

\$47,320,000

[operating revenue]

\$3,829,000

[profit before income tax equivalent]

TRUST

...is a
financial
issue

Financial Statements

This financial report covers both State Trustees Limited as an individual entity and the consolidated entity consisting of State Trustees Limited and STL Financial Services Limited.

State Trustees Limited is a State-owned enterprise. Its registered office and principal place of business is:

State Trustees Limited
168 Exhibition Street
Melbourne Victoria 3000

A description of the nature of the consolidated entity's operations and its principal activities is included in the Directors' Report on page 2, which is not part of this financial statement.

The financial report was authorised for issue by the directors on 27 August 2007.

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Directors' report

State Trustees Limited's Board of Directors has pleasure in presenting the company and economic entity's financial statements at 30 June 2007.

1. Directors' meetings

The number of meetings of the Board of Directors and Board Committees during the year, and attendance by directors at those meetings, are listed below.

Director	Board Meeting		Audit Committee ^(a)		Compliance Committee ^(b)		Investment Committee ^(c)		Remuneration Committee ^(d)	
	A	H	A	H	A	H	A	H	A	H
John Marcard	11	11	4	4	3	4	3	4	2	2
Tony Fitzgerald	11	11	4 ^{(e),(f)}	4 ^{(e),(f)}	4	4	4	4	2	2
Linda Berry	10	10	4	4	4	4	^(f)	^(f)	^(f)	^(f)
Daryl Hawkey	10	10	^(f)	^(f)	4	4	4	4	2	2
Dr Irene Irvine	9	9	^(f)	^(f)	4	4	^(f)	^(f)	2	2
John Price	11	11	4	4	^(f)	^(f)	4	4	^(f)	^(f)
Alice Williams	11	11	4	4	^(f)	^(f)	4	4	1	2

A Number of meetings attended.

H Number of meetings held during the time the director held office exclusive of leave of absence.

(a) Alice Williams is Chair of the Audit Committee.

(b) Linda Berry is Chair of the Compliance Committee.

(c) Daryl Hawkey is Chair of the Investment Committee.

(d) John Marcard is Chair of the Remuneration Committee.

(e) Tony Fitzgerald attends the Audit Committee meetings by invitation.

(f) Director is not a member of this Committee.

2. Principal activities

State Trustees' principal activities were as trustee, executor, administrator, attorney, and agent and provider of other fiduciary and agency services.

3. Dividend

The shareholder approved the 2006 total dividend of \$2,273,000 referred to in the Directors' Report (dated 28 August 2006). In keeping with their declared policy of distributing 90% of operating profit after tax to the shareholder, the directors recommend a total dividend of \$2,269,000 for the 2006-07 financial year.

	2007 \$000	2006 \$000
Interim dividend	1,598	1,021
Final dividend *	671	1,252
Total dividends for the year	2,269	2,273

*The final 2007 dividend is not payable until approved by the shareholder. Accordingly, we have not made a provision for the dividend in the current accounts.

4. Review of operations

The current reporting period focused on implementing foundation work, allowing us to make progress on the vision we set out in the Strategic Plan 2006-2011. We conducted extensive research into brand awareness and client expectations, and developed a number of marketing programs aimed at improving our corporate performance.

Our financial results were in line with budget expectations for the fourth consecutive year. We achieved an operating result after tax of \$2,521,000 (2006: \$2,525,000). Our revenue increased by 5.6% (2006:4.3%) to \$47,320,000.

Factors contributing to this improvement are our expanding client numbers and growth in the returns on our corporate investments. We continued to review expenditure, and achieved favourable savings during the year. At the same time we seized the opportunity to expand our client retention, brand awareness, and compliance activities.

We continue to evaluate our plans and trust that our strategies will help continue to improve the levels of client satisfaction and commercial growth needed to deliver on our financial goals. Our improved performance will enable us to implement our infrastructure project goals in the coming years.

5. Significant changes in the state of affairs

There were no significant changes in the company's state of affairs other than those referred to in the financial statements or attached notes.

6. Matters subsequent to the end of the financial year

No circumstance has arisen that has affected or may significantly affect the company's operations since 30 June 2007.

7. Likely developments and future results

The directors advise that there are no likely developments in the company's operations or expected results in future financial years to report.

8. Insurance

During the financial year, State Trustees Limited paid a premium under a contract insuring specified officers against liability incurred in their capacity of working on the company's behalf. Those officers are the Board directors named above, the Company Secretary, Gayle Hill, and other employees whose functions include managing strategic development and providing financial advice and human resources to the company and its related bodies corporate.

We cannot disclose the nature of the liability and premium due to the insurance contract confidentiality clause. We have not provided insurance for the company's or related body's corporate auditor.

9. Reserve fund

State Trustees has complied with the provisions of the Trustee Companies Act 1984 that requires a reserve fund to be created and set aside by authorised trustee companies. This is reflected in the financial statements at Note 10.

10. Auditors' independence declaration

A copy of the auditors' independence declaration, as required under section 307C of the Corporations Act 2001, is set out on page 12.

11. Rounding amounts

State Trustees is classified under the Australian Securities and Investments Commission Class Order 98/0100. In accordance with this class order, dollar amounts in the financial statements and the Directors' Report have been rounded to the nearest thousand dollars unless specifically stated to be otherwise.

This report is signed in accordance with a resolution of the Board of Directors.



John HM Marcard Chairman of Directors



Anthony G Fitzgerald Managing Director

Melbourne, 27 August 2007



John Marcard



Irene Irvine



Daryl Hawkey



Linda Berry



John Price



Alice Williams



Tony Fitzgerald

Board of Directors

Directors of State Trustees Limited and STL Financial Services Limited in office during the financial year, and until the date of this report, are:

John H M Marcard BCom, FCA, CPA, FAICD

Appointed: 1 July 2002, and became Chairman of the Board of Directors on 1 July 2004.

Committees: Chair of the Remuneration Committee, and Member of the Compliance, Audit, and Investment Committees.

Experience: John is a Chartered Accountant, whose career embraces a wide variety of experience, predominantly in audit. A partner at Pannell Kerr Forster (now PKF) from 1971–2001, he currently consults to the firm. John has been a director of the Royal Automobile Club of Victoria (RACV) since 1982. He was also a director of the Australian Automobile Association (AAA) from 1992–98, and was Independent Chairman of the Department of Human Services Audit Committee from 2002 to 2006.

Dr Irene Irvine PhD Chem, BSc (Hons), DipEd, GradDip (Admin), FRACI, AICD, AFAIM

Appointed: 1 July 2004.

Committees: Compliance and Remuneration Committees.

Experience: Irene is currently Pro Vice-Chancellor (Development) at Deakin University where she is in charge of marketing and fundraising. Before this she was a disability services organisation senior manager. Irene has spent many years in the corporate and private sectors. She has held a range of key positions in business development and strategic marketing, including at the University of Melbourne where she was Deputy Principal (Recruitment and Admissions). Irene also played a leading role in building the public and business profile of CSIRO as well as assisting Swinburne gain university status.

Irene is a graduate of Leadership Victoria (formerly Williamson Community Leadership Program) and devotes much of her time to not-for-profit or charity activities.

Daryl F Hawkey FFin

Appointed: 25 September 2003.

Committees: Chair of the Investment Committee and member of the Compliance and Remuneration Committees.

Experience: Daryl is a principal of Cameron Ralph Pty Ltd, a privately owned business founded in August 2002, which aims to help boards improve their performance. He is also a director of UCA Funds Management, an external member of the compliance committees of BlackRock Investment Management (Australia) Limited, Principal Global Investors [Australia] Limited, and a member of the Advisory Board of Morse Consulting Pty Limited.

Daryl spent 38 years in the banking and fund management industries, retiring in November 2002 after 13 years as an Executive director of Sagitta Wealth Management Limited (formerly Rothschild Australia Asset Management Limited). He was a member of the Executive Committee and of the Board Compliance and Audit Committee. As head of Legal and Compliance, he was also responsible for industry, regulatory and government relations, and the Melbourne office.

Daryl was also a director of the Investment and Financial Services Association (IFSA) from its inception in 1998 until 2002, and before 1998, of the Investment Funds Association, a predecessor of IFSA. He was Chairman of IFSA's Regulatory Affairs Board Committee and a director of the Financial Industry Complaints Service Limited (1999-2002).

Linda G Berry BA, LLB (Hons)

Appointed: 1 July 2004.

Committees: Chair of the Compliance Committee and member of the Audit Committee.

Experience: Linda has been a partner in the legal firm of Minter Ellison for the past 13 years, practising predominantly in the corporate finance sector for more than 20 years.

In addition, Linda is a director of the Royal Children's Hospital, and is a former director of the Women's and Children's Health Care Network and the Royal Children's Hospital Research Institute.

John R E Price LLB

Appointed: 1 November 2005.

Committees: Audit and Investment Committees

Experience: John has been the Referee and alternate Adjudicator with the Insurance Ombudsman Service since August 2004. In addition, in March 2007 he was appointed as an Alternate Panel Chair of the Insurance Ombudsman Service.

John became a partner in Maurice Blackburn Cashman in 1984 and headed up its industrial personal injuries practice before retiring from the firm in 2004. He was an Accredited Personal Injuries Specialist having practised in personal injuries litigation for more than 27 years. John was also a member of the Accident Compensation Committee for more than 20 years, a member of the VWA Legal Liaison Committee, and was part of numerous Victorian Government working parties and advisory groups.

Alice J M Williams BCom, FCPA, FAICD, CFA

Appointed: 20 September 2000.

Committees: Chair of the Audit Committee, Chair of State Trustees Australia Foundation Advisory Committee, and Member of the Investment and Remuneration Committees.

Experience: Alice holds several other government and corporate board positions. She is director of Airservices Australia, Guild Insurance & Financial Services Holdings Limited, V/Line Passenger Corporation and Telstra Sale Company Limited. She is a Commissioner for the Victorian Competition and Efficiency Commission, and Council Member of the Cancer Council of Victoria. Her previous directorships include the Australian Accounting Standards Board, and Western Health, including Chair of its Finance and Audit Committee.

Alice consults to a range of government and corporate clients, undertaking corporate finance and strategy projects and government regulatory policy development. She has extensive experience in investment management, corporate advisory, and equity fund-raising through roles as director

of NM Rothschild and Sons (Australia) Ltd, director of Strategy and Planning for Ansett Australia Airlines, Vice President at JP Morgan Investment Management Australia Limited, and roles with Elders Finance Group, Hong Kong Bank of Australia, and Citibank NA (London).

