tax of $3.958m and $43.992m, respectively.
- At 30 June 2014, TasRail's Total Equity was $118.167m; it had no borrowings and net working capital of $11.454m.
- Based on current levels of profitability, it is unlikely to be able to operate beyond the forward estimates period without on-going financial support.

The audit was completed on time with no major items raised with management.

Key developments in the year included:

- Toll Group (Toll) relocated to the Brighton Transport Hub from the Macquarie Point terminal during 2014 with the official opening of its facility held in July 2014
- completion of the relocation of TasRail staff and operations to the Brighton Transport Hub during June 2014
- further equity contributions, funded by the State and Commonwealth governments totalling $58.979m
- heavy investment in track infrastructure improvements, rollingstock and track maintenance plant, $86.797m
- completion of the concrete sleeper replacement program started in 2012
- delivery of 14 new locomotives and 209 wagons
- finalisation of two forward foreign exchange purchase contracts following completion of the underlying capital purchases
- the announcement in July 2014 by two mining customers that they had shut and gone into care and maintenance mode.

Major variations between the 2013-14 and 2012-13 financial years were:

- higher Revenue from freight services of $1.850m
- higher Salary and wages expenses of $3.458m
- reduced Maintenance and consumables costs of $1.959m
- lower Impairment expense of $3.567m
- reduced Cash of $30.832m
- increased Inventories of $4.560m
- higher Property, plant and equipment of $38.825m, net of asset impairments.

Since TasRail commenced operating in December 2009, the State and Commonwealth governments have made equity contributions of $291.333m and provided grants of $66.222m. The equity contributions have been invested in above and below rail assets as part of a capital asset replacement program. The grants have been applied to assist with meeting operating expenditure, primarily for maintenance of the below rail infrastructure.

INTRODUCTION

TasRail was established under the *Rail Company Act 2009* for the purpose of acquiring, owning and operating the public rail business in Tasmania. It commenced operations on 1 December 2009 and has two primary roles, being to:

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

These roles include managing the previously privately operated Melba line.

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

The Board consists of five non-executive directors.

KEY AREAS OF AUDIT ATTENTION

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

AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

The Board signed the financial statements on 4 August 2014 and an unqualified audit report was issued on 11 August 2014.

KEY DEVELOPMENTS

Brighton Transport Hub

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

The terminal lease was effective from the date of signing, however the warehouse lease was not activated until a sub-lease was finalised. This occurred in 2012-13, with TasRail signing a sub-lease with Toll in December 2012. Toll relocated to the Brighton Transport Hub from the Macquarie Point terminal during 2014 with the official opening of its facility held during July 2014.

Macquarie Point terminal site

TasRail completed relocation of its staff and operations to the Brighton Transport Hub during June 2014.

Following the relocation, TasRail handed over approximately seven hectares of the leased area to the Macquarie Point Development Corporation. TasRail continue to lease approximately 1.2 hectares from DIER. This lease has a nominal expiry date of 30 December 2016 but is open to amendment or renegotiation, subject to the future operations of the current sub-lessee.

Capital purchases

TasRail invested heavily in plant and equipment during the year. Payments totalling $86.797m included:

- new rollingstock, being locomotives and wagons, $40.985m
- track maintenance plant, tamper/ballast regulator, $2.883m
- train control system, $3.444m
- other below rail upgrades, $35.901m.

During 2014 TasRail took delivery of:

- 14 locomotives (additional three received in July 2014)
- 18 cement wagons
- 54 ore wagons
- 120 intermodal wagons
- 17 coal wagons
- tamper/ballast regulator.

Since year end, following a period of commission testing, TasRail accepted for operation the rollingstock and track maintenance plant listed above.

The sleeper replacement program, commenced in 2012, was also completed in 2014 with the installation of 99 000 concrete sleepers during the year.

Forward foreign exchange purchase contracts

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

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

Significant progress was made towards completion of major capital projects during 2013-14 which resulted in a corresponding reduction in hedge commitments at year-end.

Hedges for the acquisition of concrete sleepers and the tamper/ballast regulator were finalised during 2013-14. All three hedged contract commitments, which remained at 30 June 2014, were in US dollars. TasRail recorded hedge assets for these contracts totalling $0.259m. Outstanding hedge commitments, payable for future settlement of the hedges, amounted to $26.668m at 30 June 2014, (2013, $61.809m).

Segment reporting

TasRail has determined that it operates two reportable segments:

- above rail – provision of rail freight services, predominately funded by freight service customers, recorded a segment loss before tax of $3.958m, ($3.096m)
- below rail – management and operation of the rail network and related infrastructure, funded by grant revenue, recorded a segment loss before tax of $43.992m, ($48.438m), after impairment.

These results are after including an internal access charge (inter-entity pricing) of $2.912m for the use of the rail network by TasRail's above rail operations and are shown in the following table:

	Above Rail	Below Rail	Total
	$'000s	$'000s	$'000s
Operating result before tax and management fee	(1 046)	(5 238)	(6 284)
Impairment expense	0	(41 666)	(41 666)
Internal access charge	(2 912)	2 912	0
	(3 958)	**(43 992)**	**(47 950)**

In relation to above rail operations, TasRail is forecasting to break even and commence recording surplus results from 2015-16 onwards. Its asset replacement program includes above rail assets such as new locomotives and wagons. At 30 June 2014, this program was incomplete and costs to date were recorded as work-in-progress. These assets will be capitalised during 2014-15. Once the projects are completed and the above rail assets capitalised, TasRail will need to ensure this segment generates sufficient cash flows to support asset values.

Subsequent events

During July 2014, two mining customers announced they had shut and gone into care and maintenance mode. TasRail estimated that these decisions will result in decreased revenue of $3.300m during 2014-15 compared to 2013-14.

Financially dependent on Government

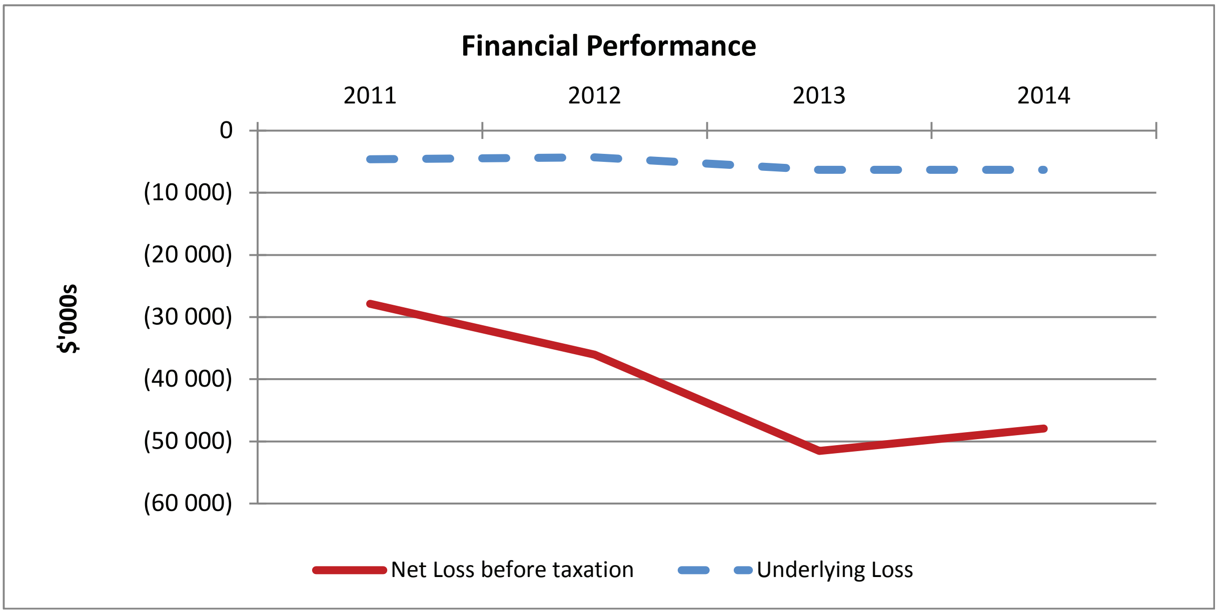
TasRail generated Underlying Losses before tax totalling $21.532m in the past four years of its activities. Grant income, to assist with operating expenditure, of $66.222m was received over the same period. On-going underlying losses are not sustainable. In recognition of this, the State Government has budgeted to contribute $28.826m over the next two years to further assist TasRail to meet rail network maintenance and administrative costs. TasRail is heavily reliant on this support.

Its financial position beyond this date is less clear but, based on current levels of profitability, it is unlikely to be able to operate beyond the forward estimates period without on-going financial support.

KEY FINDINGS

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

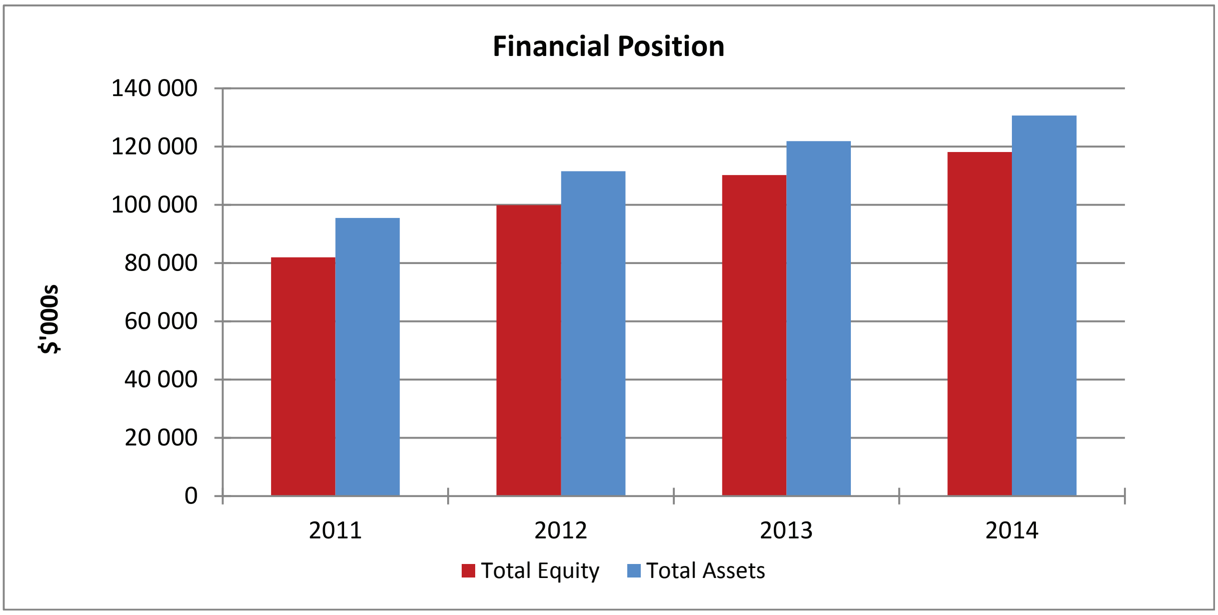
FINANCIAL ANALYSIS



TasRail recorded Underlying Losses each year. The significantly higher Net Losses before Tax all resulted from impairment of below rail assets.

In 2013-14, TasRail incurred an Underlying Loss of $6.284m, (2012-13, $6.301m). The loss included $16.569m in grant funds received, which represented 30.5% of Total Revenue. Without this State Government support TasRail would not be able to operate. The State Government has committed to spend a further $28.826m to 30 June 2016 to assist TasRail to meet rail network maintenance and administrative costs.

While the Underlying Loss was consistent with the prior year, the Net Loss before Taxation of $47.950m (2012-13, $51.534m) improved due to lower below rail asset impairments. TasRail considers below rail assets will generate insignificant cash flows and consequently capital works were impaired to nil. These below nil capital works are funded through equity contributions by the Commonwealth and State Governments.



Movement in Equity over the period mainly represented equity funding received, less losses after tax and movements in the cash flow hedging reserve. Equity increased by $7.922m during the year to $118.167m as at 30 June 2014 due to:

- equity funding of $58.979m, offset by
- loss after tax of $48.882m
- decreased Cash flow hedge reserve, $2.175m, represented by the movement in fair value of hedging instruments of $3.107m offset by a tax benefit of $0.932m.

Equity funding of $58.979m consisted of the following:

- Above rail operations – the State Government, through equity retirements from Transend, provided $20.000m as an equity contribution to TasRail in 2013-14 (2012-13 and 2011-12, $20.000m each year). An additional $40.000m over the next two years for upgrade of above rail network infrastructure, rolling stock and equipment is anticipated (providing a total of $100.000m in equity funding over a five year period).
- Below rail operations – TasRail received $31.679m (2012-13, $37.680m) in funding from the Commonwealth Government and $7.300m from the State Government to undertake capital works on upgrading the below rail network and associated equipment. TasRail will continue to record significant below rail losses into the future arising from annual impairment of this capital expenditure. Impairments arise because the below rail operations do not generate sufficient cash flows.

During 2013-14, TasRail used cash reserves and equity contributions to fund payments for Property, plant and equipment of $86.797m, avoiding the need to borrow. Total cash held decreased by $30.832m during the year and capital commitments reduced by $62.779m to $32.457m. Replacement parts for new locomotives were also purchased and held in inventory.

TasRail indicated that at the end of the current Government funded capital programs for both above and below rail segments, critical infrastructure and equipment will have been significantly improved. However, on-going capital needs and investment into rail infrastructure and equipment will be required. This will allow for further below rail track infrastructure development and on-going above rail equipment and associated infrastructure replacement.

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

Statement of Comprehensive Income

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Revenue from freight services	34 425	32 575	30 509	28 916
Grant income	16 569	16 288	18 775	14 590
Other revenue	3 428	3 248	5 379	5 171
Total Revenue	**54 422**	**52 111**	**54 663**	**48 677**
Depreciation and amortisation expense	6 207	5 676	5 063	5 556
Salary and wages	28 495	25 037	23 492	20 960
Maintenance and consumables	7 495	9 454	13 404	12 495
Fuel and oil	6 575	6 219	5 446	4 945
Administration	3 642	3 609	5 665	5 188
Property & Lease	3 124	2 961	0	0
Other expenses	5 168	5 456	5 908	4 165
Total Expenses	**60 706**	**58 412**	**58 978**	**53 309**
Underlying Loss before Taxation	**(6 284)**	**(6 301)**	**(4 315)**	**(4 632)**
Other Accounting Adjustments:				
Recognition of inventory	0	0	0	7 154
Impairment expense	(41 666)	(45 233)	(31 750)	(30 391)
Net Loss before Taxation	**(47 950)**	**(51 534)**	**(36 065)**	**(27 869)**
Taxation equivalent benefit (expense)*	(932)	1 240	(229)	0
Net Loss	**(48 882)**	**(50 294)**	**(36 294)**	**(27 869)**
Other Comprehensive Income				
Cash flow hedge reserve	(3 107)	4 132	(765)	0
Tax on other comprehensive income*	932	(1 240)	229	0
Total Comprehensive Income (Expense)	**(2 175)**	**2 892**	**(536)**	**0**
Total Comprehensive Loss	**(51 057)**	**(47 402)**	**(36 830)**	**(27 869)**

* *TasRail do not record tax assets and liabilities as it is not generating profits. The Tax entries noted offet to nil and are included to show the tax effect on the impairment expense and cash flow hedge reserve.*

Statement of Financial Position

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Cash	9 405	40 237	41 852	37 768
Receivables	4 202	4 773	4 503	6 351
Inventories	9 637	5 074	6 515	9 682
Other assets	256	3 177	95	0
Total Current Assets	**23 500**	**53 261**	**52 965**	**53 801**
Payables	7 561	6 787	6 266	9 237
Employee benefits	4 485	4 296	4 012	4 111
Other liabilities	0	0	212	0
Total Current Liabilities	**12 046**	**11 083**	**10 490**	**13 348**
Working Capital	**11 454**	**42 178**	**42 475**	**40 453**
Other assets	3	189	42	0
Property, plant and equipment	107 244	68 419	58 614	41 716
Total Non-Current Assets	**107 247**	**68 608**	**58 656**	**41 716**
Employee benefits	534	541	473	117
Other liabilities	0	0	691	0
Total Non-Current Liabilities	**534**	**541**	**1 164**	**117**
Net Assets	**118 167**	**110 245**	**99 967**	**82 052**
Capital	291 333	232 354	174 674	119 929
Accumulated losses	(173 347)	(124 465)	(74 171)	(37 877)
Other reserves	181	2 356	(536)	0
Total Equity	**118 167**	**110 245**	**99 967**	**82 052**