Anthony G Fitzgerald BBus, CPA, MAICD

Appointed: 25 September 2003.

Committees: Compliance, Investment, and Remuneration Committees, and the State Trustees Limited Australia Foundation Advisory Committee.

Experience: Tony joined State Trustees in 2002 as General Manager Estate Planning Solutions where he looked after estate management, wills, attorneyships, and trusts.

During the past 27 years, Tony gained extensive financial services experience from numerous senior roles at the National Australia Bank Group, both in Australia and overseas. These include Strategy Adviser, Global Business Financial Services, and Head of Business Marketing, and Business Financial Services Australia. His experience at NAB covered strategy, marketing, organisational planning, credit analysis, sales, and customer and outlet management.

Tony has a Bachelor of Business Accounting from the Queensland University of Technology, is a CPA, and is currently National President of the Trustee Companies Association.

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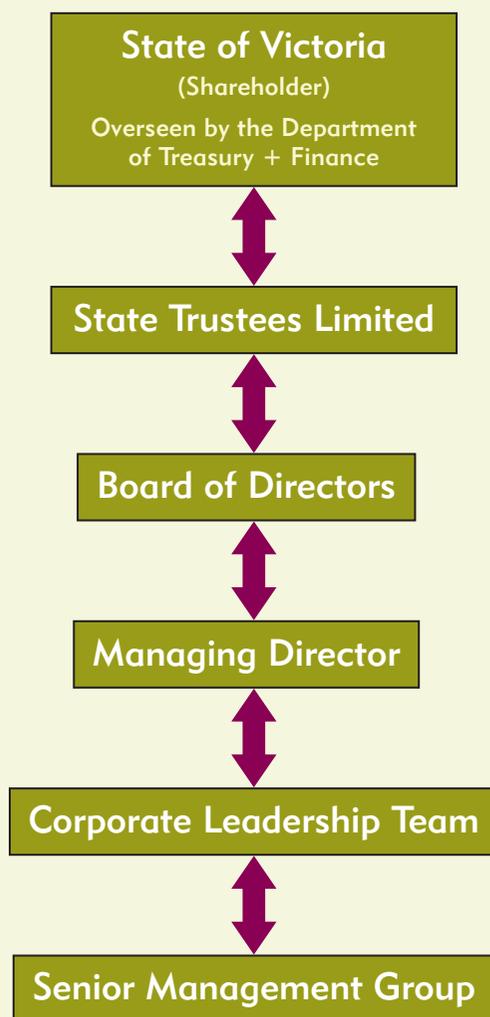
Corporate Governance Statement

State Trustees is committed to achieving and demonstrating the highest standards of corporate governance.

Our main governance practices are consistent with the Victorian Government's 'Good practice guide on governance for Victorian public sector entities'. For ease of reporting, we have addressed our governance practices through five key corporate public sector governance principles. Unless otherwise stated, these practices have been in place for the full financial year.

This corporate governance statement sets out information about our enabling legislation.

Corporate Structure



1. Accountability

1.1 Corporate structure

State Trustees, under its enabling legislation of the State Trustees (State Owned Company) Act 1994 (Vic), reports to the Government of Victoria, and comes under the Department of Treasury and Finance. The State of Victoria is our sole shareholder. We have a Board of Directors, whose members are appointed by the Victorian Treasurer on behalf of the State of Victoria.

1.2 Communication with shareholder

Through the Board of Directors, State Trustees reports to the Treasurer as the State of Victoria's representative. This communication includes:

- quarterly reporting on financial performance, any significant variations from the corporate plan, business risks, and general business issues,
- responding to questions arising from the quarterly reporting either as ad hoc reports or in direct meetings with the Treasurer or his representatives,
- financial statements, directors' reports, and the auditor's reports as required by the Corporations Act 2001 (C'wealth),
- any reports requested by the Auditor General or Ombudsman, and
- responses to questions from Members of Parliament.

1.3 Executive reporting lines

Managing Director, Tony Fitzgerald, leads State Trustees. He has six general managers as direct reports. This group, known as the Corporate Leadership Team (CLT) meets formally each fortnight, but meets informally more regularly as required.

1.4 Performance to plan

Strategic performance

State Trustees based its financial year operations on its 'Strategic Plan 2006-2011'.

We centre our key corporate performance indicators on two components: customer value and shareholder value. We achieved our agreed performance measures and targets for the 2006-07 financial year.

Two indices drive our service offerings: the Client Value Index (CVI) and the Business Value Index. We constructed and presented the latter concept to the executive during the reporting year, and intend to

advance it during the next year.

We developed the CVI during the year and collected data from 751 non-statutory clients. We selected these survey respondents to reflect the proportion of clients who have acquired various products and services from us over the past few years.

We will use our respondents' feedback about their experience with the organisation to improve future service delivery.

Financial performance

State Trustees' budgeted profit before tax for the financial year was \$3.81 million. The financial year's actual performance was \$3.83 million.

We budgeted for a \$47.9 million financial year turnover, achieving an actual financial year turnover of \$47.3 million. Although revenue was under budget, we reduced expenses by about the same amount, hence our profit performance was on track.

At the close of the financial year, our total assets under management and trusteeship were approximately \$1.5 billion.

1.5 Conflict of interest

Directors must keep the Board advised, on an ongoing basis, of any interests that might potentially conflict with those of the company. Directors are guided in this area by board-developed procedures on disclosing potential conflicts of interest.

Where the Board believes a significant conflict exists for a director on a Board matter, the director concerned does not receive the relevant Board papers and is not present at the meeting while the item is considered.

2. Transparency and openness

2.1 Legislation establishing the entity

State Trustees Limited was established in July 1994 as a result of the State Trustees (State Owned Company) Act. The State Trust Corporation of Victoria was its predecessor. The stage was set for State Trustees to become Victoria's first corporatised government business enterprise (GBE) with the 1992 State Owned Enterprises Act.

State Trustees was the first company that was wholly-owned by the State of Victoria, and is a company under the Corporations Act and a trustee company under the Trustee Companies Act 1984 (Vic).

Corporate Governance statement continued

2.2 Goals and strategies

State Trustees is committed to helping people make the most of their financial opportunities. In particular, we look after the finances and estates of represented persons. The Victorian Civil and Administrative Tribunal (VCAT) places these persons under State Trustees' care via an administration order.

Under State Trustees (State Owned Company) Act, the Minister is responsible for ensuring that services relating to managing and administering estates and property are provided to clients who do not have the resources to obtain those services. The Minister does this by entering into a contract with State Trustees – the Community Service Obligation (CSO) agreement – to provide these services.

The CSO only applies to those who don't have the financial capacity to pay for such services. The government pays us to provide these unprofitable services conditional on achieving certain performance standards as stipulated in the CSO agreement.

In addition, we provide numerous services on a commercial basis to clients who appoint us to manage their financial and legal affairs. These services include estate planning, executor services, enduring powers of attorney, will writing, financial planning, tax and legal services, and genealogy.

Since emerging as a GBE in 1994, we've continually improved our customer services and accountabilities while striving for commercial success in the trustee-services industry.

A recent review resulted in our Strategic Plan 2007–2011, which incorporated our Operational Plan 2007–2013.

We encouraged stakeholders to participate in this review and give feedback on their expectations of how well we conduct our business, operations, and services. We carefully reviewed the data from these stakeholder consultations and integrated it into our Strategic Plan.

Our Strategic Plan identified five key result areas for future development:

- products and services,
- people,
- stakeholder relationships,
- operational excellence, and
- infrastructure.

The 2006-07 financial year was the first in the five-year strategic plan. We're on track to achieve most of the year's targets.

A major issue for this financial year was the five-year CSO agreement, which expired on 30 June 2007. At the time of reporting, the Victorian Department of Human Services had extended the contract until 30 September 2007. Negotiations for a new contract were finalised in September 2007.

Other major issues are the accommodation strategy and technology strategy. Both are part of the Operational Plan and will have a significant impact on future years' income and cash flow.

Divisional Structure



2.3 Governance structure

State Trustees' governance structure is driven by two pieces of legislation: the State Trustees (State Owned Enterprise) Act and Corporations Act.

State Trustees is the State of Victoria's first corporatised public sector entity. Its creation followed microeconomic reforms at the State and Federal level in the 1980s, which saw the push towards government entities becoming commercialised, corporatised, or privatised.

Although we are a profit-oriented GBE, we are also driven by the accountabilities of private sector organisations. Accordingly, our governance is influenced by both private company and public entity principles.

For the sake of reporting our governance, we have opted for the public sector entity approach rather than, for instance, the Australian Stock Exchange Corporate Governance Principles.

2.4 Competitive neutrality

State Trustees is a public financial enterprise within the meaning of the Competitive Neutrality Policy Victoria 2000 prepared by the Department of Treasury and Finance. State Trustees operates under a corporatised model, and pays the full suite of Commonwealth and State taxes or tax equivalents.

2.5 Remuneration policies

Principles used to determine remuneration

State Trustees bases its executive remuneration packages on the principle of reward for performance. Our remuneration framework – from the Government Sector Executive Remuneration Panel (GSERP) – aims to align executive reward with achieving strategic objectives and creating value for our shareholder.

Our executive officers' pay and reward framework has two key components:

- **Base remuneration** is structured as a total employment cost package, and can be delivered as a mix of cash, superannuation, and prescribed non-financial benefits at the executives' discretion. Executives are offered a base pay comprising the fixed component of pay and rewards, which is no more than 80 per cent of the Managing Director's base salary (as determined by GSERP).

External remuneration consultants provide advice on whether our executives' base pay reflects the financial services market for a comparable role. The Remuneration Committee reviews senior executives' base pay annually to compare competitiveness with the financial services market. There are no guaranteed base pay increases fixed in any senior executives' contracts.

- **Short-term incentives** (STIs) are available to each executive depending on the role's accountabilities and impact on organisational and business unit performance. Senior executives can receive a bonus of up to 20 per cent of total base remuneration, which the Remuneration Committee approves.

3. Integrity

3.1 Reporting quality

Relevant legislation and accounting standards guide State Trustees' financial reporting.

While we have only one shareholder – the State of Victoria – we have numerous stakeholders who are interested in our ethics and performance.

Key to all our activities is the safety and security of our funds under trust for both represented persons and the broader public.

We inform stakeholders of our effectiveness in achieving these goals through our Annual Report, which we produce in hard copy, and make available online at www.statetrustees.com.au.

Our staff, who are influential stakeholders in providing services to our clients, are continually updated on our performance. Staff attend quarterly presentations given by the Managing Director and can follow these up on the company intranet. We update our clients with a number of specifically-targeted quarterly newsletters that outline our activities.

3.2 Audit Committee

State Trustees has a formal Audit Committee comprising four directors. At its discretion, the Audit Committee invites our internal and external auditors, the Managing Director, General Manager Corporate Operations, and Financial Controller to committee meetings. Section 5.2 of this Corporate Governance Report gives further details of this Committee.

3.3 Code of conduct

State Trustees is committed to operating ethically. We have a Code of Conduct – our public statement of how we conduct our business and treat clients and staff – and use it to communicate how we expect staff to act with honesty and integrity at all times.

Our Code of Conduct contains specific clauses relating to confidentiality, email and information technology, conflict of interest, and personal behaviour. It expressly addresses dealing with breaches and non-compliance with the Code.

Confidentiality

We expect staff to maintain and respect the confidentiality and privacy of clients' personal and financial information. Staff must not use or disclose any confidential information for any unauthorised purpose, including for personal use or to benefit a third party. An essential part of all staff employment arrangements is adherence to our Code of Conduct.

When dealing with represented persons' affairs, we refer staff to the secrecy obligations set out in section 17 of the State Trustees (State Owned Company) Act, and remind them that we are subject to other privacy obligations that may include the Privacy Act 1988 (C'wealth), Information Privacy Act 2000 (Vic) and Health Records Act 2001 (Vic) depending on the circumstances.

Conflict of interest

Our Code of Conduct draws attention to conflict of interest. We advocate acting with honesty and integrity in all aspects of our business. In keeping with this value, we require staff to take care to avoid real or apparent conflicts of interest between their private affairs and our business. We define conflicts of interest as situations where a staff member has a personal interest that may influence (or even appear to influence) the way they perform their official duties.

We regularly revise our Code of Conduct. All new employees receive a copy during their induction training. It is also available on our intranet, and we require staff to confirm electronically that they have read and understood it. At that time, we also give staff the opportunity to ask questions in relation to any aspect of the Code they don't understand.

3.4 Whistleblowers' protection

State Trustees is committed to the aims and objectives of the Whistleblowers Protection Act 2001 (Vic). We don't tolerate our staff at any level acting improperly at any time, nor do we take reprisals against those who come forward to disclose improper conduct.

We recognise the value of transparency and accountability in how we do business.

We support staff disclosing conduct that is corrupt, involves substantial mismanagement of public resources, or substantial risk to public health and safety or the environment.

We take all reasonable steps to protect staff who make such disclosures from any detrimental action relating to that disclosure. We also provide natural justice to the person who is the subject of the disclosure.

Compliance with the Whistleblowers Protection Act

State Trustees encourages staff to report known or suspected incidences of improper conduct or detrimental actions. We have procedures to protect from reprisals a person who makes a disclosure and to properly investigate and deal with any disclosures.

Our procedures include disclosure mechanisms, and confidentiality provisions that guide the roles and responsibilities of designated protected disclosure coordinators, protected disclosure officers, investigators, and welfare managers. We regularly remind staff of the Whistleblowers' legislation and procedures.

There were no disclosures or investigations of improper conduct or detrimental actions by staff during the financial year.

State Trustees Whistleblowers' contacts

State Trustees staff can disclose possible improper conduct or detrimental action to our protected disclosure coordinator, Client Relations Manager, Tim Wilkinson, who is available on [03] 9667 6200. They can also contact our protected disclosure officers Andrew Schuette (Manager, People and Culture, [03] 9667 6882) and John Dennison (Manager, Compliance and Risk Management, [03] 9667 6459).

We will refer all correspondence, phone calls, and emails from internal or external whistleblowers to the protected disclosure coordinator. If a person contemplating making a disclosure feels uncomfortable

Corporate Governance statement continued

doing so on State Trustees premises, they can request a meeting in a discreet location away from the workplace.

3.5 Environmental activities

State Trustees is not subject to any significant environmental regulations. However, we are committed to achieving a high standard of environmental performance. We have undertaken a number of initiatives that aim to reduce our environmental impact. These include:

- a paper recycling program,
- using low energy/high light output fittings,
- saving water by implementing dual-flush cisterns,
- introducing a cartridge recycling program for all printer and photocopier toners,
- introducing new photocopiers with energy-saving capacities, and
- disposing of light tubes via the EPA waste management system.

The Board is not aware of any breaches of its environmental practices during the period covered by this report.

4. Stewardship

4.1 State Trustees' main functions

State Trustees' main functions, established under the State Trustees (State Owned Company) Act are to provide:

- trustee services for government and individuals,
- personal administration services,
- specialised legal, financial, and tax services including will-making, establishing powers of attorney, financial planning, managing compensation funds, genealogical services, and trust administration, and
- funds management services and investment products.

4.2 Stewardship activities

Providing personal administration services – specifically to represented persons – is a core element of our business. In these cases, VCAT's Guardianship List has appointed State Trustees as administrator of the affairs of people who are deemed unable to make reasonable judgements in respect of their estate.

VCAT's Guardianship List started in July 1998, replacing the former Guardianship and Administration Board. The Tribunal and the Office of the Public Advocate both play a crucial role in determining whether a person needs an administrator.

Any person may apply to VCAT seeking them to appoint an administrator. They may nominate a person such as a family member, friend, accountant, solicitor, State Trustees, or a private trustee company who they consider could undertake the role. The Public Advocate may also apply to the Tribunal to appoint a guardian or administrator, or to review appointment arrangements.

In cases where the applicant doesn't nominate an administrator, or VCAT considers the nominee unsuitable – for example, where there's significant family conflict – VCAT may appoint State Trustees or another suitable administrator.

Subject to the Guardianship and Administration Act 1986 (Vic) and the administration order, an administrator:

- is responsible for managing the represented person's estate,
- takes possession and care of, recovers, collects, preserves, and administers the property and estate, and generally manages the represented person's financial and legal affairs, and
- exercises all rights relating to the estate that the represented person might exercise if she/he had legal capacity.

In exercising such wide powers, the legislation requires administrators to act in the represented person's best interests. As administrator, we take into account the represented person's wishes and try to encourage and help them become capable of administering their own estate.

Functions of an administrator

Typically, an administrator performs the following functions on behalf of a represented person:

- prepares and periodically reviews their financial plan and budget,
- manages real estate and other assets,
- collects income including ensuring they receive all of their entitlements,
- manages liabilities and pays accounts as they fall due,
- attends to taxation matters,
- helps them accumulate savings to enable them achieve their aspirations,

- invests available funds, and
- manages legal and associated issues.

State Trustees currently administers more than 8,750 represented persons managing their assets of close to \$677 million.

Represented persons

Ages and circumstances of represented persons vary significantly. About 39 per cent are older than 60, around 51 per cent are between 31 and 60 years, and the remaining 10 per cent are under 30 years of age. All have some form of disability such as intellectual impairment, a mental disorder, brain injury, or dementia that impact on their ability to make reasonable decisions.

As a State-owned company, State Trustees must perform its functions for public benefit by:

- operating its business as efficiently as possible consistent with prudent commercial practice, and
- maximising its contribution to the economy and the State's well being.

In adopting commercial practice, a company would not normally accept administrator appointments in circumstances where it would incur a loss. These could occur by undertaking unprofitable activities designed to meet community and social objectives.

Community Service Obligation

The CSO agreement has been in place between State Trustees and the Department of Human Services since July 1994, and covers services to a range of State Trustees clients.

We deliver these services under legislation that includes the State Trustees (State Owned Company) Act, Administration and Probate Act 1958 (Vic), Trustee Act 1958 (Vic), and Guardianship and Administration Act. In part, these ensure that members of the public have access to services relating to managing and administering their estates and property.

In 2006-07, State Trustees received income of \$9.85 million under the CSO agreement.

Service improvements

Over the past decade or so, we have implemented numerous improvements to client services. These include:

- increasing client accessibility by establishing a dedicated customer service centre in Melbourne's CBD,

- appointing a client relations team and establishing a coordinated client contact program throughout Victoria,
- establishing an office at VCAT to provide immediate access to services for our clients, VCAT applicants, and Tribunal members,
- creating a new property facilitator team charged with providing immediate response to urgent property issues such as securing homes, motor vehicles, and other valuables including pets,
- enhancing client communication by providing regular service information to clients and the broader community,
- appointing a client relations officer to deal formally with any complaints received,
- regularly meeting key stakeholders and advocacy groups to allow them to raise concerns and give input into service delivery initiatives. These meetings also provide an opportunity for us to explain our administration role, responsibilities, and obligations,
- developing new information systems to improve service delivery efficiency, particularly in managing clients' financial affairs and file management,
- developing specialist teams to focus on particular client needs. For example we have a pensions team to verify entitlements, a quality review team to assess the quality of work provided for clients, and an intensive needs team especially for clients with particular needs, and
- establishing the Financial Independence Program and Intensive Support Program.

We take seriously our stewardship of our clients' affairs, and of being responsible for making these economic welfare services available. We choose our consultants carefully to ensure they are empathetic to clients needs; we provide these services fairly, sensitively, and confidentially.

4.3 Compliance and risk management

Risk management

The Board oversees State Trustees' risk management and compliance framework. We have a management framework for assessing, monitoring, and managing operational activities, financial reporting, and compliance risks.

Our risk management framework is structured and transparent. Built on the Risk Management Standard AS/NZS 4360, it allows us to identify, assess, and

Corporate Governance statement continued

manage risk across the company systematically and consistently. The framework also defines reporting processes to manage exposures at an appropriate level across the organisation.

The Managing Director and key senior managers make up the Risk Committee of Management, which is responsible for supporting the Board in fulfilling its oversight responsibilities relating to identifying, assessing, and managing risk, and adhering to internal risk management policies and procedures. In this role, the committee has delegated authority from the Board to approve and oversee the processes.

Working with the executive and senior management, the compliance and risk management team helps management mitigate risks by identifying business risks and controls. The team also monitors and regularly reports to both the Board and management on the status of risk across the organisation.

All staff are trained to understand their compliance responsibilities and the processes and policies for reporting and rectifying breaches.

Compliance and control

State Trustees is committed to meeting strong compliance and ethical standards. Our Compliance Policy guides us in meeting our ongoing and continuously changing compliance requirements and obligations.

The policy, which overarches our annual Organisational Compliance Plan, reflects the company's commitment to compliance. We developed this policy to meet the standards in Australian Standard AS3806 – Compliance Programs.