Statement of Cash Flows

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	40 933	37 464	39 157	29 898
Grants from operating activities	16 569	16 288	18 775	14 590
Payments to suppliers and employees	(61 511)	(53 685)	(57 277)	(44 930)
Interest received	752	1 274	2 349	2 909
Cash from (used in) Operations	**(3 257)**	**1 341**	**3 004**	**2 467**
Proceeds from sale of plant and equipment	243	78	46	229
Payments for property, plant and equipment	(86 797)	(60 714)	(53 711)	(35 697)
Cash used in Investing Activities	**(86 554)**	**(60 636)**	**(53 665)**	**(35 468)**
Proceeds from equity contributions	58 979	57 680	54 745	38 064
Cash from Financing Activities	**58 979**	**57 680**	**54 745**	**38 064**
Net Increase (Decrease) in Cash	**(30 832)**	**(1 615)**	**4 084**	**5 063**
Cash at the beginning of the year	40 237	41 852	37 768	32 705
Cash at End of the Year	**9 405**	**40 237**	**41 852**	**37 768**

Financial Analysis

	Bench Mark	2013-14	2012-13	2011-12	2010-11
Financial Performance					
Operating Loss ($'000s)		(6 284)	(6 301)	(4 315)	(4 632)
EBIT ($'000s)		(6 284)	(6 301)	(4 315)	(4 632)
Operating margin	>1.0	0.90	0.89	0.93	0.91
Return on assets		(5.3%)	(5.7%)	(4.3%)	(5.3%)
Return on equity		(44.7%)	(45.1%)	(40.5%)	(36.2%)
Financial Management					
Current ratio	>1	1.95	4.81	5.05	4.03
Debt collection	30 days	35	44	40	28
Creditor turnover	30 days	18	21	20	45
Returns to Government*					
Asset Management					
Total capital expenditure/depreciation		1 398%	1 070%	1 061%	642%
Other Information					
Average staff numbers (FTEs)		278	266	229	190
Average staff costs ($'000s)		102	93	101	100
Average employee benefits ($'000s)		18	18	20	22

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

TASRACING PTY LTD (Tasracing)

SNAPSHOT

- Tasracing recorded a lower Underlying loss of $0.573m this year.
- The Asset impairment recorded in prior years was again partly reversed in 2013-14 in line with latest forecasts in Tasracing's updated Corporate Plan. The forecasts incorporated the impact of improved revenue streams achieved in 2013-14 and forecast reduced expenditure.
- Tasracing needs to address a structural funding gap by adjusting its business model in order to achieve financial sustainability.
- It remains heavily dependent on government funding, with $30.169m provided in 2013-14. Government also provided it with a loan facility of which $12.578m net was drawn at 30 June 2014 and $0.553m was provided, in the form of an equity contribution, as assistance in servicing loan repayments.
- Net Assets totalled $40.635m at 30 June 2014.
- Tasracing paid no dividends or income tax equivalents.

A key development this year included:

- Government has committed to assisting Tasracing in developing a solution to its funding gap by establishing a racing industry working group with terms of reference aimed at contributing to a long-term plan for industry self-sufficiency.

Major variations between the 2013-14 and 2012-13 financial years were:

- higher revenues from Government of $0.946m, as per the annual adjustment, and a further $0.440m contributed in order to cover the shortfall in required increases to prize money, benefits and incentives
- increased Race field fees revenue, $1.915m, due to higher wagering turnover and changes to the fee structure
- higher Depreciation and amortisation expense of $0.767m as a result of a review of asset conditions and remaining useful lives of assets
- higher Cash and cash equivalents at year end primarily due to positive Cash generated from operations.

The audit was completed satisfactorily with no major issues identified.

INTRODUCTION

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

The Tasracing board consists of seven Directors. The responsible minister is the Minister for Racing.

Tasracing's shares are held by the Treasurer and the Minister for Racing on behalf of the State of Tasmania.

KEY AREAS OF AUDIT ATTENTION

Description of Area	Audit Approach
The Recoverable amount of leasehold assets is calculated and recognised using a projected future income streams valuation methodology with details disclosed in the notes of the financial report. Assets are reviewed for impairment on an annual basis.	We audited the valuation methodology used to determine fair value, including testing significant assumptions, the valuation model and underlying data. We verified that procedures for impairment assessment were in place and operating as designed and confirmed disclosures in the notes to the financial statements.
Tasracing operates from a number of locations around the state.	We performed substantive testing over expense transactions.
Given the nature of Tasracing's operations and financial situation, the entity manages significant cash and debt balances on a daily basis.	Detailed testing over the bank reconciliation was performed, and year-end bank balances were verified to external bank confirmations. Year-end loan balances were verified by external confirmation, and analysis of treatment against, and compliance with, loan covenants was performed.
Tasracing records a superannuation liability related to RBF members. The liability was determined by an independent actuary. The liability requires detailed disclosure in the annual financial statements.	We tested the balance to the actuary's report, and assessed whether the assumptions used by the actuary were reasonable. We also conducted checks over the data used by the actuary. In addition we audited the superannuation disclosure for compliance with AASB119 *Employee Entitlements*.
Taxation disclosures are determined at year-end based upon the financial transactions and balances of Tasracing.	We tested the 2013-14 tax calculation and assessed Tasracing's compliance with tax legislation.
All transactions are recorded on text files before being attached and sent to the bank for payment. There is a risk that files can be manipulated in respect of payee name and bank account details.	We tested selected transactions from the text files and traced those originating sources to ensure payments are bona fide.

AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

Signed financial statements were received on 13 August 2014 and an unqualified audit report was issued on the same day.

KEY DEVELOPMENTS

Going concern and financial sustainability

Improvements in 2013-14 to Tasracing's pre-impairment loss together with stronger working capital placed Tasracing in a position to be able to pay its debts as and when they fall due, at least for the foreseeable future. These improvements helped to reduce a structural finding gap identified by

Tasracing. However, a funding gap remains and needs to be addressed to achieve sustainability and, ultimately affect whether Tasracing can continue as a going concern in the long-term.

Government provided a letter of commitment to adjust the business model in order to place the business and industry on a financially sustainable footing going forward. Part of this process was the establishment of a racing industry working group with terms of reference aimed at contributing to a long-term plan for industry self-sufficiency. The working group is expected to deliver its final report by the end of October 2014.

Non-current assets impairment review

An impairment calculation was updated to determine whether the value in use of non-current assets continued to be less than their carrying amounts. The value in use calculation seeks to determine future net cash flows from the assets and was based on Tasracing's Corporate Plan for 2015-19.

Tasracing's future forecasts in the updated Corporate Plan incorporated improvements in revenue streams achieved in 2013-14 and the expected reduced expenditures that will be required going forward in order to achieve sustainability. As a result impairments recorded in 2011-12, $5.706m, were reversed by a further $1.002m in the current year. This adjustment was recorded as income in 2013-14.

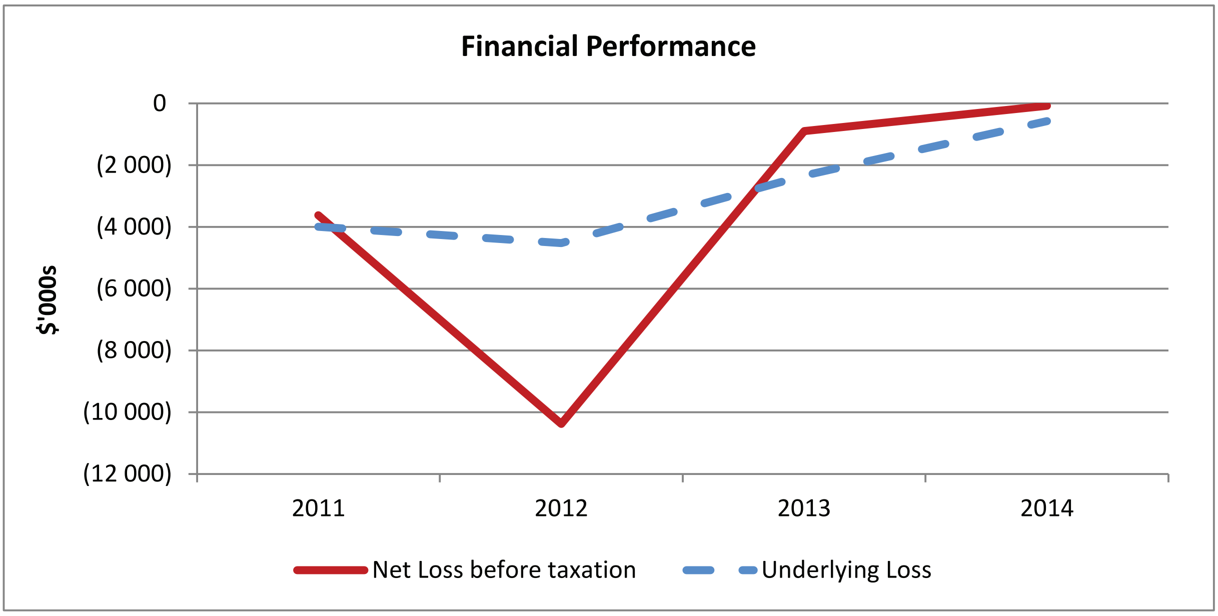
Financial dependence on the State Government

Government supports Tasracing through a funding deed which commenced on 1 July 2009. The deed provides base funding of $27.000m per annum plus CPI less 1% over a 20 year period. In 2013-14, this funding amounted to $29.182m.

As part of the same funding deed, Government established a $40.000m loan facility for infrastructure investment, with the Department of Treasury and Finance paying interest and principal repayments on Tasracing's behalf, subject to certain conditions. At 30 June 2014, net $9.700m of this facility had been drawn down.

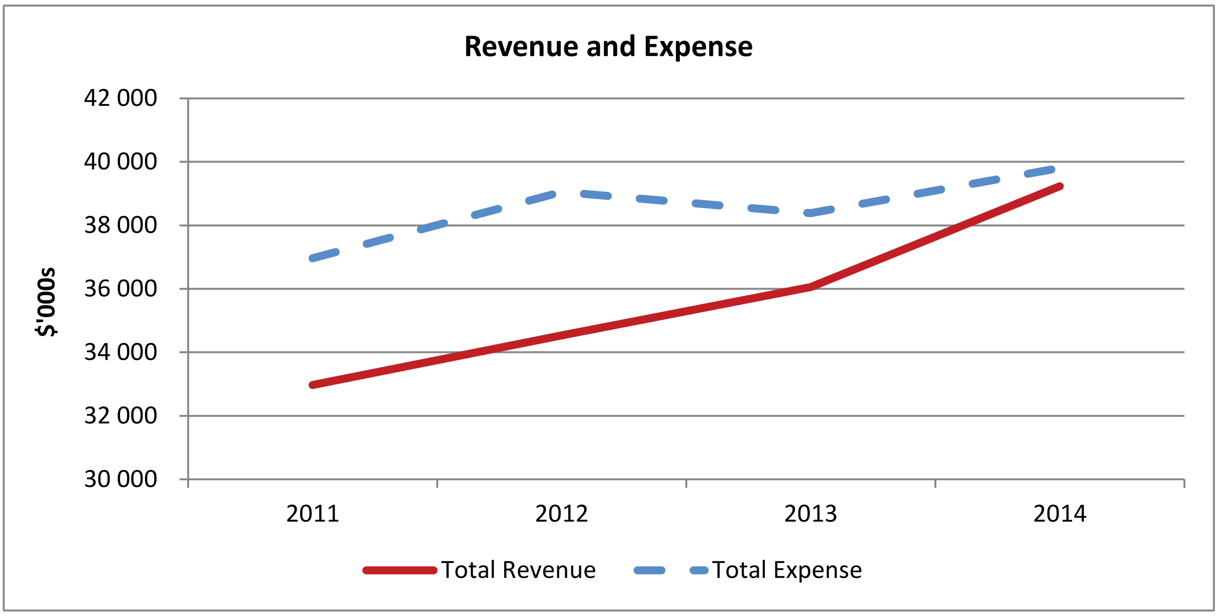
Support received from Government during the year in loan principal repayments was recorded as an equity contribution, and amounted to $0.553m.

FINANCIAL ANALYSIS



The Underlying loss improved in 2013-14 to $0.573m due to revenue increasing faster than expenditure, as detailed in the Revenue and Expense graph following.

The Net Loss before Tax was heavily impacted by impairment adjustments related to leasehold improvements over the past three years. The loss in 2011-12 included impairments of $5.706m, whereas there were reversals of part of that impairment in 2012-13, $2.472m, and in the current year, $1.002m.

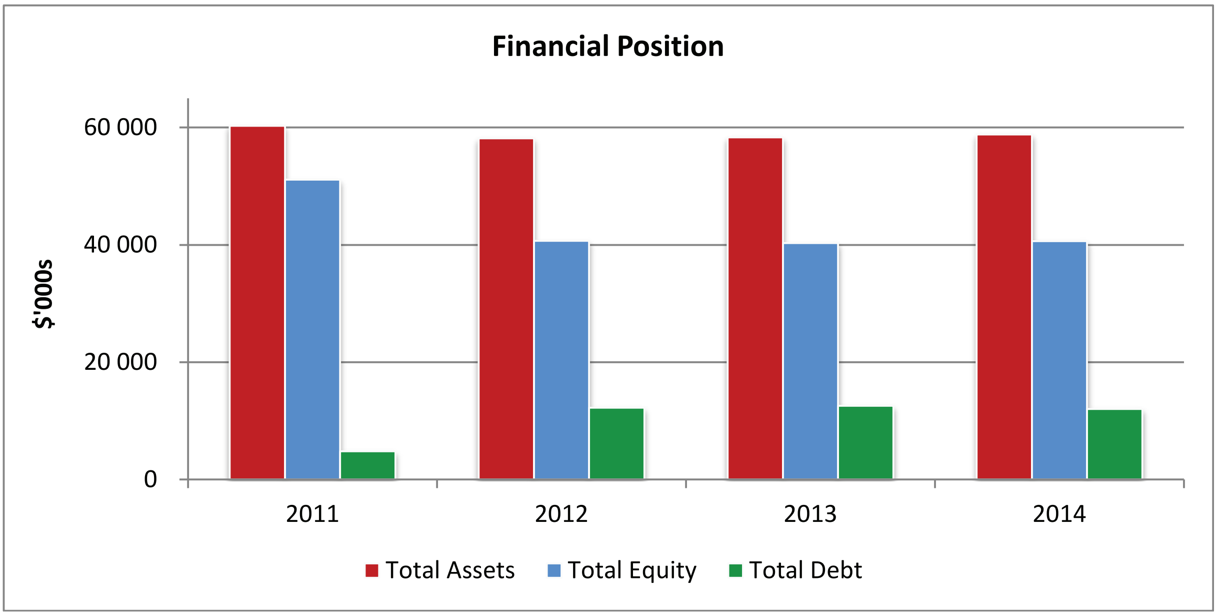


The graph indicates that over the past two years the gap between costs and revenues reduced as management took steps to reduce costs and increase revenue generation in an attempt to address financial sustainability concerns.

The $3.183m increase in Tasracing's revenue in 2013-14 was mainly due to higher:

- Revenues from Government of $0.946m as a result of the annual adjustment and a further $0.440m being contributed to cover the gap between the increase in funding and prize money required to be paid out
- Racefield fees revenue of $1.915m, due to a combination factors that included a 10.4% increase in wagering turnover from which the fees were derived and an increase in the fee structure during the year.

Total Expenses increased by $1.420m predominantly due to a $0.767m increase in Depreciation and amortisation expense as a result of adjustments made to useful lives after a comprehensive review of asset condition and expected life cycles.



Total Assets and Total Equity decreased in 2011-12 mainly due to the impairment mentioned earlier but remained relatively constant for the remainder of the period under review.

Tasracing's largest asset class Property, plant and equipment, consisted mainly of leasehold improvements, which represented 83.4% of Total Assets at 30 June 2014. During 2010-11 and 2011-12 Tasracing invested $12.081m in Property, plant and equipment, predominantly leasehold improvements, resulting in Investment gap percentages well above our benchmark. The level of capital investment reduced significantly in 2013-14 and 2012 13 as works at Tapeta Park were completed resulting in Investment gap percentages of 17% and 21%, respectively. Cash increased by $2.543m in 2013-14, as despite Underlying losses, positive cashflows were generated from operations and totalled $3.2523m this compared to only $1.334m in 2012-13.

Total assets remained steady mainly because depreciation expense was offset by the impairment reversal mentioned previously, and capital expenditure.

Debt increased sharply in 2011-12 due to borrowings of $7.518m taken up to finance the upgrade of Tapeta Park at Spreyton. During the 2013-14 borrowings decreased $0.553m due to an equity contribution received in the form of loan support.

CHAPTER APPENDICES

Statement of Comprehensive Income

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Revenue from Government	30 169	29 223	28 698	27 510
Race field fees	7 045	5 130	4 709	3 195
Other income	2 020	1 698	1 124	2 264
Total Revenue	**39 234**	**36 051**	**34 531**	**32 969**
Employee benefits expense	5 658	5 433	5 513	4 866
Prizemoney, benefits and incentives	23 175	23 016	23 488	23 346
Depreciation and amortisation expense	3 663	2 896	2 902	2 603
Raceday and racing expenses	5 350	5 242	5 329	3 799
Other expenses	1 961	1 800	1 821	2 344
Total Expenses	**39 807**	**38 387**	**39 053**	**36 958**
Underlying Result	**(573)**	**(2 336)**	**(4 522)**	**(3 989)**
Impairment	1 002	2 472	(5 706)	0
Expenses for obsolete property plant & equipment	0	(672)	0	0
Interest income	681	724	925	938
Finance and leasing costs	(1 107)	(1 004)	(957)	(461)
Interest cost on defined benefit superannuation plan	(78)	(82)	(119)	(107)
Net Operating (Loss) before Tax	**(75)**	**(898)**	**(10 379)**	**(3 619)**
Net (Loss) before Tax	**(75)**	**(898)**	**(10 379)**	**(3 619)**
Income tax expense	0	0	0	0
Net Profit (Loss)	**(75)**	**(898)**	**(10 379)**	**(3 619)**
Other comprehensive income	(177)	363	0	0
Total Comprehensive Profit (Loss)	**(252)**	**(535)**	**(10 379)**	**(3 619)**

Statement of Financial Position

	2014	2013	2012	2011 As restated
	$'000s	$'000s	$'000s	$'000s
Cash and cash equivalents	7 964	5 421	4 235	4 900
Trade and other receivables	1 233	1 002	1 839	1 940
Prepayments	660	661	397	369
Total Current Assets	**9 857**	**7 084**	**6 471**	**7 209**
Trade and other payables	2 686	2 144	1 294	1 887
Borrowings	583	553	0	0
Other financial liabilities	126	149	686	442
Employee benefits	1 393	1 174	1 053	13
Total Current Liabilities	**4 788**	**4 020**	**3 033**	**2 342**
Working Capital	**5 069**	**3 064**	**3 438**	**4 867**
Non Current Assets				
Property, plant and equipment	49 101	51 064	51 732	53 117
Intangibles	126	189	0	6
Other financial assets	40	0	0	0
Total Non-Current Assets	**49 267**	**51 253**	**51 732**	**53 123**
Non-Current Liabilities				
Borrowings	11 442	12 025	12 247	4 864
Employee benefits	2 259	1 958	2 194	2 018
Total Non-Current Liabilities	**13 701**	**13 983**	**14 441**	**6 882**
Net Assets	**40 635**	**40 334**	**40 729**	**51 108**
Contributed equity	55 836	55 283	55 142	55 141
Accumulated losses	(15 201)	(14 949)	(14 413)	(4 033)
Total Equity	**40 635**	**40 334**	**40 729**	**51 108**

Statement of Cash Flows

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Receipts	39 762	39 100	35 866	33 903
Payments to suppliers and employees	(36 200)	(37 586)	(37 307)	(36 206)
Interest received	674	727	1 462	930
Interest and other costs of finance	(984)	(907)	(852)	(130)
Cash (used in) from Operations	**3 252**	**1 334**	**(831)**	**(1 503)**
Proceeds from sales of property, plant and equipment	0	0	0	15
Payments for property, plant and equipment	(634)	(620)	(7 218)	(4 863)
Cash (used in) Investing Activities	**(634)**	**(620)**	**(7 218)**	**(4 848)**
Repayment of borrowings	(553)	(142)	(134)	0
New borrowings raised	0	472	7 518	3 364
Loan	(75)	0	0	0
Equity contribution	553	142	0	0
Cash from Financing Activities	**(75)**	**472**	**7 384**	**3 364**
Net Increase (Decrease) in Cash	**2 543**	**1 186**	**(665)**	**(2 987)**
Cash at the beginning of the year	5 421	4 235	4 900	7 887
Cash at End of the Year	**7 964**	**5 421**	**4 235**	**4 900**

Financial Analysis

	Bench Mark	2013-14	2012-13	2011-12	2010-11
Financial Performance					
Net Profit (Loss) ($'000s)		(75)	(898)	(10 379)	(3 619)
EBIT ($'000s)		(573)	(2 336)	(4 522)	(3 989)
EBITDA ($'000s)		3 090	560	(1 620)	(1 386)
Operating margin	>1.0	0.99	0.94	0.88	0.89
Financial Management					
Current ratio	>1	2.06	1.76	2.13	3.08
Debt collection	30 days	32	35	16	18
Creditor turnover	30 days	13	9	8	6
Asset Mangement					
Investment gap %	100%	17%	21%	249%	187%
Other Information					
Average staff numbers (FTEs)		66	67	65	62
Average staff costs ($'000s)		86	82	86	83
Average leave balance per FTE ($'000s)		13	11	11	7

TRANSEND NETWORKS PTY LTD (Transend)

SNAPSHOT

- Profit after income tax was $37.324m this year and averaged $44.191m per annum over the past four years.
- Net assets totalled $708.907m and Borrowings were $664.349m. Transend's Debt equity ratio at 30 June was 93.7%.
- Transend transmitted 13 783 Gigawatt hours (GWh) of energy in 2013-14 compared to 12 959 GWh in 2012-13. The increase was due primarily to higher energy exports over Basslink.

During 2013-14 Transend:

- paid dividends of $28.686m and income tax equivalents of $31.187m.
- declared, and provided for, a final dividend for 2013-14 of $21.000m
- returned capital to the State of $20.000m which was financed by Borrowings.

Three moderate risk audit findings were raised during the audit, one asset related matter and two arose from a lack of review of reconciliations and reports. There was one low risk finding.

The audit was completed satisfactorily with no other matters outstanding.

Major developments this year included:

- Transend merged with Aurora Energy's Pty Ltd's (Aurora) distribution business into Tasmanian Networks Pty Ltd (TasNetworks) on 1 July 2014
- Transend conducted a study with Aurora to review differences in accounting and taxation policies prior to the merger on 1 July 2014
- Transend transferred equity capital of $20.000m to Finance-General
- the Australian Energy Regulator (AER) issued Regulatory Information Notices (RIN) to Transend being a request of audited information for the five year period 2008-09 to 2012-13. These audits cost Transend $109 845
- the local market for electricity is flat; energy consumption in Tasmania is falling.

Other major financial transactions this year included:

- superannuation actuarial loss of $8.940m (2012-13, $10.385m gain)
- new assets commissioned costing $131.124m.

INTRODUCTION

Transend was established under the *Electricity Companies Act 1997* and incorporated under the *Corporations Act 2001* on 17 June 1998. Two shares were issued to each of its two shareholders – the Treasurer and the Minister for Energy, who hold these shares on behalf of the State of Tasmania.

Transend is a participant in Australia's National Electricity Market (NEM). The NEM operates an interconnected power system that extends from Queensland to South Australia. Tasmania is connected to the NEM via Basslink.

Transend's principal source of revenue is from owning and operating the electricity transmission system which transmits electricity from power stations to customers around the State. It currently has four generation, ten major industrial and two network connection customers (Aurora and Basslink).

Regulatory framework

The provision of transmission network services is regulated by the AER in accordance with the National Electricity Law and the NER. The regulatory framework is designed to encourage transmission network service providers to actively implement operational and capital expenditure efficiencies in meeting obligations while providing appropriate levels of service to customers. The AER sets maximum prescribed revenue for regulated services for a five year regulatory period. The current regulatory period will end on 30 June 2014.

Transend also provides negotiated and non-regulated transmission services which are outside the regulated environment. In November 2008, Transend acquired a telecommunications business from Hydro Tasmania. This business serves customers in the electricity supply and other industries.

Transend merged with Aurora Energy's distribution business into TasNetworks on 1 July 2014. As required by the *Electricity Reform Act 2012*, the Directors of Transend will wind up the company in accordance with Corporation Law and Australian Securities and Investments Commission (ASIC) administrative requirements.

The Board was comprised of five non-executive directors. It appointed a Chief Executive Officer. Directors were appointed by the two shareholder Ministers.

KEY AREAS OF AUDIT ATTENTION

Description of Area	Audit Approach
Transend had conducted a study with Aurora to review differences in accounting and taxation policies prior to the merger on 1 July 2014. The major financial accounting differences noted were: Transend values its network and communication assets based on depreciated optimised replacement cost (DORC) whereas Aurora values its grid assets at its regulated asset base (RAB). Transend engages an external valuer to value its land and buildings, whereas Aurora uses information obtained from the Valuer General. These differences did not result in changes in Transend's approach to recording its network and communication assets.	We tested: • the impacts on financial reporting including disclosures regarding any impairment assessment • a consultant's report on tax accounting and their recommendations • disclosure of changes in accounting estimate in the financial statements.
Transend decided during 2011-12 to limit future increases in prescribed transmission revenue to less than the increase in the consumer price index. This decision meant that for the remaining two years, at that time, of the current regulatory period, Transend would not recover the maximum revenue allowed under the existing determination.	We tested the impact of this decision on Transend's future cash flows.
Transend increased its borrowings by \$33.152m to \$664.349m in 2013-14. This increase was necessary to meet its operating demands, deliver its capital program and meet the requirements of the Government's dividend policy and decision to return equity.	Transend's working capital was negative \$191.745m at 30 June 2014 and its debt to equity ratio at 30 June 2014 was 93.7%. We tested Transend's cash resources and compliance with the Board's prudential policies.

The local market for electricity is flat, energy consumption in Tasmania has reached a plateau and state-wide peak demand is falling. The outlook for electricity consumption in Tasmania is a decline; consumption has been falling since 2008 and the trend is forecast to continue. Despite this, energy transmitted increased due to sales over Basslink.	We tested the impact of this on Transend's cash flows.
Transend was responsible for maintaining infrastructure assets across the State and undertakes significant strategic infrastructure investment and maintenance expenditure.	We tested maintenance and capital expenditure to ensure that it was appropriately accounted for and disclosed in the financial report and verified significant additions and disposals to supporting documentation.
Network assets are measured at fair value based on depreciated optimized replacement cost. Each year, Transend also estimates the recoverable amount for its assets based on value in use.	We tested cash flow forecasts and other variables including the Weighted Average Cost of Capital (WACC) used to estimate the recoverable amount to ensure that assets were not carried at values materially greater than their value in use.

AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

Signed financial statements were received on 12 August 2014 and an unqualified audit report was issued on 19 August 2014.

KEY DEVELOPMENTS

Transfer of assets and liabilities to TasNetworks Pty Ltd

Transend transferred its assets and liabilities to TasNetworks on 1 July 2014. Despite the transfer, it was anticipated that Transend's financial statements at 30 June 2014 would be prepared on the basis that it was a going concern. Suitable disclosure of the transfer was made in the notes to the financial statements.

Transend made a provision for restructure costs based on AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* resulting in a provision of $4.009m at 30 June 2014. The transfer of any provisions was covered in the Transfer Notice.

Transend reported in its Statement of Comprehensive Income that a total of $7.634m (2012-13, $0.949m) was expended on Electricity Supply Industry reform related costs. This expenditure primarily consisted of redundancy costs, $4.398m, and consultancy, $1.740m.

Consistency of accounting policies with Aurora

Transend conducted a study with Aurora to identify differences in accounting and taxation policies prior to the merger on 1 July 2014. There were no major taxation issues.

The major accounting differences noted were:

- Transend valued its network and communication assets based on DORC whereas Aurora valued its grid assets at its RAB. Transend considered the impact and timing of adopting an income based approach, most likely the RAB. We understand that applying an income based valuation approach would have resulted in a reduction in assets by approximately $300.000m.
- Transend engaged an external valuer to value its land and buildings, whereas Aurora used information obtained from the Valuer-General.

Audit concurred with the Transend Board's decision not to move away from a DORC based approach for reporting network assets at 30 June 2014 and that impairment indicators did not suggest any write down on the DORC valuation was needed.

Increase in borrowings

As indicated in the following table:

- in response to a shareholders' direction in June 2011, the Board agreed to reduce Transend's equity capital by $20.000m each year for three years to 30 June 2014 by taking on extra borrowing from TASCORP. In addition, Transend was due to make two transfers of $10.000m in each of the subsequent three financial years. Each transfer will be made under a transfer notice issued under Section 10A(2) of the *Government Business Enterprises Act 1995*. TasNetworks will make the transfers required in the period 2015 to 2017. The State Budget 2011-12 confirmed this direction and explained that a capital reduction of $100m would be implemented over a five year period, starting 2011-12. The Board approved these transfers based on the company's performance, having regard to its current and expected commitments and after assessing the capacity of the company to take on the extra debt without prejudicing its ability to pay its creditors. During the 2013-14, Transend transferred equity capital of $20.000m and increased its borrowings by $33.152m to $664.349m. At 30 June 2014 Transend's Debt equity ratio was 93.7% (2013, 87.4%).
- the Board's dividend policy was re-stated in its Corporate Plan 2012, with an added caution on the viability of major customers:

  > *"For the balance of the current regulatory period (i.e. until 30 June 2014), the company's policy is to pay an annual dividend of 60 per cent of net profit plus $20m, subject to the company's operating and capital expenditure requirements and borrowing capacity. In the current climate the ability to maintain this dividend payout ratio depends on the ongoing viability of our major customers and recovering forecast revenue".*

- Dividends were declared and paid in line with this 60% policy. In addition, on 22 May 2014 the Board declared a dividend from 2013-14 profits of $21.000m to be paid by TasNetworks.
- by 30 June 2014, Transend's Borrowings totalled $664.349m having increased by $116,349m over the four year period. This is discussed further under the Financial Position section of this Chapter.

SHORTFALL IN FUNDING

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Cash from operations	98 656	115 154	110 727	112 286
Add Finance costs	33 320	32 406	28 881	21 878
Less Dividends paid	(28 686)	(25 900)	(28 600)	(13 200)
	103 290	121 660	111 008	120 964
Return of shareholder's capital	(20 000)	(20 000)	(20 000)	0
Available for CAPEX and to service debt	83 290	101 660	91 008	120 964
Less Finance costs	(33 320)	(32 406)	(28 881)	(21 878)
Available for CAPEX	49 970	69 254	62 127	99 086
Net CAPEX expenditure	(84 001)	(93 018)	(122 229)	(131 505)
Shortfall funded by borrowings	(34 031)	(23 764)	(60 102)	(32 419)

Audit of Regulatory Information Notices (RINs)

During 2013-14, the AER issued RINs to Transend being a request of audited information for the five year period, 2008-09 to 2012-13. The Notices required Transend to provide and maintain financial and non-financial information in a specified manner and form. The AER required the information so it could meet its obligations under the NER. AER also issued RINs to Aurora's distribution business.

The RINs required Transend to develop a basis of preparation detailing assumptions and methodologies employed in populating the data templates used to capture the information required. The AER had issued extensive principles and guidelines which Transend must comply with when preparing their RINs. Strength of control environments, robustness of supporting documentation, standard of record keeping and the attitude of management with respect to compliance with guidelines was also assessed. Once the RINs were completed they were subject to an audit or, in some cases, to a review.