To help us more effectively manage our financial services compliance responsibilities, we have a management committee titled the Australian Financial Services (AFS) Licence Committee. This committee reviews and monitors ongoing compliance with AFS licence obligations. Its key responsibilities include:

- ensuring our financial reporting is complete and accurate,
- reviewing key risks to compliance with AFS licence obligations,
- resolving AFS licence issues and informing the Managing Director of risk discussions and outcomes, and
- assessing materiality of compliance breaches

and recommending remedial action according to our Breaches Policy and Procedures.

Fraud control

State Trustees has a number of management systems, process controls, and procedures directed at preventing or minimising the risk of fraud.

The Risk Committee of Management oversees alleged fraud investigation and reviews allegations, then reports its findings and recommendations to the Managing Director. All instances of fraud must be reported to State Trustees' Board.

Business continuity planning

The Business Continuity Plan is a framework designed to ensure that critical processes continue if a serious unplanned event occurs that may disrupt the business.

During the year, State Trustees conducted a full-scale testing exercise of the plan to accurately test the plan's performance and robustness. In conjunction with an external specialist adviser, we designed and implemented a test scenario. We learnt from the results, and identified and implemented improvements to the plan.

5. Leadership

5.1 Board of directors

Board composition

The organisation's sole shareholder is the State of Victoria. It is represented by the Treasurer who selects the State Trustees' Board.

Details of the Board members, their experience, expertise, qualifications, terms of office, and independent status are set out in the directors' qualifications section of the Directors' Report.

There are six non-executive directors and one executive director at the date of signing the Directors' report.

The Board seeks to ensure that:

- at any point in time, its membership represents an appropriate balance between directors with experience and knowledge of the company, and directors with an external or fresh perspective, and
- the Board size is conducive to effective discussion and efficient decision-making.

The Board's guiding principles

The Board operates according to the broad principles set out in its charter, which details the Board's role, composition, and responsibilities. These are additional to the company's Constitution. The Company Secretary reviews the Board of Directors' Charter at least annually and the Board receives recommended changes for its approval. The Company Secretary and the management representative responsible for preparing the relevant committee's papers review each committee's charter at least annually. Any recommended changes to committee charters are submitted to the respective committees, and any changes that are approved are then submitted to the Board for its approval.

Chairman and Managing Director

The Chairman is responsible for leading the Board, ensuring directors are properly briefed in all matters relevant to their role and responsibilities, facilitating Board discussions, and managing the Board's relationship with the company's senior executives.

The Managing Director is responsible for implementing group strategies and policies.

The Board charter specifies that the roles of Chairman and Managing Director are to be separate people.

The Board's role

The Board's role is to provide strategic guidance to the company within a framework of prudent and effective controls that enables risk to be assessed and managed. The Board:

- sets the company's strategic aims,
- ensures that the necessary financial and human resources are in place for the company to meet its objectives,
- reviews management performance,
- sets the company's values and standards, and
- ensures that it understands and meets its obligations to stakeholders.

The Board has delegated responsibility for operating and administering State Trustees to the Managing Director, the CLT, and senior management. Responsibilities are delineated by formal authority delegations.

Independent professional advice and access to company information

Each director has the right to access all relevant State Trustees' executives and information and, subject to prior consultation with the Chairman, may seek independent professional advice from a suitably qualified adviser at the company's expense.

Board processes

The full Board holds 11 scheduled meetings each year, plus strategy and extraordinary meetings as needed to address specific significant matters that may arise. During January, when a formal Board meeting is not scheduled, Directors receive update reports from the Managing Director and Chief Financial Officer.

The Chairman, Managing Director, and Company Secretary prepare meeting agendas. Standing items include the Managing Director's report, updates from Board committee meetings, financial reports, strategic matters, governance, and compliance. All Directors receive Board papers at least four days before meetings. Executives are regularly involved in Board discussions and Directors have other opportunities for contact with a wider group of employees.

Conflicts of interest are noted and declared at each Board meeting. Directors make declarations of private interests to government annually with changes noted and declared at each Board meeting.

5.2 Board committees

The Board has established a number of committees to help it perform its duties and allow detailed consideration of complex issues. Its current standing committees are the Audit, Compliance, Investment, and Remuneration Committees, as well as the State Trustees Australia Foundation (STAF) Advisory Committee. Generally, committee structures and membership are reviewed annually. In the case of STAF Advisory Committee, members who are not State Trustees' representatives are appointed for three years.

Each committee has its own written charter setting out its roles and responsibilities, composition, structure, membership requirements, and the manner in which the committee should operate. We review these charters annually. We also regularly review the chairs and members of each committee as part of normal Board governance. During the year we made changes to the Compliance and STAF Advisory Committees, details of which are below.

The Board and all the committees (except STAF) have at least one closed session each year without management being present.

All Board committees have authority, within the scope of their responsibilities, to seek any information they require from any employee or external party. They may also undertake any other activities consistent with their charters.

The number of times each committee met during the year, and committee members' attendance record, are disclosed in the table of directors' meetings in the Directors' Report.

Audit Committee

Director Alice Williams chairs the Audit Committee that comprises three other independent Directors: John Marcard, Linda Berry, and John Price.

The Audit Committee, at its discretion, invites the internal and external auditors, Managing Director, General Manager Corporate Operations, and Financial Controller to attend its meetings.

The Committee advises on establishing and maintaining a framework of internal control for managing State Trustees.

The Audit Committee is responsible for recommending to the Board to approve the internal audit program conducted each financial year.

The internal auditors help the Board ensure compliance with internal controls and risk management programs by regularly reviewing how well the compliance and control systems function.

The Audit Committee also holds an annual meeting with the internal and external auditors without management being present.

The Auditor General is the organisation's official external auditor, but he has subcontracted State Trustees' external audit to Ernst & Young. The company outsources the internal audit function to Deloitte Touche Tohmatsu.

The Audit Committee's main responsibilities are to:

- oversee financial reporting and statutory accounts, and corporate accounting policies,
- review, approve and monitor the system of internal controls,
- review the external audit plan, and
- set an internal audit program.

Compliance Committee

The Compliance Committee comprises four non-executive Directors and one executive director. Its Chairperson until 30 June 2007 was Linda Berry. Committee member Irene Irvine assumed the chair on 1 July 2007. Linda Berry remains a committee member. Other committee members are John Marcard, Tony Fitzgerald, and Daryl Hawkey.

Under its charter, the committee reviews State Trustees' compliance with all relevant legislative, regulatory and contractual obligations, reviews and monitors how State Trustees' overall compliance framework is maintained and implemented, and assesses and monitors business risks as they relate to compliance.

The Committee's main responsibilities are to:

- review management compliance reports and monitor management responses to compliance issues,
- meet with the managed investments compliance plan auditors,
- monitor compliance reporting and compliance programs' effectiveness and completeness,
- monitor and oversee compliance with relevant legislative, regulatory, and contractual obligations (of a non-financial or non-accounting nature),
- review and approve the process used to identify, monitor, and manage compliance-related risks,
- ensure that where compliance breaches are identified, appropriate and timely reporting occurs and strategies to rectify the breach are implemented on a timely basis,
- review and approve the design of the annual compliance program.

Investment Committee

The Investment Committee comprises four non-executive Directors and one executive director. Daryl Hawkey is the Chairperson, and John Marcard, Tony Fitzgerald, Alice Williams, and John Price are its members.

The Committee's main responsibilities are to:

- oversee the investment strategies and performance of corporate investments and of the Common and Premium Funds,
- monitor and review the company's Investment Policy,
- monitor and review the company's financial planning, including reviewing approved lists of investments, standard portfolio investment mix,

investment guidelines, and procedures for determining and reviewing investments and compliance with relevant regulatory legislation, and

- monitor and review the list of external service providers, including brokers, to ensure the company and its subsidiaries continue to act in the best interests of unit holders and/or beneficiaries.

Remuneration Committee

The remuneration committee comprises four non-executive Directors and one executive director. The committee's chairperson is John Marcard, and its members are Tony Fitzgerald, Daryl Hawkey, Irene Irvine, and Alice Williams.

The Remuneration Committee operates according to its charter. It advises the Board on general remuneration and incentive policies and practices, and makes specific recommendations on remuneration packages and other employment terms for the Managing Director and other senior executives.

Remuneration of executives, including the Managing Director, is determined by referring to the Government Sector Executive Remuneration Panel.

The Committee also oversees management succession planning. It reviews progress with regards to executive development programs and broader corporate development.

State Trustees Australia Foundation Advisory Committee

The STAF Advisory Committee's Chairperson was Alice Williams, who resigned from the committee and the Chairperson's role from 30 June 2007. On 1 July 2007, Director John Price joined the committee and became Chairperson.

Other committee members are Managing Director Tony Fitzgerald, and John Annison and Rhonda Galbally – two non-director members with a strong background in community services and philanthropy. John Emerson, a partner at Freehills, resigned from the STAF Advisory Committee in November 2006 after 10 years' contribution.

The role of the STAF Advisory Committee, which meets once a year, is to recommend how the STAF income should be distributed to, or benefit eligible charitable recipients. Grants for this purpose are generated from income earned on donations where the donors have not made requests for grants to specific charities.

Auditors' Independence declaration

To the Members of State Trustees Limited

The Auditor-General's independence is established by the Constitution Act 1975. The Auditor-General, an independent officer of parliament, is not subject to direction by any person about the way in which his powers and responsibilities are to be exercised.

Under the Audit Act 1994, the Auditor-General is the auditor of each public authority and for the purposes of conducting an audit has access to all documents and property, and may report to parliament any matters which the Auditor-General considers appropriate.

Independence Declaration

As auditor for State Trustees Limited for the year ended 30 June 2007, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of auditor independence requirements of the Corporations Act 2001 in relation to the audit
- b no contraventions of any applicable code of professional conduct in relation to the audit.



DDR Pearson Auditor-General

Melbourne, 27 August 2007

Income statement for the year ended 30 June 2007

	Notes	Consolidated entity		Parent entity	
		2007 \$000s	2006 \$000s	2007 \$000s	2006 \$000s
Revenue from continuing operations					
Commissions and fees		35,824	33,741	33,471	31,476
Community Service Obligation revenue		9,851	9,562	9,851	9,562
Other operating revenue	2	1,645	1,487	912	876
Dividend from subsidiary company		-	-	1,544	1,774
Total revenue		47,320	44,790	45,778	43,688
Expenses from continuing operations					
Depreciation and amortisation expense	2	2,007	2,078	2,007	2,078
Lease rental charges – operating leases		188	147	188	147
Audit expenses	29	154	105	134	85
Employee benefits expense		32,262	31,048	32,262	31,048
Other expenses	2	8,880	8,000	8,866	7,982
Total expenses		43,491	41,378	43,457	41,340
Profit from continuing operations before income tax equivalent		3,829	3,412	2,321	2,348
Income tax equivalent expense relating to continuing operations	3	1,308	887	396	43
Net profit		2,521	2,525	1,925	2,305

The above statement should be read in conjunction with the accompanying notes.

Balance sheet as at 30 June 2007

	Notes	Consolidated entity		Parent entity	
		2007 \$000s	2006 \$000s	2007 \$000s	2006 \$000s
ASSETS					
Current assets					
Cash and cash equivalents	4	4,572	3,464	3,404	2,973
Receivables	5	6,867	6,348	7,500	6,941
Other financial assets	6	16,275	16,269	8,971	8,918
Current tax assets	7	1,695	1,685	1,694	1,680
Other assets	8	534	569	534	569
Total current assets		29,943	28,335	22,103	21,081
Non-current assets					
Property, plant, and equipment	9	19,216	13,970	19,216	13,970
Other financial assets	11	-	-	5,200	5,200
Deferred tax assets	12	228	-	228	-
Total non-current assets		19,444	13,970	24,644	19,170
Total assets		49,387	42,305	46,747	40,251
LIABILITIES					
Current liabilities					
Payables	13	4,783	3,568	4,739	3,548
Current tax liabilities	14	131	-	57	-
Provisions	15	4,383	4,099	4,383	4,099
Total current liabilities		9,297	7,667	9,179	7,647
Non-current liabilities					
Deferred tax liabilities	16	552	464	552	356
Provisions	17	760	574	760	574
Total non-current liabilities		1,312	1,038	1,312	930
Total liabilities		10,609	8,705	10,491	8,577
Net assets		38,778	33,600	36,256	31,674
EQUITY					
Contributed equity	19	12,462	12,462	12,462	12,462
Reserves	20	15,363	8,362	15,363	8,362
Retained profits	21	10,953	12,776	8,431	10,850
Total equity		38,778	33,600	36,256	31,674

The above statement should be read in conjunction with the accompanying notes.

Statement of changes in equity for the year ended 30 June 2007

	Consolidated entity		Parent entity		
	Notes	2007 \$000s	2006 \$000s	2007 \$000s	2006 \$000s
Total equity at the start of the financial year		33,600	31,375	31,674	29,669
Gain on revaluation of land and buildings, net of tax		5,507	1,838	5,507	1,838
Changes in the fair value of available-for-sale financial assets, net of tax		-	-	-	-
Net income recognised directly in equity		5,507	1,838	5,507	1,838
Profit for the year		2,521	2,525	1,925	2,305
Total recognised income and expense for the year		8,028	4,363	7,432	4,143
Dividends provided for or paid		(2,850)	(2,138)	(2,850)	(2,138)
Total equity at the end of the financial year		38,778	33,600	36,256	31,674

The above statement should be read in conjunction with the accompanying notes.

Cash flow statement for the financial year ended 30 June 2007

	Notes	Consolidated entity		Parent entity	
		2007 \$000s	2006 \$000s	2007 \$000s	2006 \$000s
Cash flows from operating activities					
Commissions and fees received		35,174	32,990	32,758	30,796
Community Service Obligation income received		9,883	10,303	9,883	10,303
Payments to suppliers		(8,697)	(7,780)	(8,687)	(7,725)
Payments to employees		(32,011)	(31,500)	(32,011)	(31,500)
Interest received		1,332	1,696	762	993
Payments of income tax equivalent		(280)	(872)	662	766
Net cash inflow from operating activities	24b	5,401	4,837	3,367	3,633
Cash flows from investing activities					
Proceeds from sale of property, plant, and equipment		21	5	21	5
Purchase of property, plant, and equipment		(1,458)	(2,145)	(1,458)	(2,145)
Proceeds on maturity of commercial bills and redemption of interests in managed investment scheme		1,045	4,104	661	3,824
Payments for commercial bills and redemption of interests in managed investment scheme		(1,051)	(3,191)	(714)	(2,152)
Net cash outflow from investing activities		(1,443)	(1,227)	(1,490)	(468)
Cash flows from financing activities					
Loans to related entity		-	-	(140)	(827)
Dividends received		-	-	1,544	1,774
Dividends paid		(2,850)	(2,138)	(2,850)	(2,138)
Net cash outflow from financing activities		(2,850)	(2,138)	(1,446)	(1,191)
Net increase in cash held		1,108	1,472	431	1,974
Cash and cash equivalents at the start of the financial year		3,464	1,992	2,973	999
Cash and cash equivalents at the end of the financial year	4	4,572	3,464	3,404	2,973

The above statement should be read in conjunction with the accompanying notes.

Notes to the financial statements

Note 1. Statement of significant accounting policies

Statement of compliance

This financial report is a general-purpose financial report. We have prepared it on an accrual basis to conform with the Financial Management Act 1994, Australian Accounting Standards, and the Corporations Act 2001. Accounting Standards include Australian equivalents to International Financial Reporting Standards (A-IFRS). The financial report also complies with International Financial Reporting Standards (IFRS).

Basis of preparation

We have prepared the financial report based on historical costs, except for revaluing available-for-sale financial assets, land, and buildings that we measure on a fair value basis.

In applying A-IFRS, management is required to make judgements, estimates, and assumptions about carrying values of assets and liabilities not readily apparent from other sources. We have based our estimates and associated assumptions on historical experience and various other factors that we believe are reasonable under the circumstances. The results of these assumptions form the basis of our judgements. Actual results may differ from these estimates.

We review the estimates and underlying assumptions on an ongoing basis. We recognise revisions to accounting estimates in the period the estimate is revised, whether it is current, or current and future periods.

Principles of consolidation

The consolidated financial statements include the financial statements of the parent entity, State Trustees Limited, and its controlled entity, STL Financial Services Limited. We refer to these collectively throughout these financial statements as the 'economic entity' and 'consolidated entity'. We have eliminated all inter-entity balances and transactions and have fully consolidated subsidiaries from the date the group obtained control. The controlled entity ceases to be consolidated when control is transferred out of the group.

Revenue recognition

We recognise and measure revenue at the fair value of the consideration received or receivable to the extent that it is probable the economic benefits will flow to the group over time and revenue can be reliably measured. We have disclosed revenue, where applicable, net of returns, allowances duties, and taxes. We recognise our major activities' revenue as follows:

- **Commissions and fees**
We charge commissions and fees according to our published schedule of fees. We recognise revenue on an accruals basis when we provide the service.
- **Community Service Obligation (CSO) revenue**
We receive revenue from the State of Victoria under the CSO agreement. This revenue is based on State Trustees providing financial services management to the community as defined by the agreement, and is recognised on an accruals basis when we provide the service.
- **Interest revenue**
We recognise interest revenue on a time-proportionate basis that takes into account the effective interest method.
- **Dividends and trust distributions**
We recognise dividends and trust distributions as revenue when the right to receive payment is established.

Impairment of assets

We assess all assets for impairment annually, and whenever an event occurs that may indicate the asset may be impaired. We recognise an impairment loss when the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the assets' fair value less the costs to sell and value in use. For the purposes of assessing impairment, we group assets at the lowest levels where there are separately identifiable cash flows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). If assets are impaired, we test them whenever events arise that may indicate the impairment may have reversed.

Cash and cash equivalents

In the balance sheet and cash flow statement, cash and cash equivalents include cash on hand, deposits held at call with financial institutions, and other readily convertible short-term (maturities of three months or less) investments that are subject to insignificant risk of changes in value.

Receivables

We recognise trade receivables initially at fair value and subsequently measure at amortised cost using the effective interest method less provision for doubtful debts.

We regularly review trade receivables collectability, and write-off debts known to be uncollectible. We provide for doubtful receivables when we have objective evidence that we may not be able to collect according to the original terms. We do not discount cash flows relating to short-term receivables if the effect of discounting is immaterial.

Investments and other financial assets

Available-for-sale financial assets

We classify other investments as being available-for-sale and measure them at fair value. We directly recognise gains and losses from changes of fair value in equity until we sell the investment or determine it to be impaired. At this time, the cumulative gain or loss previously recognised in equity is included in the period's income statement.

We quote actively traded investments in organised financial markets at quoted market bid prices at the close of business on the balance sheet date. We record investments in unlisted trusts at the redemption value per unit as reported by the managers of such funds.

Loans and receivables

We record trade receivables, loans, and other receivables at amortised cost, using the effective interest method less impairment. This method calculates the amortised cost of financial assets and allocates interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the asset, or where appropriate, a shorter period. We recognise gains and losses in profit or loss when the loans and receivables are derecognised or impaired, as well as through amortisation.

Controlled unlisted companies

We carry investments in controlled unlisted companies at cost and perform impairment tests annually.

Property, plant, and equipment

We measure land and buildings at fair value, less subsequent depreciation for buildings, based on periodic (but at least triennial) valuations by external independent valuers. We eliminate any accumulated depreciation at the revaluation date against the asset's gross carrying amount, and restate the net amount to the asset's revalued amount. We state all other property, plant, and equipment at historical cost less depreciation. Historical cost includes expenditure directly attributable to acquiring the items.

We include subsequent costs in the asset's carrying amount or recognise it as a separate asset when we assess that the item might provide future economic benefits and we can measure the item's cost reliably. We charge all other repairs and maintenance as an expense to the income statement during the period incurred.

We calculate depreciation on fixed assets using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives. Terms are as follows:

Buildings	34 years
Building refurbishment	12 years
Leasehold improvements	Lease term
Furniture and fittings	13 years
Computers	3 years
Office	7 years
Telephone system	5 years
System development	3 years
Motor vehicles	5 years

We capitalise and amortise systems' development costs that will produce long-term company benefits, and amortise these over the asset's useful life. We regularly review and adjust the costs, residual values, and useful lives of these systems, at least yearly at balance sheet date.

We immediately write down an asset's carrying amount to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. We determine gains and losses on disposals by comparing proceeds with the carrying amount and include them in our income statement.

Land and building revaluations

We credit any revaluation increase in the balance sheet. If a future revaluation results in a decrease, it will be initially offset against the asset revaluation reserve, and any remaining amount will be recognised directly in the profit or loss.

Disposal

An item of property, plant, and equipment is derecognised on disposal or when we can expect no further future economic benefits from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the year the asset is derecognised.