Two RINs were completed during the year:

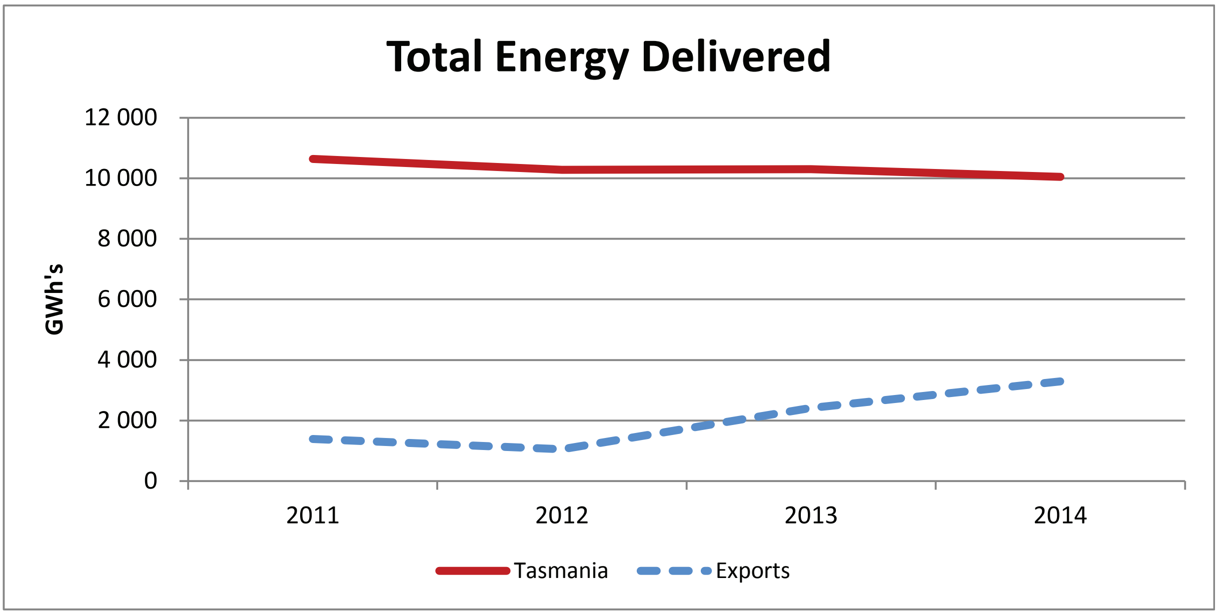
- economic benchmarking RIN: the information requested is to assist AER with measuring the efficiency of Transend in the use of its inputs to produce outputs.
- revenue reset RIN: the information requested is to assist AER with its assessment of Transend's revenue proposal.

Both RINs were completed and audited within the statutory deadline. The cost of auditing both RINs amounted to $109 845.

Decline in demand for consumption of electricity

Total energy delivered increased marginally on the prior year, energy consumption in Tasmania had reached a plateau in 2011 and now state-wide peak demand is falling. This year a fall in local consumption has been offset by a slightly greater rise in the export of electricity. In the Australian Energy Market Operator's (AEMO) National Electricity Forecasting Report 2013, the annual energy consumption in Tasmania over the ten year period to 2022-23 is expected to decrease by an annual average of 0.2%. This is primarily due to both lower population and economic growth compared with other NEM states. As a result, it is expected that Transend's future capital program will be focused on replacement, renewal and network security rather than augmentation and development.

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



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

OTHER KEY DEVELOPMENTS

During 2013-14:

- Transend completed $131.122m of capital projects, including the completion of the Northern Optical Ground Wire (OPGW) program and Tungatinah transmission lines. Other projects commissioned included the Tungatinah, Burnie and Avoca sub-station re-developments.
- invested $81.566m in major capital work in progress which included redevelopments at Creek Road, Tarraleah/Tungatinah, George Town and Burnie substations as well as the OPGW program, and asset replacements at Queenstown.
- a new five-year regulatory period commenced on 1 July 2014. A reduction in prescribed transmission revenue is expected due mainly to forecast changes in the cost of capital.

KEY FINDINGS

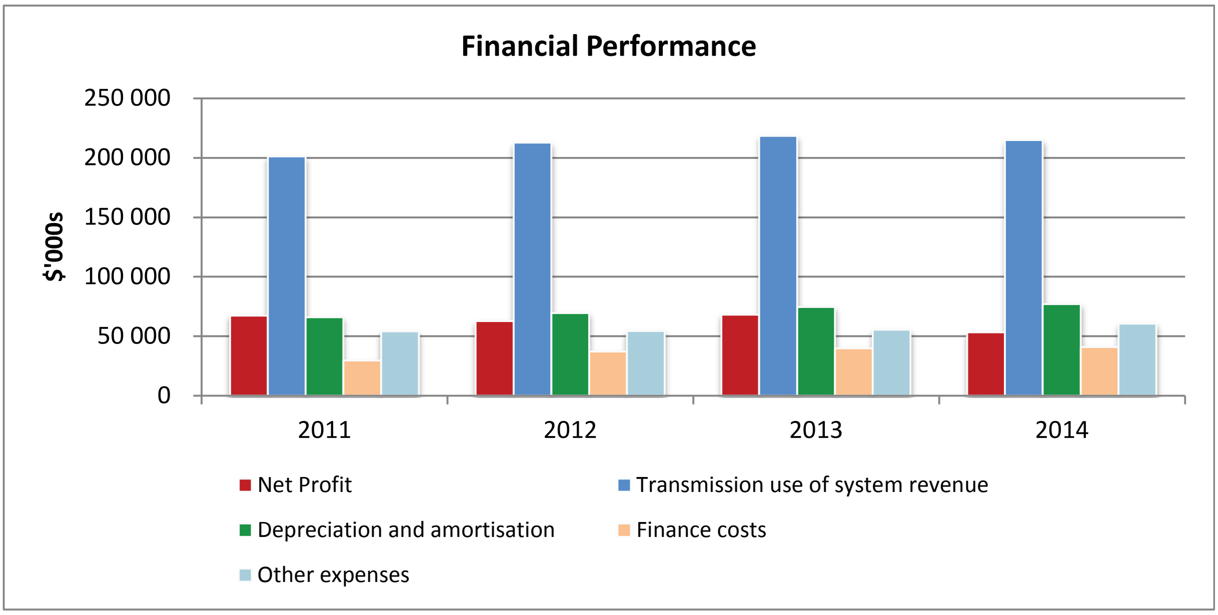
Three moderate risk audit findings were raised during the audit which were:

- the Mercer actuarial report was not reviewed and contained two employees not employed by Transend
- year-end reconciliations were forwarded to audit without review
- management has no formal process for identifying disposed assets.

There was also one low risk matter in relation to asset valuation. These were reported to management who are addressing the matters raised.

The audit was completed satisfactorily with no other matters outstanding.

FINANCIAL ANALYSIS



The graph highlights that, over the four year period:

- Revenue has plateaued and is now in a slight decline due to the Board's decision to cap price increases and with very low growth in Total Energy Delivered.
- Depreciation costs increased each year in line with Transend's infrastructure investment program and asset revaluations.
- Net profit declined this year mainly effected by the decrease in Revenue, the higher depreciation charge and slightly higher Other expenses.
- Interest costs increased over the period. In none of the past four years was cash generated from operations sufficient to meet investments in infrastructure and pay annual dividends let alone fund the equity withdrawals already referred to.

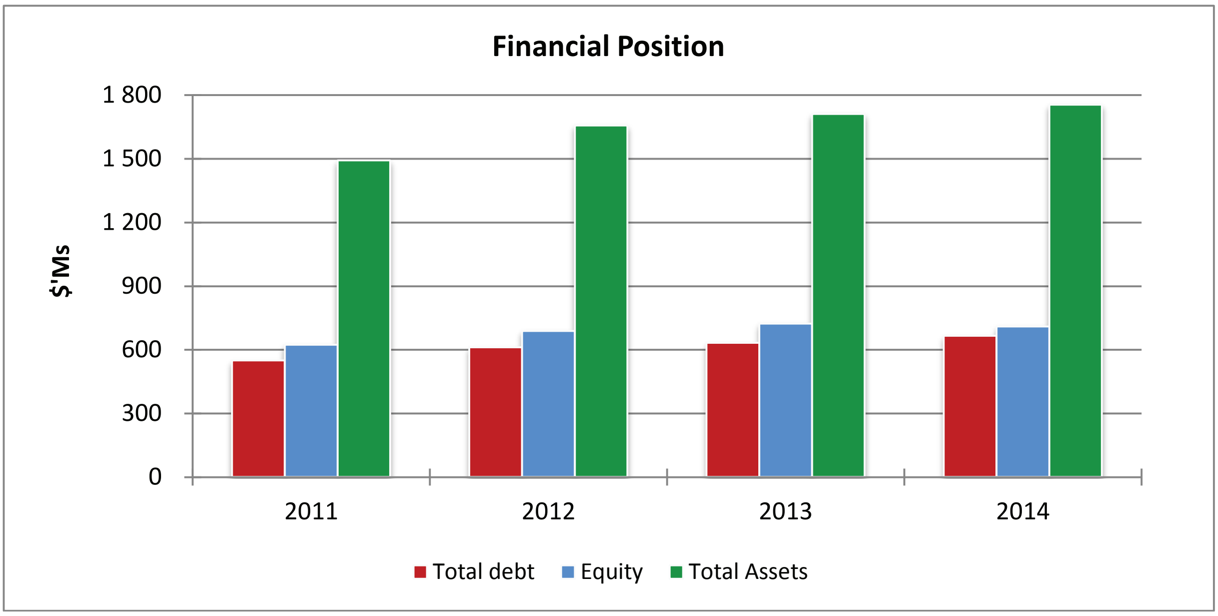
A significant determining factor about Transend's financial performance was that over 90% of its revenue is from prescribed transmission services. Under the AER's Transmission Determination for 2009-10 to 2013-14 (the Determination), the annual maximum allowed revenue (MAR) was set to increase by 7.8% each year from $164.700m in 2009-10 to $246.300m in 2013-14, totalling $1.058bn over the five-year regulatory period. The Board in response to Tasmania's current economic conditions, decided during 2011-12 to limit future increases in prescribed transmission revenue to less than the increase in the consumer price index. This resulted in transmission service billing of $211.239m in 2013-14 (2012-13, $209.639), an increase of only 0.7%. This decision meant that Transend did not recover the MAR allowed under the Determination.

Transend's Underlying Profit averaged $103.552m over the four year period and was $96.093m for 2013-14. The fall in the Underlying Profit reflected the lack of growth in transmission revenue and higher Finance costs and Depreciation and amortisation over the period.

Transend's operating expenditure increased from $55.550m to $60.720m in 2013-14 primarily due to Tasmanian electricity supply industry reform costs (reform costs) of $7.634m. These reform costs mainly consisted of payments to consultants, $1.740m, and $4.398m for redundancies. Average staff numbers (FTEs) fell from 250 to 234 in 2013-14, due to the redundancy program. Average staff costs increased slightly over the period. Employee benefit expense was slightly lower in 2013-14 mainly driven by the lower average FTEs. FTEs as at 30 June were 197.

Net Profit before Taxation was $14.981m lower in 2012-13 due to the lower Underlying profit for reasons already discussed.

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



Equity increased over the period under review by 13.7% or $85.669m as a result of Net Profits, $129.098m, and higher asset values, $197.085m, less dividends, $104.186m, (including the 2013-14 dividend declared, $21.000m), equity returns of $60.000m and other comprehensive losses, $70.489m. Return on assets in 2014 was 5.5% which was the lowest result over the period.

Over the past four years, Transend incurred $116.349m in extra Borrowings to help fund its capital programs and return of equity. At each balance date over the period Transend had negative working capital. Working capital was managed with the assistance of a facility with TASCORP which was in line with Transend's treasury policy. It operated well within the borrowing limit of this facility. In the current year total debt reached $664.349m or 37.9% of total assets and at 30 June 2014 net working capital was negative $191.745m. However, cash generated from operations averaged $109.205m over the four year period.

Over the same period, the net value of network assets increased by $260.071m as Transend invested extensively in upgrading its network of transmission lines and substations. Over the period $432.791m was invested resulting in the Asset investment ratio exceeding our 100% benchmark each year.

CHAPTER APPENDICES

Statement of Comprehensive Income

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Transmission use of system (TUOS)	214 735	218 371	212 493	201 181
Other revenue	19 203	22 485	19 337	18 949
Total Revenue	**233 938**	**240 856**	**231 830**	**220 130**
Depreciation and amortisation	(77 125)	(74 793)	(69 664)	(65 959)
Other expenses	(60 720)	(55 550)	(54 558)	(54 176)
Total Expenses	**(137 845)**	**(130 343)**	**(124 222)**	**(120 135)**
Underlying profit before finance cost and tax	96 093	110 513	107 608	99 995
Finance costs	(40 975)	(40 045)	(37 315)	(29 698)
Interest cost on defined benefit superannuation plan	(2 476)	(2 754)	(3 240)	(2 997)
Underlying Profit before Tax and Other Items	**52 642**	**67 714**	**67 053**	**67 300**
Fair value movements	706	615	(4 215)	170
Net Profit (Loss) before Tax	**53 348**	**68 329**	**62 838**	**67 470**
Income tax expense	(16 024)	(20 519)	(18 874)	(19 805)
Net Profit (Loss)	**37 324**	**47 810**	**43 964**	**47 665**
Gain on revaluation of property, plant and equipment	36 406	35 634	125 045	35 700
Superannuation actuarial gains (losses)	(8 940)	10 385	(18 749)	(307)
Income tax equivalent on items of other comprehensive income	(8 019)	(13 714)	(31 452)	(10 531)
Total Other Comprehensive Income	**19 447**	**32 305**	**74 844**	**24 862**
Comprehensive Profit (Loss)	**56 771**	**80 115**	**118 808**	**72 527**

Statement of Financial Position

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Cash	665	1 544	3 818	2 213
Receivables	29 855	25 985	21 680	20 449
Inventories	4 872	4 485	4 546	4 651
Other	876	1 057	1 122	9 453
Total Current Assets	**36 268**	**33 071**	**31 166**	**36 766**
Payables	39 524	40 550	41 123	42 000
Borrowings	124 349	3 197	1 707	0
Employee benefits	7 224	6 889	6 575	6 141
Provision for dividend	21 000	0	0	0
Superannuation	1 783	1 781	1 219	1 332
Provision for restructure	0	58	0	0
Current tax liability	3 700	8 974	10 456	12 621
Income received in advance	30 113	29 262	22 516	23 248
Customer deposits and other	320	496	3 198	423
Total Current Liabilities	**228 013**	**91 207**	**86 794**	**85 765**
Working Capital	**(191 745)**	**(58 136)**	**(55 628)**	**(48 999)**
Property, plant and equipment	1 712 088	1 670 651	1 620 591	1 452 017
Other	5 740	6 724	5 274	3 023
Total Non-Current Assets	**1 717 828**	**1 677 375**	**1 625 865**	**1 455 040**
Borrowings	540 000	628 000	608 000	548 000
Employee benefits	1 478	1 844	1 869	1 880
Superannuation	67 582	57 586	66 005	45 314
Deferred tax liability	208 116	209 987	206 756	187 609
Total Non-Current Liabilities	817 176	897 417	882 630	782 803
Net Assets	**708 907**	**721 822**	**687 607**	**623 238**
Capital	6 549	26 549	46 549	66 549
Retained earnings	134 320	152 940	123 761	127 360
Reserves	568 038	542 333	517 297	429 329
Total Equity	**708 907**	**721 822**	**687 607**	**623 238**

Statement of Cash Flows

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	256 181	265 076	255 248	230 962
Payments to suppliers and employees	(85 688)	(77 735)	(77 737)	(76 742)
Interest received	0	0	6	22
Finance costs	(33 320)	(32 406)	(28 881)	(21 878)
Guarantee Fees Paid	(7 330)	(7 299)	(7 066)	(6 860)
Taxation paid	(31 187)	(32 482)	(30 843)	(13 218)
Cash from (used in) Operations	**98 656**	**115 154**	**110 727**	**112 286**
Proceeds from sale of property and plant	465	190	283	1 100
Payments for property, plant and equipment	(84 466)	(93 208)	(122 512)	(132 605)
Cash from (used in) Investing Activities	**(84 001)**	**(93 018)**	**(122 229)**	**(131 505)**
Proceeds from borrowings	33 152	21 490	61 707	30 000
Return of shareholder's capital	(20 000)	(20 000)	(20 000)	0
Dividends paid	(28 686)	(25 900)	(28 600)	(13 200)
Cash from (used in) Financing Activities	**(15 534)**	**(24 410)**	**13 107**	**16 800**
Net increase (decrease) in cash	(879)	(2 274)	1 605	(2 419)
Cash at the beginning of the year	1 544	3 818	2 213	4 632
Cash at End of the Year	**665**	**1 544**	**3 818**	**2 213**

Financial Analysis

	Bench Mark	2013-14	2012-13	2011-12	2010-11
Financial Performance					
Net profit (loss) ($'000s)	≥$43m*	37 324	47 810	43 964	47 665
EBIT ($'000s)	≥$106m*	96 093	110 513	107 608	99 995
EBITDA ($'000s)		173 218	185 306	177 272	165 954
Operating margin	>1.0	1.70	1.85	1.87	1.83
Return on assets	≥6.1*	5.5%	6.6%	6.8%	6.9%
Return on equity		5.2%	6.8%	6.7%	8.0%
Financial Management					
Debt to equity		93.7%	87.4%	88.7%	87.9%
Gearing	60%	48.4%	46.7%	47.0%	46.8%
Debt to total assets		37.9%	36.9%	36.8%	36.7%
Interest cover – EBIT	>2	2.0	2.4	2.4	2.4
Interest cover – Funds from operations	>2	3.0	3.5	3.5	3.7
Current ratio	>1	0.16	0.36	0.36	0.43
Cost of debt		7.5%	7.4%	7.7%	7.8%
Debt collection	30 days	20	10	4	4
Creditor turnover	30 days	0	12	8	0
Asset Management					
Asset investment ratio	100%	110%	125%	176%	201%
Returns to Government					
Dividends paid ($'000s)		28 686	25 900	28 600	13 200
Income tax paid ($'000s)		31 187	32 482	30 843	13 218
Total return to the State ($'000s)		59 873	58 382	59 443	26 418
Dividends paid or payable ($'000s)	**	21 000	28 686	25 900	28 600
Dividend payout ratio	60%	56.3%	60.0%	58.9%	60.0%
Dividend to equity ratio	6%	3.0%	4.0%	3.8%	4.6%
Other Information					
Average Staff numbers (FTEs)		234	250	271	282
Average staff costs – excluding redundancy costs ($'000s)		141	139	126	116
Average leave balance per FTE ($'000s)		37	35	31	28

aa *a *Internal benchmark set by the Company.*

** *Dividend declared by Directors before 30 June 2014 in the current year. The actual dividend paid to Treasury is based on the Underlying Profit.*

TT-LINE COMPANY PTY LTD (TT-LINE)

SNAPSHOT

- TT-Line recorded an Underlying Profit of $11.642m for 2013-14.
- Its Net Profit after Tax was $10.383m. Net Profit is variable because of ship valuation adjustments.
- Cash and deposits totalled $81.328m, an increase of $22.307m, and at 30 June 2014 it was debt free. The build-up of cash represents funds being accumulated to replace or refurbish Spirits I and II and because TT-Line has not been required to pay dividends.
- At 30 June 2014, Total Equity was $280.864m.

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

Key developments in the year included:

- Government has requested TT-Line to prepare a business case to increase passenger numbers through more frequent sailings, refurbished passenger facilities and lower average fares
- a new dry dock agreement with the Australian Government was finalised which allows the vessels to continue docking at Garden Island for the foreseeable future.

Other main financial impacts this year included the:

- lower Underlying Profit of $11.642m in 2013-14 was mainly due to higher depreciation as a result of a change to the residual value of each ship from 20% to 10% of build cost
- value of each vessel decreased from $91.113m (€65.000m) to $90.012m (€62.000m).

INTRODUCTION

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

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

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

The Board consists of seven non-executive directors, appointed by Government, and the Chief Executive Officer. The Chief Executive Officer resigned effective 1 July 2014 with the Chief Financial Officer acting in the position until a replacement was appointed.

On 14 October 2014, the Minister for Infrastructure announced the appointment of a new Chief Executive Officer.

KEY AREAS OF AUDIT ATTENTION

<table>
<tr><th>Description of Area</th><th>Audit Approach</th></tr>
<tr><td>Spirits I and II are valued on the basis of market values. As the prevailing market for these types of vessels is predominantly in Europe, the valuation is provided in Euros.</td><td>We tested the ship revaluation including verification to supporting documentation and assessment of key assumptions and related disclosure.</td></tr>
<tr><td>The calculation of depreciation for the ships includes an estimation of useful lives and residual values involving a degree of subjectivity.

TT-Line maintained a useful life of 30 years for each ship following its review of the Vessel Depreciation Policy. However, in 2013-14, the residual value of each ship was amended from 20% of the 1998 build cost to 10% of the build cost. This resulted in the residual value of each vessel decreasing from $38.200m to $19.100m, which was the main cause of the overall increase in depreciation expense of $4.091m.</td><td>We tested the depreciation policy in light of AASB 116 Property, Plant and Equipment.
In addition, we examined the ships' residual values including verification to supporting documentation and assessment of key assumptions.</td></tr>
<tr><td>TT-Line entered into bunker fuel hedge agreements to address the financial impact of volatility in the prevailing market price of bunker fuel.

As financial instruments, the agreements have a market valuation, which needs to be determined annually for financial reporting purposes.</td><td>We assessed compliance with AASB 139 Financial Instruments: Recognition and Measurements and AASB 7 Financial Instruments: Disclosure.
In addition, we verified contract valuations at 30 June and reviewed financial report disclosure.</td></tr>
<tr><td>TT-Line has significant cash and investment balances held in bank accounts and term deposits.</td><td>We documented and assessed controls over cash transactions.

All material bank accounts and investments were verified to external confirmations.</td></tr>
<tr><td>Employees are employed under three enterprise bargaining agreements and one other award.

TT-Line holds material leave entitlement balances (annual and long service leave), which are calculated using accounting estimates and assumptions.

TT-Line also records a superannuation liability relating to Retirement Benefit Fund (RBF) members. The liability is determined by an independent actuary.</td><td>We:
tested key controls over payroll and the accuracy of payroll calculations
tested the calculation of leave entitlement balances to supporting evidence and reviewed the accounting estimates and assumptions applied
agreed the superannuation balances and disclosure to the State's Actuarial report which estimated the liability at 30 June 2014.
An independent expert was engaged by us in 2011-12 to review the assumptions made by the State Actuary in valuing the State's superannuation liabilities managed by the RBF Board.</td></tr>
</table>

Description of Area	Audit Approach
A new crew rostering system was implemented effective 1 July 2013. As with any new system, there is an increased risk of incorrect transfer and mapping of data.	We tested the transfer of data from the new system with no exceptions noted.
TT-Line is subject to the National Tax Equivalent Regime.	We tested tax effect accounting calculations and disclosure within the financial statements.

AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

The Board signed the financial statements on 11 August 2014 and an unqualified audit report was issued on 14 August 2014.

KEY DEVELOPMENTS

Future vessel replacement/refurbishment

Vessel replacement/refurbishment deliberations continued in 2013-14. The Board Committee established to review options regarding the future of the vessels reported back to the Board in December 2013. The recommendations and report, which were approved by the Board, were also provided to the shareholders. Following a change in Government, the Board was requested to discontinue the proposal that was being considered which was to acquire two new freight only ships. Government has now asked TT-Line to prepare a business case to increase passenger numbers through more frequent sailings, refurbished passenger facilities and lower average fares.

Dry Dock

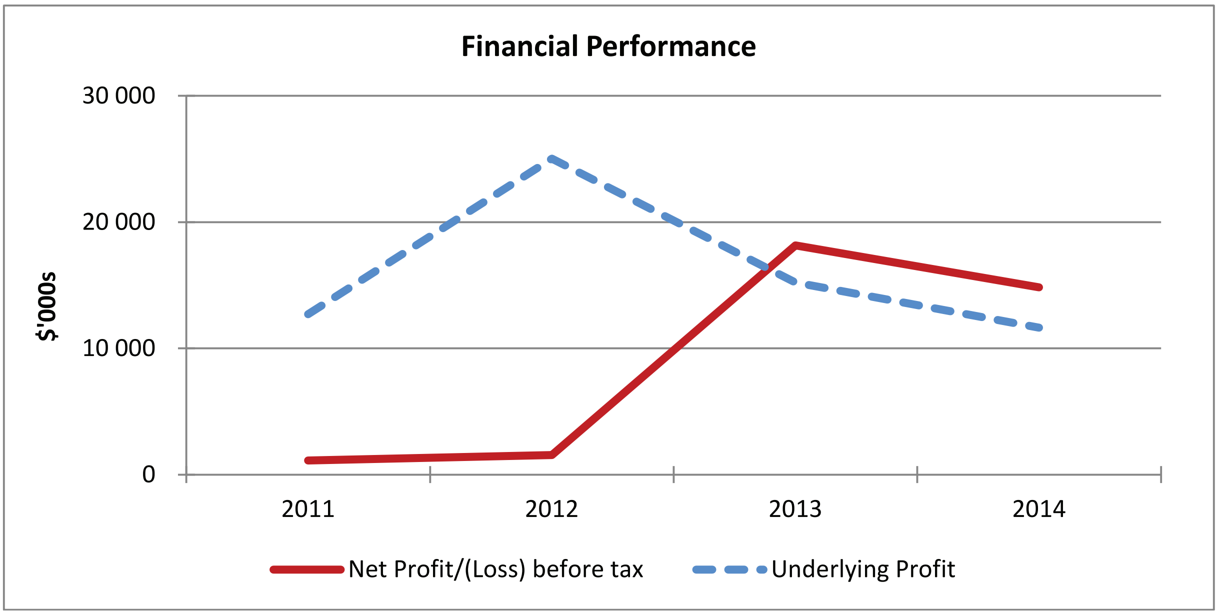
Each vessel goes into dry dock on a two year rotational basis. The only suitable Australian dry-dock facility is at Garden Island in Sydney, which is owned by the Australian Government and used by the Australian Navy. In previous reports we noted that the facility may be closed to commercial shipping.

A new Garden Island Dry Dock agreement was finalised in June 2014. The agreement, which is for five years, allows the vessels to continue docking in Sydney for the foreseeable future. The ongoing status of the facility requires constant attention and a long-term agreement with the dry dock operators is being considered.

KEY FINDINGS

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

FINANCIAL ANALYSIS

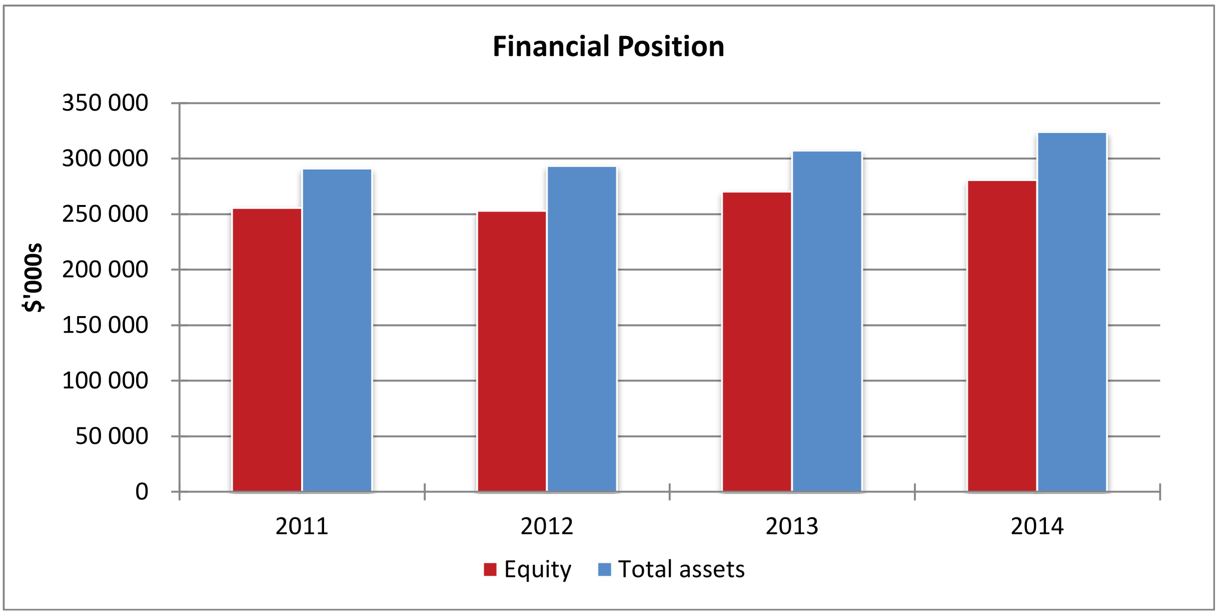


TT-Line continued to record Underlying Profits, with the Net Profit varying due to valuation adjustments related mainly to the annual valuation of its vessels.

Over the four year period, TT-Line generated Underlying Profits of $64.601m through its business operations. Underlying Profit peaked in 2011-12 at $25.037m. The lower Underlying Profit of $11.642m in 2013-14 was mainly due to increased Depreciation and amortisation of $4.112m. The higher depreciation was principally due to the change to the residual value of each ship from 20% of the 1998 build cost to 10% of the build cost.

In comparison, TT-Line's Net Profit before Tax for the four years totalled $35.667m. The small profits in 2010-11 and 2011-12 were affected by vessel revaluation decrements of $11.600m and $23.483m, respectively. In 2013-14, the vessels were revalued upwards by $3.204m.

In addition to the revaluation of the vessels, TT-Line recorded a revaluation decrement in 2012-13 of $1.511m relating to the Edgewater Hotel. The hotel was previously recorded at cost. At 30 June 2013, an independent valuation was obtained, resulting in the decrement to the asset's value.



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

Its Equity increased by $10.364m to $280.864m as at 30 June 2014 due to the Net Profit after Tax of $10.383m, an increase in its Hedging reserve of $0.404m and an after tax actuarial loss on its superannuation liability of $0.423m.

The increase in Total Assets over the period under review of $32.873m was mainly impacted by:

- lower valuation of the vessels of $27.794m, as summarised in the table below,
- lower deferred tax balances of $10.735m due mostly to the utilisation of tax losses carried forward and timing differences between tax and accounting asset balances
- higher Cash and deposit balances of $65.144m. The increase in cash reflected the repayment of borrowings in 2010-11 and the subsequent build-up of cash reserves to fund the refurbishment and/or replacement of the current vessels.

Reconciliation of movements in values of the vessels

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Net value at beginning of year	182 226	180 243	207 817	223 636
Additions	580	1 353	1 207	1 671
Major cyclical maintenance	7 225	5 295	4 862	4 671
Depreciation	(13 212)	(9 121)	(10 160)	(10 561)
Net revaluation increment (decrement)	3 204	4 456	(23 483)	(11 600)
Net Value at End of Year	**180 023**	**182 226**	**180 243**	**207 817**
Value of vessels in Euros	124 000	130 000	148 000	156 000
Exchange rate	0.6888	0.7027	0.8088	0.7394
Vessel valuation	180 023	185 001	182 988	210 982
Less selling costs of 1.5%	0	(2 775)	(2 745)	(3 165)
Vessel valuation (Less Selling Cost)	**180 023**	**182 226**	**180 243**	**207 817**

The value of each vessel decreased from $91.113m ($65.000m) to $90.012m ($62.000m). The decrease in the value provided in Euros, was partly offset by the lower exchange rate of the Australian dollar. In 2013-14, the vessel valuation was not adjusted for selling costs based on new requirements of accounting standard AASB 13 *Fair Value Measurement*.