Payables

These amounts represent liabilities for goods and services unpaid before year-end, and arise when we are obliged to make future payments in respect of purchased goods and services. These are unsecured and are generally paid within 30 days.

Employee benefits and provisions

We recognise provisions when the group has a present (legal or constructive) obligation resulting from a past event, and it is probable that funds will be required to settle future obligations.

We make provision for benefits accruing to employees in respect of wages and salaries, annual leave, and long service leave when it is probable that they will need to be settled and can be measured reliably.

We measure the employee benefits expected to settle within 12 months at their nominal values, and use the remuneration rates we expect to apply at the time of settlement. These are recognised as current liabilities.

We measure employee benefit provisions that we do not expect to be settled within 12 months at the estimated future cash outflows present value up to the reporting date. We recognise these as non-current liabilities.

Accounting for the goods and services tax (GST)

We recognise revenues, expenses, and assets net of GST except where the GST incurred is not recoverable. In this case, we recognise it as part of the cost of an asset acquisition or part of an expense item.

We state receivables and payables inclusive of GST receivable or payable and include the net GST we can recover, or are due to pay, to the tax authority.

We present cash flows on a gross basis. We present their GST component (arising from investing or financing activities) as operating cash flow.

Income tax equivalent

State Trustees is subject to the income tax equivalent system, which puts it on the same footing as private enterprise. The entity pays a tax equivalent to the Victorian Government Consolidated Fund, but as a public authority, under the terms of section 23(d) of the Income Tax Assessment Act 1936, it is exempt from Federal income tax.

We account for the tax expense in our Income Statement. We have current and deferred tax assets and liabilities in the balance sheet. We account for these based on the tax rates we think will apply at the time of paying the tax. If our calculations are incorrect, or if the tax rate changes, we adjust our provisions.

We measure current and previous periods' current tax assets and liabilities at the amount we expect to recover from or pay to the Victorian Government Consolidated Fund. We compute the amount based on the current period's taxable income and use tax rates and laws that are (substantially) enacted by the balance sheet date.

We measure deferred income tax assets and liabilities at the tax rates we expect will apply when the asset is realised or the liability is settled. We base these on tax rates and laws (substantively) enacted at the balance sheet date.

At each balance sheet date, we:

- provide deferred income tax on all temporary differences between the asset and liability tax bases and their carrying amounts for financial reporting purposes,
- review the carrying amount of deferred tax assets and reduce it if it is no longer probable that sufficient taxable profits will flow to the entity, and

- reassess unrecognised deferred income tax assets and recognise them to the extent that it is probable future tax profit will allow the deferred tax asset to be recovered.

We recognise income taxes relating to items recognised directly in equity, such as the asset revaluation reserve, in equity and not in profit or loss.

Tax consolidation legislation

State Trustees Limited and its wholly owned Australian controlled entity STL Financial Services Limited have implemented consolidation legislation as of 1 July 2004.

The head entity and its controlled entity form a tax-consolidated group and continue to account for their own current and deferred tax amounts. The group has determined the appropriate amount of current and deferred taxes to allocate to its members.

We recognise assets and liabilities under tax-funding agreements as amounts receivable from, or payable to, entities in the group.

We recognise any difference between the amounts assumed and receivable or payable under the tax funding agreement as a contribution to (or distribution from) wholly owned tax consolidated entities.

Critical accounting estimates and judgements

We continually evaluate estimates and judgements based on historical experience and other factors, including future expectations that may impact financially on the entity and that are believed to be reasonable under the circumstances.

The consolidated entity makes estimates and assumptions concerning the future. Its resulting accounting estimates will, by definition, rarely equal the related actual results.

Land and building valuation

We revalued land and buildings to recoverable amounts based on the market value subject to existing use as at 30 June 2007 in accordance with AASB 116. In August 2007, the directors obtained an independent valuation of the company-owned land and buildings. The independent valuer was Colliers International Consultancy and Valuation Pty Ltd. We will perform the next valuation at 30 June 2010, or earlier if there is any material change to the value of the land and building.

Executor Services revenue accrual

We accrue revenue for executor services over the estimated service period. The time to administer an estate can vary due to complications or other circumstances. The fees and charges can vary due to the nature of estimates used for estate values and commission rates. We bring to account revenue, on a straight-line basis, over a nine-month period, except where the estate is completed earlier and remaining revenue is brought to account.

Trustee obligations

The Company is an authorised trustee corporation as defined in section 9 of the Corporations Act 2001. The Australian Securities and Investments Commission (ASIC) no longer gives relief to trustee corporations under Class Order 98/0105. Therefore, we are required to disclose the following in our financial statements:

- 'Liabilities the company incurs while acting as trustee or representative to the extent the company has a valid and subsisting right of indemnity of assets in respect of such liabilities and such assets are sufficient to satisfy such right of indemnity, and
- 'Assets, consisting of the value, if any, of such right of indemnity arising from the incurring of such liabilities.'

Rounding

As the company is of a kind specified in ASIC's Class Order 98/0100, we have rounded the amounts in the financial statements and the Directors' Report to the nearest thousand dollars unless otherwise stated.

Notes to the financial statements continued

New accounting standards and interpretations

Below we have listed the changes in Australian Accounting Standards that we believe will have an impact on the entity's financial reporting and disclosure practices.

AASB Amendment/Standard	Title	Nature of change to accounting policy and impact on financial report	Application date of standard	Application date for the entity
AASB 2007-3	Amendment to Australian Accounting Standards arising from AASB 8, (AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB, 1023, AASB 1038).	The company has elected to early adopt AASB 8 (Segment Reporting) which supersedes AASB 114. As the company is a non-disclosing entity it is no longer required to disclose segment information.	1 January 2009	30 June 2007
AASB 2007-4	Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments (AASB 1, 2, 3, 4, 5, 6, 7, 102, 107, 108, 110, 112, 114, 116, 117, 118, 119, 120, 121, 127, 128, 129, 130, 131, 132, 133, 134, 136, 137, 138, 139, 141, 1023 & AASB 1038).	These amendments are expected to reduce the extent of some disclosures in the financial report.	1 July 2007	1 July 2007
AASB 7	Financial instrument: Disclosures	There will be no direct impact on the financial statements, however the amendments are expected to impact the Group's financial instrument disclosures.	1 January 2007	1 July 2007
AASB 8	Operating segments	Refer to AASB 2007-3 (above)	1 January 2009	30 June 2007

Contributed equity

We classify ordinary shares of the company as equity. We show incremental costs directly attributable to the issue of new shares or options as a deduction, net of tax, from the proceeds.

Operating leases

We recognise operating lease payments as an expense in the Income Statement on a straight-line basis over the lease term.

Note 2. Other revenue and expenses

	Consolidated entity		Parent entity	
	2007 \$000s	2006 \$000s	2007 \$000s	2006 \$000s
INCOME				
Revenue from operating activities				
■ Profit on sale of fixed assets	3	5	3	5
■ Interest from other persons	1,642	1,482	909	871
	1,645	1,487	912	876
EXPENSES				
Depreciation and amortisation				
Depreciation				
■ Building	184	144	184	144
■ Building improvements	321	306	321	306
■ Leasehold improvements	171	116	171	116
■ Fixtures and fittings	105	94	105	94
■ Computer and office equipment	908	1,040	908	1,040
■ Telephone system	72	171	72	171
■ Motor vehicles	99	101	99	101
	1,860	1,972	1,860	1,972
Amortisation				
■ System development	147	106	147	106
	147	106	147	106
Other expenses				
■ Corporate	3,448	2,857	3,451	2,857
■ Building and office	1,389	2,637	1,389	2,637
■ Other	4,043	2,506	4,026	2,488
	8,880	8,000	8,866	7,982

	Consolidated entity		Parent entity	
	2007 \$000s	2006 \$000s	2007 \$000s	2006 \$000s
Note 3. Income tax equivalent expense				
We reconcile the difference between income tax equivalent expense in the financial statements, and the prima facie income tax equivalent expense, as follows:				
Profit/(loss) from ordinary activities before income tax equivalent	3,829	3,412	2,321	2,348
Prima facie tax at 30%	1,149	1,024	696	704
Prima facie tax on subsidiary	-	-	453	320
Tax effect of permanent differences:				
■ Income tax expense transferred from subsidiary	-	-	(914)	(844)
■ Imputation credit adjustment	(22)	(16)	(22)	(16)
■ Other not deductible	13	10	13	10
■ Adjustment on prior year	168	(131)	170	(131)
Total income tax equivalent attributable to operating profit	1,308	887	396	43
Total income tax equivalent comprises movements in:				
■ Current tax expense equivalent	(1,633)	(348)	(691)	392
■ Deferred tax expense equivalent	325	(539)	295	(435)
	(1,308)	(887)	(396)	(43)
Note 4. Cash and cash equivalents				
Cash on hand and at bank	547	3,464	504	2,973
Short term money market deposits at call	4,025	-	2,900	-
Total cash assets	4,572	3,464	3,404	2,973

	Consolidated entity		Parent entity	
	2007 \$000s	2006 \$000s	2007 \$000s	2006 \$000s
Note 5. Receivables (current)				
Debtors	1,170	849	1,170	849
Less: Provision for doubtful debts	(24)	(16)	(24)	(16)
	1,146	833	1,146	833
Income Tax	-	404	-	404
Amount owed by related entity	-	-	945	805
Accrued income	5,721	5,111	5,409	4,899
Total current receivables	6,867	6,348	7,500	6,941
Note 6. Other financial assets (current)				
Advances to clients	2,589	2,490	2,589	2,490
Investments in managed investment schemes	13,686	13,779	6,382	6,428
Total current other financial assets	16,275	16,269	8,971	8,918
Note 7. Current tax assets				
(attributable to timing differences)				
Provision for doubtful debts	7	5	7	5
Provision for employee entitlements	1,421	1,478	1,421	1,478
Provision for general expenses	254	161	254	161
Accrued audit fees	13	41	12	36
Total current tax assets	1,695	1,685	1,694	1,680
Note 8. Other assets (current)				
Prepayments	534	569	534	569
Total current other assets	534	569	534	569

Notes to the financial statements continued

	Consolidated entity		Parent entity	
	2007 \$000s	2006 \$000s	2007 \$000s	2006 \$000s
Note 9. Property, plant, and equipment				
Land				
Land	2,300	1,850	2,300	1,850
Revaluation of asset	1,100	450	1,100	450
Net book value – land at fair value (2006 valuation)	3,400	2,300	3,400	2,300
Buildings				
Opening value	8,100	8,121	8,100	8,121
Additions at cost	43	191	43	191
Revaluation	4,713	1,388	4,713	1,388
Elimination of accumulated depreciation	506	1,600	506	1,600
	12,350	8,100	12,350	8,100
Opening accumulated depreciation	-	1,150	-	1,150
Depreciation for the year	506	450	506	450
Elimination of accumulated depreciation	506	1,600	506	1,600
Net book value – buildings at fair value (2007 valuation)	12,350	8,100	12,350	8,100
Leasehold improvements				
Opening value at cost	988	356	988	356
Additions at cost	398	632	398	632
	1,386	988	1,386	988
Opening accumulated depreciation	432	316	432	316
Depreciation for the year	171	116	171	116
	603	432	603	432
Net book value – leasehold improvements	783	556	783	556
Furniture and fittings				
Opening value at cost	1,875	1,809	1,875	1,809
Additions at cost	135	66	135	66
	2,010	1,875	2,010	1,875
Opening accumulated depreciation	1,158	1,064	1,158	1,064
Depreciation for the year	105	94	105	94
	1,263	1,158	1,263	1,158
Net book value – furniture and fittings	747	717	747	717
Computer and office equipment				
Opening value at cost	11,069	10,058	11,069	10,058
Additions at cost	806	1,011	806	1,011
	11,875	11,069	11,875	11,069

	Consolidated entity		Parent entity	
	2007 \$000s	2006 \$000s	2007 \$000s	2006 \$000s
Opening accumulated depreciation	9,406	8,195	9,406	8,195
Depreciation for the year	979	1,211	979	1,211
	10,385	9,406	10,385	9,406
Net book value – computer and office equipment	1,490	1,663	1,490	1,663
Motor vehicles				
Opening value at cost	512	467	512	467
Additions at cost	26	45	26	45
Disposals	18	-	18	-
	520	512	520	512
Opening accumulated depreciation	206	105	206	105
Depreciation for the year	99	101	99	101
Disposals	-	-	-	-
	305	206	305	206
Net book value – motor vehicles	215	306	215	306
Non-STRATIS development				
Opening value at cost	526	526	526	526
	526	526	526	526
Opening accumulated depreciation	526	526	526	526
	526	526	526	526
Net book value – non-STRATIS development	-	-	-	-
System development				
Opening value at cost	9,471	9,271	9,471	9,271
Additions at cost	5	200	5	200
	9,476	9,471	9,476	9,471
Accumulated depreciation				
Opening balance	9,143	9,037	9,143	9,037
Depreciation for the year	147	106	147	106
	9,290	9,143	9,290	9,143
Net book value – system development	186	328	186	328
Net book value – fixed asset clearing	45	-	45	-
Total property, plant and equipment	19,216	13,970	19,216	13,970

We have not taken into account capital gains tax (CGT) in determining the carrying amounts of land and buildings. As we acquired the land and buildings before CGT was introduced, the economic entity is not liable to pay CGT.

	Consolidated entity		Parent entity	
	2007 \$000s	2006 \$000s	2007 \$000s	2006 \$000s
Note 10. Reserve Fund – Trustee Companies Act				
Under the Trustee Companies Act 1984 (the Act) a reserve fund of not less than half of one per cent of the value of company-managed trust estates in Victoria must be provided. In the event that a liquidator, receiver, or manager is appointed, reserve fund monies are to be paid from the trustee company according to section 39(3) of the Act. Section 38 of the Act requires the company to place assets into a reserve fund, but these assets must be managed consistent with requirements of the Trustee Act 1958.				
Assets comprising the Reserve Fund				
Land and building: Note 9	15,750	10,400	15,750	10,400
Reserve fund requirements	7,500	6,950	7,500	6,950
Surplus	8,250	3,450	8,250	3,450
Note 11. Other financial assets (non-current)				
Controlled entity at cost (Note 25)	-	-	5,200	5,200
Total non-current other financial assets	-	-	5,200	5,200
Note 12. Deferred tax assets (non-current)				
(attributable to timing differences)				
Provision for employee benefits	228	-	228	-
Total non-current deferred tax assets	228	-	228	-
Note 13. Payables (current)				
Trade creditors, unsecured	956	800	935	796
Other creditors, unsecured	1,197	1,008	1,174	992
Staffing costs and packages	1,383	1,457	1,383	1,457
Income tax	949	-	949	-
Amounts owing to controlled entity	-	-	-	-
Income attributable to future periods	298	303	298	303
Total current payables	4,783	3,568	4,739	3,548

	Consolidated entity		Parent entity	
	2007 \$000s	2006 \$000s	2007 \$000s	2006 \$000s
Note 14. Current tax liabilities				
(attributable to timing differences)				
Unrealised gains on investments	130	-	56	-
FBT	1	-	1	-
Total current tax liabilities	131	-	57	-
Note 15. Provisions (current)				
Employee entitlements	4,033	3,894	4,033	3,894
Specific provisions	350	205	350	205
Total current provisions	4,383	4,099	4,383	4,099
Movements in each class of provision during the financial year, other than employee benefits are set out below:				
Specific provisions 2007*	Tax issue \$000			
Carrying amount at start of year	205			
Additional provisions recognised	146			
Payments / other sacrifices of economic benefits	(1)			
Total current provisions	350			
*A complex tax issue arose, relating to trusts, where there was a split of capital and income and where there was a need for funds to be allocated to different beneficiaries. We received legal opinions and have requested a tax ruling that is yet to be finalised. We may need to rectify this issue by making a specific payment in future.				
Note 16. Deferred tax liabilities (non-current)				
(attributable to timing differences)				
Unrealised gains on investments	-	184	-	76
FBT	-	6	-	6
Fixed assets	246	274	246	274
Asset revaluation reserve	306	-	306	-
Total current non-current deferred tax liabilities	552	464	552	356

Notes to the financial statements continued

	Consolidated entity		Parent entity	
	2007 \$000s	2006 \$000s	2007 \$000s	2006 \$000s
Note 17. Provisions (non-current)				
Employee entitlements	760	574	760	574
Total non-current provisions	760	574	760	574
Note 18. Employee entitlements				
Aggregate employee entitlement liability	6,176	5,925	6,176	5,925
Included in:				
▪ Payables: Note 13	1,383	1,457	1,383	1,457
▪ Other provisions current: Note 15	4,033	3,894	4,033	3,894
▪ Other provisions non-current: Note 17	760	574	760	574
Total employee entitlements	6,176	5,925	6,176	5,925
Employee numbers at reporting date	480	479	480	479
Superannuation Commitments				
The Company and employees contribute to two defined contribution superannuation funds. The two funds are known as:				
▪ The Universal Superscheme, which is managed by its trustee, MLC Nominees Pty Ltd, ABN 93 002 814 959, and administered by National Australia Financial Management Limited, ABN 56 000 176 116.				
▪ The Vic Superscheme, which is managed by its trustee, VicSuper Fund, ABN 69 087 619 412.				
Note 19. Contributed equity				
Share capital				
Ordinary shares ^(a)				
(12,461,664 fully paid shares, 2006: 12,461,664)	12,462	12,462	12,462	12,462
	12,462	12,462	12,462	12,462
^(a) There was no movement in issued shares for the year.				
The entity has only one shareholder, the State of Victoria, which owns all the ordinary shares. This entitles the holder to receive dividends and the proceeds on winding up of the company that is in proportion to the number of, and amounts paid on, the shares held.				

	Consolidated entity		Parent entity	
	2007 \$000s	2006 \$000s	2007 \$000s	2006 \$000s
Note 20. Reserves				
Asset revaluation reserve	7,863	2,356	7,863	2,356
General reserve	7,500	6,006	7,500	6,006
Total reserves	15,363	8,362	15,363	8,362
Asset revaluation reserve				
Balance at start of financial year	2,356	518	2,356	518
Revaluation increments	5,813	1,838	5,813	1,838
Provision for deferred tax liability – improvement subject to CGT	(306)	-	(306)	-
Balance at end of financial year	7,863	2,356	7,863	2,356
On 30 June 1999, in keeping with legislation amending the State Trustees (State Owned Company) Act 1994, the corpus amounts held by Common Funds managed by the parent entity were paid to State Trustees and transferred to a general reserve. Since the 2006/07 financial year, the balance of the reserve fund has been adjusted for the movement in the required reserve.				
Note 21. Retained profits				
Net profit	2,521	2,525	1,925	2,305
Retained profits at the beginning of the financial year	12,776	12,389	10,850	10,683
Total available for appropriation	15,297	14,914	12,775	12,988
Dividends paid	2,850	2,138	2,850	2,138
Profits transferred to general reserve (per Trustee Act)	1,494	-	1,494	-
Retained profits at the end of the financial year	10,953	12,776	8,431	10,850

	Consolidated entity		Parent entity	
	2007 \$000s	2006 \$000s	2007 \$000s	2006 \$000s
Note 22. Commitments				
Operating lease commitments				
– Group as lessee				
Not later than one year	271	176	271	176
Later than one year but not later than two years	280	270	280	270
Later than two years but not later than five years	410	664	410	664
Operating expenditure liability	961	1,110	961	1,110
Operating expenditure contracted for is payable as follows				
Not later than one year	452	189	452	189
Later than one year but not later than two years	196	15	196	15
Later than two years but not later than five years	95	-	95	-
Operating expenditure liability	743	204	743	204
Capital expenditure contracted for is payable as follows:				
Not later than one year	21	-	21	-
Capital expenditure commitments	21	-	21	-

Note 23. Contingent assets and contingent liabilities

Contingent assets

STL is seeking reimbursement of expenses incurred in a client-related matter before the courts. Realising the receivable depends on selling a property, the title to which is encumbered with a caveat.

	141	-	141	-
Total contingent assets	141	-	141	-

Contingent liabilities: Performance bonds

- Guarantee in favour of the ASX Settlement and Transfer Corporation Pty Ltd issued in relation to the company's membership of CHES
- Guarantee in favour of ASIC, AFS Licence

	500	500	500	500
	20	20	20	20
Total contingent liabilities	520	520	520	520

We do not anticipate material losses in respect of any of the above contingent liabilities.