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

Statement of Comprehensive Income

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Total Sales Revenue	**196 965**	**186 769**	**185 392**	**181 233**
Total Cost of Sales	**(115 601)**	**(110 566)**	**(104 245)**	**(111 541)**
Gross Profit	**81 364**	**76 203**	**81 147**	**69 692**
Investment revenue	2 323	2 120	1 385	1 450
Other gains and (losses)	5	4	9	66
Total Other Revenue	**2 328**	**2 124**	**1 394**	**1 516**
Depreciation and amortisation	(15 279)	(11 167)	(11 999)	(12 458)
Other operating costs	(56 466)	(51 669)	(45 197)	(43 939)
Finance costs	(305)	(282)	(308)	(2 098)
Total Other Expenses	**(72 050)**	**(63 118)**	**(57 504)**	**(58 495)**
Total Costs	**(187 651)**	**(173 684)**	**(161 749)**	**(170 036)**
Underlying Profit	**11 642**	**15 209**	**25 037**	**12 713**
Other Accounting Adjustments:				
Ship valuation adjustment	3 204	4 456	(23 483)	(11 600)
Edgewater valuation adjustment	0	(1 511)	0	0
Net Profit (Loss) before Taxation	**14 846**	**18 154**	**1 554**	**1 113**
Income tax benefit (expense)	(4 463)	(5 470)	(451)	(147)
Net Profit	**10 383**	**12 684**	**1 103**	**966**
Other Comprehensive Income - Net of Taxation				
Superannuation actuarial gain (loss)	(423)	960	(1 529)	(460)
Hedging reserve	404	3 761	(2 353)	6 056
Total Comprehensive Profit (Loss)	**10 364**	**17 405**	**(2 779)**	**6 562**

Statement of Financial Position

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Cash and deposits	81 328	59 021	43 691	16 184
Receivables	17 271	16 864	15 520	13 124
Inventories	3 277	3 208	2 151	1 957
Fuel hedges – derivative asset	1 317	1 435	70	1 162
Prepaid expenses and other	1 873	1 211	1 336	623
Total Current Assets	**105 066**	**81 739**	**62 768**	**33 050**
Payables	10 282	8 920	10 864	11 710
Provisions	11 905	9 600	7 131	7 892
Revenue received in advance	12 560	10 709	9 833	9 046
Fuel hedges – derivative liability	21	40	1 239	471
Total Current Liabilities	**34 768**	**29 269**	**29 067**	**29 119**
Working Capital	**70 298**	**52 470**	**33 701**	**3 931**
Property, plant and equipment and intangibles	14 495	15 124	16 675	16 906
Ships at fair value	180 023	182 226	180 243	207 817
Deferred tax asset (net of deferred tax liability)	21 889	26 344	33 838	32 624
Fuel hedges – derivative asset	2 528	1 861	45	731
Total Non-Current Assets	**218 935**	**225 555**	**230 801**	**258 078**
Provisions	8 362	7 510	10 397	5 943
Fuel hedges – derivative liability	7	15	1 010	192
Total Non-Current Liabilities	**8 369**	**7 525**	**11 407**	**6 135**
Net Assets	**280 864**	**270 500**	**253 095**	**255 874**
Capital	328 981	328 981	328 981	328 981
Hedging reserve	2 672	2 268	(1 493)	860
Accumulated losses	(60 749)	(60 749)	(74 393)	(73 967)
Profits reserve	9 960	0	0	0
Total Equity	**280 864**	**270 500**	**253 095**	**255 874**

Statement of Cash Flows

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	234 103	220 109	214 075	219 018
Payments to suppliers and employees	(204 687)	(198 347)	(180 250)	(193 963)
Interest received	2 128	2 217	1 351	1 423
Finance costs	0	0	0	(1 840)
Cash from Operations	**31 544**	**23 979**	**35 176**	**24 638**
Payments for property, plant and equipment	(9 413)	(8 807)	(7 792)	(8 520)
Proceeds from sale of property, plant and equipment	176	158	123	185
Cash from (used in) Investing Activities	**(9 237)**	**(8 649)**	**(7 669)**	**(8 335)**
Repayment of borrowings	0	0	0	(25 000)
Cash from (used in) Financing Activities	**0**	**0**	**0**	**(25 000)**
Net Increase (Decrease) in Cash	**22 307**	**15 330**	**27 507**	**(8 697)**
Cash at the beginning of the year	59 021	43 691	16 184	24 881
Cash at End of the Year	**81 328**	**59 021**	**43 691**	**16 184**

Financial Analysis

	Bench Mark	2013-14	2012-13	2011-12	2010-11
Financial Performance					
Net profit		10 383	12 684	1 103	966
Underlying profit		11 642	15 209	25 037	12 713
EBIT		9 624	13 371	23 960	13 361
Operating margin	>1.0	1.06	1.09	1.15	1.07
Return on assets		3.0%	4.5%	8.2%	4.4%
Return on equity		3.8%	4.8%	0.4%	0.4%
Financial Management					
Debt to equity*		N/a	N/a	N/a	N/a
Debt to total assets*		N/a	N/a	N/a	N/a
Interest cover - EBIT	>2	0	0	0	8
Current ratio	>1	3.02	2.79	2.16	1.13
Debt collection	30 days	29	29	27	23
Creditor turnover	30 days	24	22	28	21
Other Information					
Average staff numbers (FTEs)		446	436	422	456
Average staff costs ($'000s)		106	104	99	92
Average leave balance per FTE ($'000s)		25	23	23	19

* *TT-Line have not held any loan debt in the period under review.*

AUDIT SUMMARY - PUBLIC NON-FINANCIAL CORPORATIONS (PNFC) OTHER THAN GOVERNMENT BUSINESSES

BACKGROUND

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

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

KEY OUTCOMES FROM AUDITS

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

Both audits were completed satisfactorily with no major items outstanding.

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

FINANCIAL ANALYSIS

The Australian Government, in 2012-13, provided a one-off $50.000m grant to support the remediation of the Macquarie Point rail yards site and the redevelopment of the Brooke Street Pier. As the Corporation was still in its planning phase, the majority of the grant funds were unspent at balance date, with Cash and deposits of $46.585m. However, during 2013-14 the Corporation entered into contracts for the construction of the Brooke Street Pier which required payment of $2.916m and a commitment to a further $1.906m. These are effectively grant payments.

PFT recorded a Net Surplus of $0.250m in 2013-14, an improvement from loss results in the previous three years. The surplus was as a result of higher cash flows from private forest levies and cost saving measures implemented over the past two years. It had Total Equity of $0.698m.

MACQUARIE POINT DEVELOPMENT CORPORATION (The Corporation)

SNAPSHOT

- The Corporation completed its first full 12 months of operation compared with four months last year. This should be noted when reviewing the comparative financial information in this Chapter.
- Both Toll and TasRail transport and freight operations moved from the site in July 2014 and the head lease will be transferred to the Corporation in 2014-15. At 30 June 2014 site works had yet to commence.
- A $4.666m contribution was provided to the Brooke Street Development Corporation for the redevelopment of the Brooke Street Pier. The Corporation recognised the full contribution as an expense and there is no receivable because the contribution is not repayable unless default provisions of the agreement are triggered. Of the contribution, $2.916m was paid this year with the balance to be paid in 2014-15.
- The contribution was the primary reason for the Corporation reporting a deficit of $4.624m for the year.
- The Corporation used segmented financial reporting this year to show the financial performance of the Macquarie Point and Brooke Street Pier projects. Macquarie Point activities resulted in a small surplus of $0.198m and as all funding relating to the Brooke Street Pier was fully expended this year, it had a deficit of $4.822m.
- Net Assets at 30 June totalled $45.996m which mainly represented cash and deposits.
- The Corporation's cash position of $46.585m has been forecast to reduce to $14.385m by 30 June 2020 as it undertakes remediation works on the site.

INTRODUCTION

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

It is responsible for overseeing remediation and redevelopment works on the Macquarie Point site and providing funding assistance to re-develop the Brooke Street Pier. This year the Macquarie Point site continued to support rail and transport operations, but these activities have now been relocated to the Brighton transport hub with the sub-lease transferred to the Corporation.

The Corporation will continue to liaise and engage with the community to develop a framework for development of a site that has the potential to significantly shape Hobart's future landscape.

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

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

The Responsible Minister is the Minister for State Growth.

AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

Signed financial statements were received on 14 August 2014. Following amendments to the statements, a re-signed version was received on 5 September 2014. An unqualified audit report was issued on 8 September 2014.

KEY FINDINGS, DEVELOPMENTS AND AREAS OF AUDIT ATTENTION

There are no key findings or areas of audit attention.

The key developments included:

- negotiations with a consortium for re-development of the Brooke Street Pier were successfully concluded with provision of a contribution to fund the project
- the contribution was non-interest bearing and was not repayable unless default provisions of the agreement are triggered. The Corporation holds security over assets to support these obligations. This year, $2.916m was paid with the balance to be paid in 2014-15. Repayments are 'subsidised' in the sense that repayments are waived annually. The contribution is repayable, less waived amounts, over 48 years
- the development of a site database and three-dimensional (3D) modelling tool which will provide important background material about site contamination and infrastructure and set the foundation for future site remediation
- relocation of Toll's and TasRail's transport and freight operations to the Brighton Transport Hub in July 2014. A new lease between the Crown and the Corporation in 2014-15 ensured full access to parts of the site
- it is expected that prior to the end of the 2015 calendar year the Corporation will be positioned to go to the market and request expressions of interest for Macquarie Point, either the whole or part thereof.

Key risks include:

- a key risk from a financial reporting point of view was accounting for the Brooke Street Pier contribution. Consideration was given to treating this as a receivable reduced annually by amounts waived each year. However, we concurred with management's position that the transaction was, in substance, a contribution with details to be provided by way of note disclosure
- a further risk arose from the fact that, at 30 June 2014, the Corporation did not have total control of the land. We anticipate that, as and when the Corporation gains greater access to the site, it will commence site works resulting in assets recognised in the Statement of Financial Position.

The audit was completed satisfactorily with no major items outstanding.

SUMMARY OF FINANCIAL RESULTS

Statement of Comprehensive Income

	2013-14	4 March to 30 June 2013
	$'000s	$'000s
Grants	0	50 130
Interest	1 600	1 611
Total Revenue	**1 600**	**51 741**
Employee benefits	913	605
Depreciation	19	0
Supplies and consumables	329	326
Grants and subsidies	156	178
Contributions provided	4 666	0
Other expenses	141	12
Total Expenses	**6 224**	**1 121**
Net Surplus/(Deficit) before:	**(4 624)**	**50 620**
Segments		
Result from Brooke Street Pier Project	(4 822)	4 822
Result from Macquarie Point Project	198	45 798
Net Result	**(4 624)**	**50 620**
Comprehensive Result	**(4 624)**	**50 620**

The Australian Government, in 2012-13, provided a one-off $50.000m grant to support the remediation of the Macquarie Point rail yards site and the redevelopment of the Brooke Street Pier. This year interest revenue was the sole source of revenue.

Increased employee expenditure reflected additional employment of five employees during the financial year.

Total funding of the Brooke Street Pier redevelopment was $4.822m. This included Grants and subsidies, $0.156m and Contributions provided, $4.666m, of which $2.916m was paid with the balance shown as a current liability.

The Segment information section shows the financial results attributable to each project, with Brooke Street Pier funding fully expended, and Macquarie Point showing a surplus of $0.198m.

Statement of Financial Position

	2014	4 March to 30 June 2013
	$'000s	$'000s
Financial Assets		
Cash and deposits	46 585	50 581
Receivables	(2)	19
Non-financial assets		
Leasehold improvements	1 076	137
Intangibles	415	0
Other assets	17	19
Total Assets	**48 091**	**50 756**
Liabilities		
Payables	22	10
Payables – Brooke St Pier Project	1 750	0
Employee benefits	323	125
Other liabilities	0	1
Total Liabilities	**2 095**	**136**
Net Assets	**45 996**	**50 620**
Accumulated funds	4 855	1 879
Reserves		
Brooke St Pier Project	0	4 822
Macquarie Point Project	41 141	43 919
Total Equity	**45 996**	**50 620**

The decrease in cash, $3.996m, was mainly due to:

- payment of $2.916m for the Brooke Street Pier
- Leasehold improvements resulting from the renovation of a building for office accommodation, $0.949m
- development of a site database and 3D modelling tool, $0.415m.

Plant, property and equipment totalled $1.076m of which Leasehold improvements accounted for $0.731m, with $0.345m in WIP assets (2012-13, $0.137m), with equipment purchases a minor amount. The Intangibles balance, $0.415m, was all included in WIP.

The Payables amount, $1.750m, was the balance to be paid for the Brooke Street Pier development.

Employee benefits provision, $0.323m, increased due to the employment of five additional employees.

The balance of each reserve reflected the grant funds that remained available at year-end with the Brooke Street Pier reserve fully expended. The Macquarie Point reserve allows for remediation costs. As with many historical rail yards and industrial sites, parts of the area are heavily contaminated, requiring significant remediation works before any future development can be considered.

Statement of Cash Flows

	2014	4 March to 30 June 2013
	$'000s	$'000s
Cash Flows from Operating Activities		
Brooke Street Pier Project		
Grants – project revenue	0	5 000
Grants and subsidies	(156)	(178)
Contributions provided	(2 916)	0
Net Cash from (used by) Brooke Street Pier Project	**(3 072)**	**4 822**
Macquarie Point Project		
Grants – project revenue	0	45 111
GST receipts	238	0
Interest received	1 600	1 611
Employee benefits	(723)	(480)
GST Payments	(213)	0
Supplies and consumables	(325)	(338)
Other cash payments	(137)	(8)
Net Cash from (used by) Macquarie Point Project	**440**	**45 896**
Net Cash from (used by) Investing Activities	**(2 632)**	**50 718**
Cash Flows from Investing Activities		
Payment for acquisitions of non-financial assets	(1 364)	(137)
Net Cash from (used by) Investing Activities	**(1 364)**	**(137)**
Net Increase (Decrease) in Cash Held and Cash Equivalents	**(3 996)**	**50 581**
Cash and Deposits at the Beginning of the Reporting Period	**50 581**	**0**
Cash and Deposits at End of the Reporting Period	**46 585**	**50 581**

Reasons for the movements in Cash flows have been detailed in the preceding pages, significant items include:

- Contributions provided paid to the developer of the Brooke Street Pier, $2.916m,
- Payments for acquisition of assets including Leasehold improvements and Intangible assets of $1.364m.

PRIVATE FORESTS TASMANIA (PFT)

SNAPSHOT

- PFT is funded primarily by Tasmanian government Appropriations and aims to operate on a break even basis.
- It recorded a Net Surplus of $0.250m in 2014, a turnaround from deficits in the three prior years.
- The surplus was as a result of higher cash flows from private forest levies and cost saving measures implemented over the past two years.
- Net Assets totalled $0.698m at 30 June 2014.

The audit was completed satisfactorily and there were no findings.

INTRODUCTION

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

The Board of Directors consists of three members appointed by the Responsible Minister, and the Chief Executive Officer. At the time of preparing this Chapter, there were two board vacancies.

The Responsible Minister is the Minister for Resources.

AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2014, which was one day past the statutory deadline, and an unqualified audit opinion was issued on 11 September 2014.

KEY FINDINGS AND DEVELOPMENTS

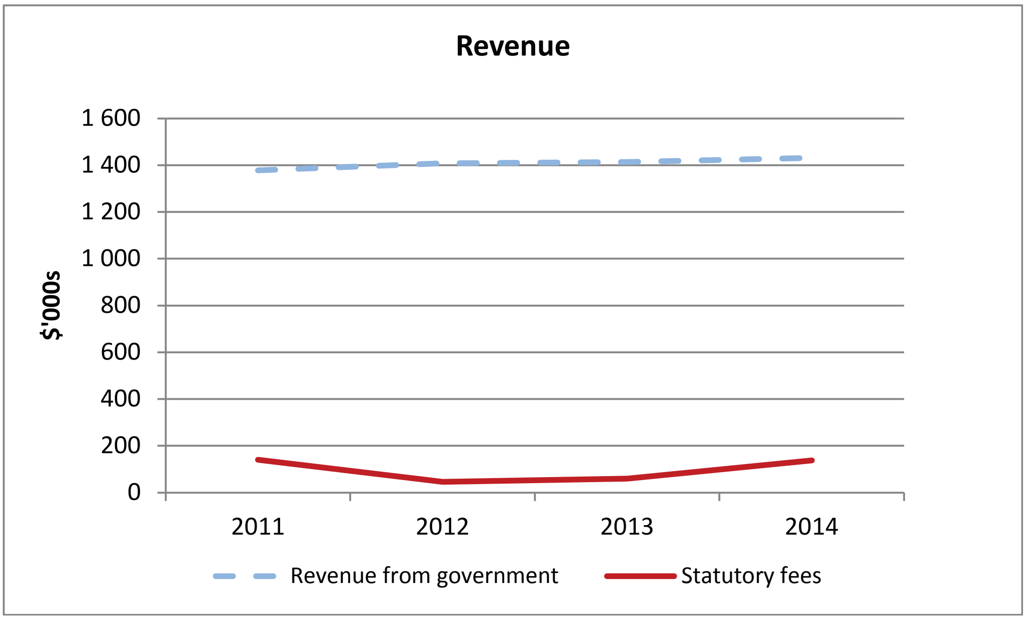
PFT continued to implement cost saving measures to address its financial viability. As a result of these measures:

- staff numbers reduced by a further one full time employee, on top of the two in the prior year which brought full time equivalent staff to 8.4 at 30 June 2014
- board vacancies remained unfilled
- one regional office was closed, with three offices remaining. One of the remaining offices was relocated during the year to reduce rental costs.

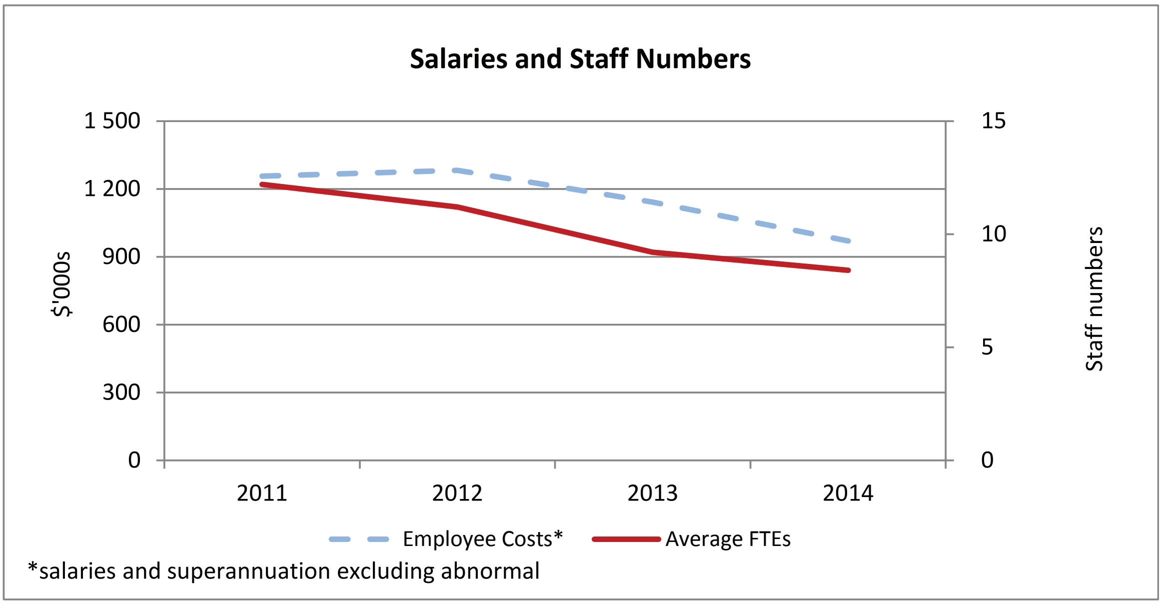
Improvements in the forestry industry resulted in higher revenue from statutory fees.

SUMMARY OF FINANCIAL RESULTS

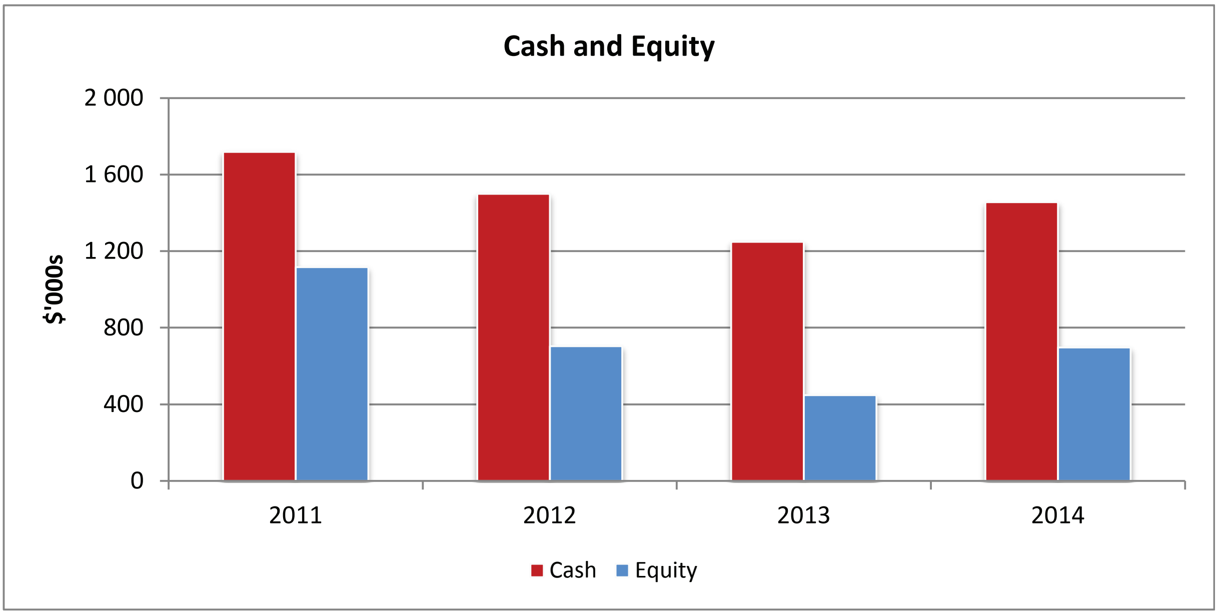
PFT recorded a Net Surplus in the current financial year, a turnaround from the Net Deficits recorded in each of the three previous financial years.



The graph highlights PFT's dependency on Appropriation revenue which increased slightly this year by 1.3%. Statutory fees, being the Private Forest Service Levy and Private Timber Reserve Fees, increased by 128.3%, back to a similar level to 2011.



PFT utilised vacancy control, voluntary redundancies and transfers to reduce employee expenses over the last three years. The reduction in expenditure was a significant contributor to improved financial results.



Cash and equity balances increased as a result of the Net Surplus achieved during the current year. Implemented savings strategies began to address sustainability and ensured PFT operated as a going concern at balance date.

INCOME STATEMENT

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Appropriaton revenue	1 432	1 414	1 408	1 378
Statutory fees	137	60	46	140
Other revenue	164	229	126	824
Total Revenue	**1 733**	**1 703**	**1 580**	**2 342**
Employee expenses	893	1 375	1 311	1 246
Office rental, motor vehicle and travel	196	223	224	254
Consultancies and contractors	117	49	80	228
Other expenses	277	313	378	622
Total Expenses	**1 483**	**1 960**	**1 993**	**2 350**
Net Surplus (Deficit)	**250**	**(257)**	**(413)**	**(8)**
Comprehensive Surplus (Deficit)	**250**	**(257)**	**(413)**	**(8)**

STATEMENT OF FINANCIAL POSITION

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Total Assets	1 660	1 474	1 733	2 238
Total Liabilities	962	1 026	1 028	1 120
Net Assets	**698**	**448**	**705**	**1 118**
Total Equity	**698**	**448**	**705**	**1 118**

APPENDIX 1 - GUIDE TO USING THIS REPORT

This Report is prepared under section 29 of the *Audit Act 2008* (the Audit Act), which requires the Auditor-General, on or before 31 December in each year, to report to Parliament in writing on the audit of State entities and audited subsidiaries of State entities in respect of the preceding financial year. The issue of more than one report titled the *Auditor-General's Report on the Financial Statements of State Entities*, comprising five volumes, satisfies this requirement each year. The volumes are:

Volume 1 – Analysis of the Treasurer's Annual Financial Report 2013-14

Volume 2 – General Government and Other State entities 2013-14

Volume 3 – Government Businesses 2013-14

Volume 4 – Local Government Authorities, Joint Authorities and Tasmanian Water and Sewerage Corporation Pty Ltd 2013-14

Volume 5 - Other State entities 30 June 2014 and 31 December 2014.

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

Financial Performance Indicator	Bench Mark[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
Underlying surplus (deficit) ($'000s)		Operating Revenue less Operating Expenses
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

Financial Performance Indicator	Bench Mark[1]	Method of Calculation
Return on assets		EBIT divided by Average Total Assets
Return on equity		Result from Ordinary Activities after Taxation divided by Average Total Equity
Self financing ratio		Net Operating Cash Flows divided by Operating Revenue
Financial Management		
Asset consumption ratio	Between 40% and 60%	Depreciated replacement cost of asset (eg. infrastructure, roads, bridges) divided by current replacement cost of asset
Asset renewal funding ratio	90%-100%	Future (planned) asset replacement expenditure divided by future asset replacement expenditure (actual) required
Capital Investment Gap, Asset investment ratio or Investment gap	>100%	Payments for Property, plant and equipment divided by Depreciation expenses
Capital Replacement Gap, Asset renewal ratio or Renewal gap	100%	Payments for Property, plant and equipment on existing assets divided by Depreciation expenses
Cost of debt		Gross Interest Expense divided by Average Borrowings (include finance leases)
Creditor turnover	30 days	Payables divided by credit purchases multiplied by 365
Current ratio	>1	Current Assets divided by Current Liabilities
Debt collection	30 days	Receivables divided by billable Revenue multiplied by 365
Debt to equity		Debt divided by Total Equity
Debt to total assets		Debt divided by Total Assets
Indebtedness ratio		Non-Current Liabilities divided by Own Source Revenue
Interest coverage ratio		Net operating cashflows less interest and tax payments divided by Net interest payments
Interest cover – EBIT	>2	EBIT divided by Gross Interest Expense
Interest cover – EBITDA	>2	EBITDA divided by Gross Interest Expense
Interest cover – Funds from Operations	>2	Cash from Operations plus Gross Interest Expense divided by Gross Interest Expense
Liquidity ratio	2:1	Liquid assets divided by current liabilities other than provisions
Net financial assets (liabilities) ($'000s)		Total liquid assets less financial liabilities

Financial Performance Indicator	Bench Mark[1]	Method of Calculation
Net financial liabilities ratio	0 – (50%)	Liquid assets less total liabilities divided by total operating income
Returns to Government CSO funding ($'000s)		Amount of community service obligation funding received from Government
Dividend payout ratio		Dividend divided by Result from Ordinary Activities after Tax
Dividend to equity ratio		Dividend paid or payable divided by Average Total Equity
Dividends paid or payable ($'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 from Ordinary Activities before Tax
Government guarantee fees ($'000s)		Amount of guarantee fees paid to owners (usually Government)
Income tax paid ($'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 FTEs
Average long service leave balance	Not more than 100 days	Actual long service leave provision days due divided by average FTEs
Average recreational leave balance	20 days[3]	Actual annual leave provision days due divided by average FTEs
Average staff costs[(2)] ($'000s)		Total employee expenses (including capitalised employee costs) divided by FTEs
Employee costs[(2)] as a % of operating expenses		Total employee costs divided by Total Operating Expenses
Employee costs capitalised ($'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

Financial Performance Indicator	Bench Mark[1]	Method of Calculation
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 entitlement*

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 the 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 an entity 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 an entity'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** – 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 of 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** – the funds paid to the Owners consisting of income tax, dividends and guarantee fees.

OTHER INFORMATION

- **Average leave balance per FTE ($'000s)** – indicates the extent of unused leave at balance date.
- **Average long service leave balance or days long service leave due** – records the average number of days long service leave accumulated per staff member. In general public servants cannot accrue more than 100 days long service leave.
- **Average recreational leave balance or days annual leave due** – records the average number of days annual leave accumulated per staff member. In general public service employees accrue 20 days annual leave per annum.
- **Average staff costs** – measures the average cost of employing staff in the entity for the year.
- **Employee costs as a percentage of operating expenses** - indicates the relative significance of employee costs compared to other operating expenses.
- **Employee costs capitalised ($'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 Comprehensive 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.

The above indicators are used because they are commonly applied to the evaluation of financial performance. Care should be taken in interpreting these measures, as by definition they are only indicators, and they should not be read in isolation.

AUDIT FINDING – RISK CATEGORIES

In reporting audit finding to clients, we determine three risk categories. These categories are based on their significance and potential impact on the client.

Risk Category	Client Impact
High	Matters which pose a significant business or financial risk to the entity and/or matters that have resulted or could potentially result in a modified or qualified audit opinion if not addressed as a matter of urgency by the entity.
Moderate	Matters of a systemic nature that pose a moderate business or financial risk to the entity if not addressed as high priority within the current financial year and/or matters that may escalate to high risk if not addressed promptly and/or low risk matters which have been reported to management in the past but have not been satisfactorily resolved or addressed.
Low	Matters that are isolated, non-systemic or procedural in nature and/or matters that reflect relatively minor administrative shortcomings and could be addressed in the context of the entity's overall control environment.

APPENDIX 2 - GLOSSARY

Accountability

The responsibility to provide information to enable users to make informed judgements about the performance, financial position, financing and investing, and compliance of the State entity.

Adverse Opinion

An adverse opinion is issued when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial report.

Amortisation

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

Asset

A resource controlled by an entity as a result of past events, and from which future economic benefits are expected to flow to the entity.

Asset useful life

The period over which an asset is expected to provide the entity with economic benefits. Depending on the nature of the asset, the useful life can be expressed in terms of time or output.

Asset valuation

The fair value of an asset on a particular date.

Audit Act 2008

An Act of the State of Tasmania that:

- ensures that the State has an Auditor-General with the necessary functions, immunities and independence
- provides for the independent audit of the public sector and related entities.

Auditor's opinion (or Auditor's Report)

Written expression within a specified framework indicating the auditor's overall conclusion on the financial reports based on audit evidence obtained.

Borrowing costs

Interest and other costs that an entity incurs in connection with the borrowing of funds.

Capital expenditure

Amount capitalised to the Statement of Financial Position (also referred to as the balance sheet) for expenditure on or contributions by a State entity to major assets controlled or owned by the entity, including expenditure on:

- capital renewal of existing assets that returns the service potential or the life of the asset to that which it had originally been commissioned
- capital expansion which extends an existing asset at the same standard to a new group of users.

Capital grant

Government funding provided to an agency for acquiring capital assets such as buildings, land or equipment.

Carrying amount

The amount at which an asset is recognised after deducting any accumulated depreciation (amortisation) and accumulated impairment losses thereon.

Cash

Cash on hand and demand deposits.

Cash equivalents

Short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash flows

Inflows and outflows of cash and cash equivalents.

Combined employee costs

For the purpose of this Report, combined employee costs included wages, salaries, leave entitlements and on-costs, superannuation contributions made on behalf of employees and superannuation liability expenses relating to defined benefits schemes for which the Government is responsible.

Comprehensive result

The overall net result of all items of income and expense recognised for the period. It is the aggregate of net surplus (deficit) or profit (loss) and other movements in equity.

Consolidated financial statements

The financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity.

Contributed assets

Assets, usually Property, plant and equipment, contributed to a State entity at no cost or are non-reciprocal.

Contributions from the State

Transactions in which one State entity provides goods, services, assets (or extinguishes a liability) or labour to another State entity without receiving approximately equal value in return. Grants can either be of a current or capital nature.

Control

The capacity of an entity to dominate decision-making, directly or indirectly, in relation to the financial and operating policies of another entity so as to enable that other entity to operate with it in achieving the objectives of the controlling entity.

Cost

The amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.

Current asset

An asset that an entity:

- expects to realise or intends to sell or consume in its normal operating cycle;
- holds primarily for the purpose of trading;
- expects to realise within twelve months after the reporting period; or

- is cash or a cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

An entity shall classify all other assets as non-current.

Current liability

A liability that an entity:

- expects to settle in its normal operating cycle;
- it holds primarily for the purpose of trading;
- is due to be settled within twelve months after the reporting period; or
- does not have an unconditional right to defer settlement for at least twelve months after the reporting period.

An entity shall classify all other liabilities as non-current.

Deficit

Total expenditure exceeds Total Revenue. Term is generally applied to results of not-for-profit entities. Equivalent term in the case of for-profit entities is a loss.

Depreciation

The systematic allocation of the depreciable amount of an asset over its useful life.

Disclaimer of Opinion

A disclaimer of opinion is used when it is not possible for the auditor to form an opinion. This may occur in rare circumstances when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial report of undetected misstatements, if any, could be both material and pervasive.

Emphasis of matter

An auditor's report can include an emphasis of matter paragraph that draws attention to a disclosure or item in the financial report that is relevant to the users of the report but is not of such nature that it affects the auditor's opinion (i.e. the auditor's opinion remains unmodified).

Employee benefits provision

The liability recognised for employees' accrued service entitlements, including all costs related to employment consisting of wages and salaries, leave entitlements, redundancy payments and superannuation contributions.

Equity or net assets

Residual interest in the assets of an entity after deduction of its liabilities. Where liabilities exceed assets, this gives rise to negative equity or net liabilities or accumulated deficits.

Expense

Outflows or other depletions of economic benefits in the form of incurrence of liabilities or depletion of assets of the entity, other than those relating to contributions by owners, that results in a decrease in equity, or increase in a liability, during the reporting period.

Fair value

The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Financial Asset

Any asset that is:

- cash
- an equity instrument of another entity
- a contractual right:
  - to receive cash or another financial asset from another entity; or
  - to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or
- a contract that will or may be settled in the entity's own equity instruments and is:
  - a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or
  - a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

Financial liability

Any liability that is:

- a contractual obligation:
  - to deliver cash or another financial asset to another entity; or
  - to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or
- a contract that will or may be settled in the entity's own equity instruments and is:
  - a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or
  - a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

Financial position

The relationship of the assets, liabilities and equity of an entity, as reported in the Statement of Financial Position (balance sheet).

Financial report

Structured representation of financial information, which usually includes accompanying notes, derived from accounting records and intended to communicate an entity's financial performance over a period of time and its economic resources or obligations at a point in time in accordance with a financial reporting framework.

Financial statements

A complete set of financial statements comprises:

- a Statement of Financial Position as at the end of the period
- a Statement of Profit or Loss and Other Comprehensive Income for the period
- a Statement of Changes in Equity for the period
- a Statement of Cash Flows for the period
- Notes, comprising a summary of significant accounting policies and other explanatory information
- comparative information in respect of the preceding period

- a Statement of Financial Position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

An entity may use titles for the statements other than those used in the relevant accounting standard. For example, an entity may use the title 'Statement of Comprehensive Income' instead of 'Statement of Profit or Loss and Other Comprehensive Income'.

Financial sustainability

An entity's ability to manage financial resources so it can meet its spending commitments both at present and into the future.

Financial year

The period of 12 months for which a financial report is prepared.

For-profit entity

An entity whose principal objective is the generation of profit. A for-profit entity can be a single entity or a group of entities comprising the parent entity and each of the entities that it controls.

Future economic benefit

The potential to contribute, directly or indirectly, to the flow of cash and cash equivalents to the entity. The potential may be a productive one that is part of the operating activities of the entity. It may also take the form of convertibility into cash or cash equivalents or a capability to reduce cash outflows.

General purpose financial report

A financial report intended to meet the information needs common to users who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs.

Going concern

An entity which is expected to be able to pay its debts as and when they fall due, and continue in operation for the foreseeable future without any intention or necessity to liquidate or otherwise wind up its operations.

Governance

The control arrangements in place at an entity that are used to govern and monitor its activities in order to achieve its strategic and operational goals.

Impairment loss

The amount by which the carrying amount of an asset exceeds its recoverable amount.

Independent auditor's report

An expression of the independent auditor's opinion on an entity's financial (and performance) report.

Intangible asset

An identifiable non-monetary asset without physical substance.

Investment

The expenditure of funds intended to result in medium to long-term service and/or financial benefits arising from the development and/or use of infrastructure assets by either the public or private sectors.

Liability

A present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow of resources from the entity.

Loss

Total expenditure exceeds total revenue. Term is generally applied to results of for-profit entities. Equivalent term in the case of not-for-profit entities is a deficit.

Material

Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

Materiality

Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial report.

Modified audit opinion

The Auditing Standards establish three types of modified opinions, namely, a qualified opinion, an adverse opinion, and a disclaimer of opinion. The decision regarding which type of modified opinion is appropriate depends upon:

- the nature of the matter giving rise to the modification, that is, whether the financial report is materially misstated or, in the case of an inability to obtain sufficient appropriate audit evidence, may be materially misstated; and
- the auditor's judgement about the pervasiveness of the effects or possible effects of the matter on the financial report.

Non-Financial Asset

Physical assets such as land, buildings and infrastructure.

Not-for-profit entity

An entity whose principal objective is not the generation of profit. A not-for-profit entity can be a single entity or a group of entities comprising the parent entity and each of the entities that it controls.

Operating cycle

The time between the acquisition of assets for processing and their realisation in cash or cash equivalents.

Profit

Total revenue exceeds total expenditure. Term is generally applied to results of profit entities. Equivalent term in the case of not-for-profit entities is a surplus.

Property, plant and equipment

Tangible items that:

- are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- are expected to be used during more than one period.

Public sector entity

A department; a public hospital; a local government; a statutory body; an entity controlled by one, or more than one department, public hospital, local government or statutory body; or an entity controlled by a public sector entity.

Qualified audit opinion

A qualification is issued when the auditor concludes that an unqualified opinion cannot be expressed due to one of the following reasons:

- The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial report; or
- The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial report of undetected misstatements, if any, could be material but not pervasive.

A qualified opinion shall be expressed as being except for the effects of the matter to which the qualification relates.

Relevant

Measures or indicators used by an entity are relevant if they have a logical and consistent relationship to an entity's objectives and are linked to the outcomes to be achieved.

Revaluation

Recognising a reassessment or restatement of values for assets or liabilities at a particular point in time.

Revenue

Inflows of funds or other enhancements or savings in outflows of service potential, or future economic benefits in the form of increases in assets or reductions in liabilities of the entity, other than those relating to contributions by owners which result in an increase in equity during the reporting period.

Special purpose financial statements

A financial report intended to only meet the information needs of specific users who are able to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs.

State entity

A body, whether corporate or unincorporated, that has a public function to exercise on behalf of the State or is wholly owned by the State, as defined under the *Audit Act 2008*, including:

- an agency
- a council
- a Government Business Enterprise
- a State Owned Corporation
- a State authority that is not a Government Business Enterprise
- the council, board, trust or trustees, or other governing body (however designated) of, or for, a corporation, body of persons or institution, that is or are appointed by the Governor or a Minister of the Crown
- a body or authority referred to in section 21, established under section 29 or 30, or continued under section 326, of the *Local Government Act 1993*
- the Corporation incorporated under section 5 of the *Water and Sewerage Corporation Act 2012*
- a body or authority in respect of which the Treasurer has made a determination under section 32A.

State Owned Corporation

A company incorporated under the Corporations Act which is controlled by:

- the Crown
- a State authority
- another company which is itself controlled by the Crown or a State authority.

Surplus

Total revenue exceeds total expenditure. Term is generally applied to results of not-for-profit entities. Equivalent term in the case of for-profit entities is a profit.

Unqualified audit opinion – financial report

A positive written expression provided when the financial report has been prepared and presents fairly the transactions and balances for the reporting period in accordance with the requirements of the relevant legislation and Australian accounting standards.

Also referred to as a **clear audit opinion**.

Value in use (in respect of not-for-profit entities)

Depreciated replacement cost of an asset when the future economic benefits of the asset are not primarily dependent on the asset's ability to generate net cash inflows and where the entity would, if deprived of the asset, replace its remaining future economic benefits.

APPENDIX 3 - ACRONYMS AND ABBREVIATIONS

AAS	Australian Accounting Standards
AASB	Australian Accounting Standards Board
ABS	Australian Bureau of Statistics
ACIPA	Academy of Creative Industries and Performing Arts
ACT	Australian Capital Territory
AEMO	Australian Energy Market Operator
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
AETV	Aurora Energy Tamar Valley
AFS	Australian Financial Services
ANAO	Australian National Audit Office
APRA	Australian Prudential Regulation Authority
ARM	Asset Revaluation Model
ASA	Australian Auditing Standard
ASIC	Australian Securities and Investments Commission
ASX	Australian Stock Exchange
ATO	Australian Taxation Office
BBP	Bell Bay Power Pty Ltd
BER	Building the Education Revolution
BHF	Better Housing Futures
BLW	Ben Lomond Water
CC&SB	Customer Care and Billing System
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CLAF	Crown Land Administration Fund
CLP	China Light and Power
CMW	Cradle Mountain Water
CPI	Consumer Price Index
CPOL	Cargo and Port Operational Logistics
CREST	Crown Land Administration System
CSO	Community Service Obligation
DBP	Defined Benefit Pension
DHHS	Department of Health and Human Services
DIER	Department of Infrastructure, Energy and Resources
DIISRTE	Department of Industry, Innovation, Science, Research and Tertiary Education
DoE	Department of Education
DoJ	Department of Justice
DORC	Depreciated Optimised Replacement Cost
DPAC	Department of Premier and Cabinet

DPEM	Department of Police and Emergency Management
DPIPWE	Department of Primary Industries, Parks, Water and the Environment
DTF	Department of Treasury and Finance
DVA	Department of Veterans Affairs
EBA	Enterprise Bargaining Agreement
EBIT	Earnings Before Interest and Tax
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EEP	Environmental Energy Products
EFTSL	Equivalent Full-time Student Load
EOI	Expression of Interest
FCAS	Frequency Control Ancillary Services
FIND	Fines and Infringement Notices Database
FMAA	*Financial Management and Audit Act 1990*
FPM	Financial Procedures Manual
FRFI	*Forestry (Rebuilding the Forest Industry) Act 2014*
FSC	Forest Stewardship Council
FSI	Forest Services International
FSST	Forensic Science Services Tasmania
FTE	Full-time Equivalent
GBE	Government Business Enterprise
GDP	Gross Domestic Product
GGS	General Government Sector
GIF	Group Investment Fund
GMO	Grantham, Mayo and Otterloo
GSP	Gross State Product
GST	Goods and Services Tax
GWh	Gigawatt Hour
HEC	Hydro-Electric Corporation
HECS-HELP	Higher Education Loan Program
HIAPL	Hobart International Airport Pty Ltd
HoA	House of Assembly
HR	Human Resources
IMAS	Institute of Marine and Antarctic Studies
IPSASB	International Public Sector Accounting Standards Board
IRR	Inter Regional Revenues
IST	Island Speciality Timbers
IT	Information Technology
KIPC	King Island Ports Corporation
KMP	Key Management Personnel
KPI	Key Performance Indicators
KV	Kilovolt
LGAT	Local Government Association of Tasmania
LGH	Launceston General Hospital

LIST	Land Information System
LSL	Long Service Leave
MAIB	Motor Accidents Insurance Board
MAR	Maximum Allowable Revenue
MIC	Member Investment Choice
MHS	Mental Health Services
MHS-N	Mental Health Services - North
MWh	Megawatt Hour
NDRRA	Natural Disaster Relief and Recovery Arrangements
NEM	National Electricity Market
NEMMCO	National Electricity Market Management Company Limited
Newood	Newood Holdings Pty Ltd
NRAS	National Rent Affordability Scheme
NTER	National Taxation Equivalent Regime
NWRH	North West Regional Hospital
OPWG	Optical Ground Wire
PA	Public Account
PAYG	Pay As You Go
PFC	Public Financial Corporation
PFT	Private Forests Tasmania
PIRP	Prison Infrastructure and Redevelopment Program
PNFC	Public Non-Financial Corporation
PNT	Pacific National Tasmania
POAGS	P&O Automotive and General Stevedoring Pty Ltd
PRBF	Parliamentary Retiring Benefits Fund
PSF	Parliamentary Superannuation Fund
PT	Public Trustee
PWC	Price WaterhouseCoopers
RAB	Regulated Asset Base
RBF	Retirement Benefits Fund
RBFB	Retirement Benefits Fund Board
REC	Renewable Energy Certificates
RFDS	Royal Flying Doctor Service
RHH	Royal Hobart Hospital
RIN	Regulatory Information Notices
ROGS	Report on Government Services
RWSC	Rivers and Water Supply Commission
SDTF	Special Deposits and Trust Fund
SES	State Emergency Service
SEV	Soil Expectation Value
SFC	State Fire Commission
SFCSS	State Fire Commission Superannuation Scheme
SG	Superannuation Guarantee

SLIMS	Technology One Student Management System
SOC	State Owned Corporation
SPA	Superannuation Provision Account
SPFR	Specific Purpose Financial Reports
SW	Southern Water
TAFR	Treasurer's Annual Financial Report
TAHL	Tasmanian Affordable Housing Limited
TAS	Tasmanian Accumulation Scheme
TASCORP	Tasmanian Public Finance Corporation
TASSS	Tasmanian Ambulance Service Superannuation Scheme
TasWater	Tasmanian Water and Sewerage Corporation Pty Ltd
TCF	Tasmanian Community Fund
TCFA	Tasmanian Community Forest Agreement
TDIA	Tasmanian Dairy Industry Authority
TDR	Tasmania Development and Resources
TDRA	Temporary Debt Repayment Account
TESI	Tasmanian Electricity Supply Industry
TFA	Tasmanian Forest Agreement Act
TFIA	Tasmanian Forest Intergovernmental Agreement
TFS	Tasmanian Fire Service
THO	Tasmanian Health Organisation
THO-N	Tasmanian Health Organisation - North
THO-NW	Tasmanian Health Organisation - North West
THO-S	Tasmanian Health Organisation - South
TI	Treasurer's Instruction
TIDB	Tasmanian Irrigation Development Board Pty Ltd
TIPL	Tasmanian Irrigation Pty Ltd
TIS	Tasmanian Irrigation Schemes Pty Ltd
TMRN	Tasmanian Mobile Radio Network
TRB	Tasmanian Racing Board
TVPS	Tamar Valley Power Station
TUOS	Transmission Use of System
TUU	Tasmanian University Union Incorporated
TWSC	Tasmanian Water and Sewerage Corporation
UPF	Uniform Presentation Framework
VaR	Value at Risk
VET	Vocational Education and Training
VoIP	Voice over Internet Protocol
WACC	Weighted Average Cost of Capital
WHA	World Heritage Area
WIF	Water Infrastructure Fund
WIP	Work in Progress

APPENDIX 4 - RECENT PUBLICATIONS

Tabled	Report No.	Title
2013		
May	No 10 of 2012-13	Hospital bed management and primary preventative health
May	No. 11 of 2012-13	Financial Statements of State entities: Volume 5 – Other State entities
May	No. 11 of 2012-13	Department of Health and Human Services – Output based expenditure (included in Financial Statements of State entities: Volume 5 – Other State entities)
August	No. 1 of 2013-14	Fraud control in local government
November	No. 2 of 2013-14	Volume 1 – Executive and Legislature, Government Departments, Tasmanian Health Organisations, Other General Government Sector State entities, Other State entities and Superannuation Funds
November	No. 3 of 2013-14	Volume 2 – Government Businesses, Other Public Non-Financial Corporations and Water Corporations
December	No. 4 of 2013-14	Volume 3 – Local Government Authorities
December	No. 5 of 2013-14	Infrastructure Financial Accounting in Local Government
2014		
January	No. 6 of 2013-14	Redevelopment of the Royal Hobart Hospital: governance and project management
February	No. 7 of 2013-14	Police responses to serious crime
February	No. 8 of 2013-14	Volume 4 – Analysis of the Treasurer's Annual Financial Report 2012-13
May	No. 9 of 2013-14	Volume 5 – State entities 30 June and 31 December 2013, matters relating to 2012-13 audits and key performance indicators
May	No. 10 of 2013-14	Government radio communications
May	No. 11 of 2013-14	Compliance with the Alcohol, Tobacco and Other Drugs Plan 2008-13
June	No. 12 of 2013-14	Quality of Metro services
June	No. 13 of 2013-14	Teaching quality in public high schools
August	No. 1 of 2014-15	Recruitment practices in the State Service
September	No. 2 of 2014-15	Follow up of selected Auditor-General reports: October 2009 to September 2011
September	No. 3 of 2014-15	Motor vehicle fleet management in government departments

Auditor-General's reports are available from the Tasmanian Audit Office. These and other published reports can be accessed on the Office's website: www.audit.tas.gov.au

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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 and other recent reports published by the Office can be accessed via the Office's home page. For further information please contact the Office.

AUDIT MANDATE AND STANDARDS APPLIED

Mandate

Section 17(1) of the *Audit Act 2008* states that:

> 'An accountable authority other than the Auditor-General, as soon as possible and within 45 days after the end of each financial year, is to prepare and forward to the Auditor-General a copy of the financial statements for that financial year which are complete in all material respects.'

Under the provisions of section 18, the Auditor-General:

'(1) is to audit the financial statements and any other information submitted by a State entity or an audited subsidiary of a State entity under section 17(1).'

Under the provisions of section 19, the Auditor-General:

'(1) is to prepare and sign an opinion on an audit carried out under section 18(1) in accordance with requirements determined by the Australian Auditing and Assurance Standards

(2) is to provide the opinion prepared and signed under subsection (1), and any formal communication of audit findings that is required to be prepared in accordance with the Australian Auditing and Assurance Standards, to the State entity's appropriate Minister and provide a copy to the relevant accountable authority.'

Standards Applied

Section 31 specifies that:

> 'The Auditor-General is to perform the audits required by this or any other Act in such a manner as the Auditor-General thinks fit having regard to –

(a) the character and effectiveness of the internal control and internal audit of the relevant State entity or audited subsidiary of a State entity; and

(b) the Australian Auditing and Assurance Standards.'

The auditing standards referred to are Australian Auditing Standards as issued by the Australian Auditing and Assurance Standards Board.

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