	Consolidated entity		Parent entity	
	2007 \$000s	2006 \$000s	2007 \$000s	2006 \$000s
Note 24. Notes to the Statement of Cash Flows				
a. Cash reconciliation				
For the purposes of the statement of cash flows, cash includes cash at bank and on hand, and short term money market deposits at call, as shown in Note 4.				
b. Reconciliation of net cash inflow from net profit after tax to net cash provided by operating activities				
Net profit after income tax equivalent	2,521	2,525	1,925	2,305
Add/(less): non-operating activities				
– sale of fixed assets	(3)	(5)	(3)	(5)
– dividend from related entity	-	-	(1,544)	(1,774)
Adjustments for non-cash income and expense items:				
Depreciation and amortisation expense	2,007	2,077	2,007	2,077
Movement in provision for:				
– Deferred tax liability	(87)	404	(53)	296
– Deferred tax asset	(238)	134	(242)	139
– Employee entitlements	325	(418)	325	(418)
– Other provisions	145	(538)	145	(538)
Changes in operating assets and liabilities				
(Increase)/decrease in:				
– Receivables	(519)	(166)	(419)	712
– Prepayments	35	(113)	35	(113)
Increase/(decrease) in:				
– Payables	1,215	937	1,191	952
Net cash inflow from operating activities	5,401	4,837	3,367	3,633

Notes to the financial statements continued

Note 25. Controlled entities

The consolidated financial statements at 30 June 2007 include the following controlled entities. The financial year of the controlled entities is the same as that of the parent entity.

Name of Controlled Entity	Place of Incorporation /Creation	Type of Shares	Book Value of Parent Entity's investment in \$		% of shares held		Contribution to the results in \$000s	
			2007	2006	2007	2006	2007	2006
STL Financial Services Limited	Australia	Ordinary	5.2m	5.2m	100	100	2,137	1,994

On 9 November 1998, STL Financial Services Limited issued 5,000,000 ordinary shares to the parent entity for a total consideration of \$5,000,000. This allowed the controlled entity to satisfy ASIC Dealers Licence requirements, since removed, and now satisfies the Australian Financial Services Licence requirements in respect of minimum net tangible assets. The State of Victoria is State Trustees Limited's ultimate parent.

Note 26. Economic dependency

We receive a significant portion of our revenue from the State of Victoria via the CSO agreement. Our five-year CSO agreement expired on 30 June 2007. We negotiated a three-month extension on this, taking us to 30 September 2007. This contract is between State Trustees Limited and the Department of Human Services. At the time of reporting, we were still in negotiations over a new contract.

Note 27. Related party disclosures

Key management personnel

State Trustees' key management personnel includes the directors and those executives reporting directly to the Managing Director.

Directors

The following persons held the position of company director during the past financial year:

John Marcard	Anthony Fitzgerald	Linda Berry	Daryl Hawkey
Dr Irene Irvine	John Price	Alice Williams	

Executives

The following held executive positions during the past financial year:

David Johnstone	General Manager Personal Financial Solutions
Ross McDonald	General Manager Executor and Trustee Services
Andrew Loyde (Acting)	General Manager Estate Planning
Andrew Loyde*	General Manager Corporate Strategy and Innovation
Prue Willsford	General Manager Corporate Operations
John Brennan	General Manager People and Culture
Jim Kargas	Formerly General Manager Estate Planning (Employment ceased 9 May 2007)
Cecil Piccinino	Formerly General Manager Corporate Operations (Employment ceased 30 March 2007)

*From 6 June to 31 August 2007, Naveena Nekkallapudi was Acting General Manager Corporate Strategy and Innovation

The remuneration paid to the company directors is tabled below.

	2007 \$000s	2006 \$000s
Base remuneration	433	372
Short-term incentives	41	40
Termination benefits	-	-
Post-employment benefits	34	83
Total remuneration of directors	508	495

Note 27. Related party disclosures [continued]

The remuneration paid to key executives is tabled below.

	2007 \$000s	2006 \$000s
Base remuneration	1,076	1,439
Short-term incentives	153	208
Termination benefits	-	544
Post-employment benefits	92	122
Total executive remuneration	1,321	2,313

The key management personnel's remuneration disclosed above for the consolidated entity is consistent with the parent entity.

Principles used to determine the nature and amount of remuneration

We outline the principles underlying our remuneration policies in the Corporate Governance Statement, from page 6. We base remuneration on the Government Sector Employment Remuneration Panel (GSERP) framework. We structure this as a total employment cost package, delivered as a mix of cash and prescribed non-financial benefits at the executives' discretion. Executives receive no more than 80 per cent of the Managing Director's base salary (as determined by GSERP). In addition, they are offered short-term incentives to the maximum of 20 per cent of total base remuneration.

Other transactions with key management personnel or entities related to them

There are no transactions with key management personnel in the financial year ended 30 June 2007.

Transactions with STL Financial Services Limited

The parent entity entered into the following transactions during the financial year with its controlled entity. It advanced and repaid amounts on short-term inter-company accounts. These are repayable on demand.

	Consolidated entity		Parent entity	
	2007 \$000s	2006 \$000s	2007 \$000s	2006 \$000s
Dividend payments received	-	-	1,544	1,774
Amounts receivable (current)	-	-	-	64
Inter-company tax related receivables	-	-	945	741

All transactions with related parties are conducted on commercial terms and conditions.

Transactions with Premium Funds

The controlled entity, STL Financial Services Limited, acts as the responsible entity of the Premium Funds. In accordance with the Product Disclosure Statement issued, the economic entity has invested in the funds. The balances invested are as follows at the 30 June 2007.

	Consolidated entity		Parent entity	
	2007 \$000s	2006 \$000s	2007 \$000s	2006 \$000s
Premium Cash Fund	5,210	5,040	2,434	2,332
Premium Fixed Interest Fund	4,387	4,400	2,043	2,059
Premium Equity Fund	2,578	2,610	1,204	1,233
Premium International Fund	809	887	378	413
Total investment in premium funds	12,984	12,937	6,059	6,037

During the period, STL Financial Services Limited received fees and commissions in relation to the Premium Funds in accordance with the Product Disclosure Statement, of \$2,353,246 in 2007 (2006: \$2,261,007).

Directors' interests in the Premium Funds

Alice Williams, a director of State Trustees Limited, held the following units in the Premium Funds:

Fund	Number of units held		Interest held %		Number of units acquired		Distributions paid/ payable by the funds \$	
	2007	2006	2007	2006	2007	2006	2007	2006
Premium Property Fund	27,439	22,984	0.11	0.10	4,455	2,675	9,604	5,148

Notes to the financial statements continued

	Consolidated entity		Parent entity	
	2007 \$000s	2006 \$000s	2007 \$000s	2006 \$000s
Note 28. Client assets under management and trusteeship				
Total client assets and liabilities under management and trusteeship were as follows. These amounts are not reflected in the Statement of Financial Position as they are held in trust on behalf of the entities' clients.				
Investments, real estate, personal, and other assets	774,691	706,134	774,691	706,134
Client investments in Common Funds	216,516	223,742	216,516	223,742
Investments in Premium Funds	506,911	457,511	251,195	217,283
Assets under management	1,498,118	1,387,387	1,242,402	1,147,159
Assets under custodianship*				
■ State Investment Trust	193,697	205,543	193,697	205,543
Total assets under management and trusteeship	1,691,815	1,592,930	1,436,099	1,352,702
Client liabilities	10,064	7,867	10,064	7,867
Total liabilities under management	10,064	7,867	10,064	7,867
*Assets held under custodianship are held at par value				
Note 29. Remuneration of auditors				
■ Audit or review of the financial statements	154	105	134	85
Total remuneration*	154	105	134	85
*Total remuneration includes remuneration paid (or due to be paid) to the auditor of the parent entity and its controlled entities.				
During the year, the auditors were paid for auditing the Common Funds where State Trustees Limited acts as trustee, and for Premium Funds, where STL Financial Services Limited acts as the responsible entity. The total amount paid was \$353,692 (2006: \$250,279), including the \$153,812 disclosed.				
Note 30. Statement of operations by segments				
The consolidated entity provides trustee and related financial services and operates predominantly within Victoria.				

Note 31. Registered office

State Trustees Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

- State Trustees Limited
168 Exhibition Street
Melbourne, Victoria 3000

Note 32. Financial risk management

The Group's principal financial instruments comprise cash and short-term deposits and investments in financial assets as available-for-sale. The financial instruments' main purpose is to generate a return on the group's investments. The group has various other financial instruments such as receivables and accounts payable that arise directly from its operations.

The main risks arising from the group's financial instruments are interest rate risk, credit risk, market risk, and liquidity and cash flow risk. The group reviews and agrees policies for managing each of these risks.

Market risk

The group is exposed to listed securities and unlisted trusts price risks. This arises from investments held by the group and classified on the Balance Sheet as available-for-sale. The group manages exposure to risk by diversifying its investments.

Credit risk

The group's credit risk involves counterparties' failure to perform contractual obligations that will cause the group to incur financial losses. We minimise concentrations of credit risk primarily by ensuring:

- we approve counterparties together with the respective credit limits,
- we undertake transactions with a diverse range of counterparties, and
- that the majority of transactions we undertake are on recognised exchanges.

We spread our concentration of credit risk. We have no material exposure to a group of counterparties that we expect to be affected similarly by changes in economic or other conditions. The carrying amount of financial assets that we record in the financial statements represent our maximum exposure to credit risk.

Liquidity and cash flow risk

Liquidity risk is the risk we may experience in either realising assets or otherwise raising sufficient funds to satisfy commitments associated with company operations. Cash flow risk relates to the fluctuations in future cash flows from holding financial instruments. We adopt risk management guidelines that are designed to minimise liquidity and cash flow risk through:

- ensuring there is no significant exposure to illiquid or thinly-traded financial instruments, and
- applying limits to ensure that there is no concentration of liquidity risk to a particular counterparty or market.

Interest rate risk exposures

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

Our exposure to interest rate risk and the weighted average effective interest rate (for each class of financial asset and financial liability, and each maturity period including floating rate financial asset and liabilities) is set out below:

	Floating interest rate \$000s	Fixed interest maturing 1 Year or Less \$000s	Fixed interest maturing 1-2 Years \$000s	Fixed interest maturing 2-3 Years \$000s	Non-interest bearing \$000s	Total \$000s	Interest rate Floating
2007							
Financial assets							
Cash and deposits	4,572	-	-	-	-	4,572	5.84%
Receivables	-	-	-	-	6,867	6,867	
Advances to clients	2,589	-	-	-	-	2,589	6.84%
Interests in managed investment scheme							
Cash Fund	-	-	-	-	5,210	5,210	
■ Fixed interest	-	-	-	-	4,387	4,387	
■ Equity	-	-	-	-	2,578	2,578	
■ International	-	-	-	-	809	809	
■ Blackrock (external)	-	-	-	-	702	702	
	7,161	-	-	-	20,553	27,714	
Financial liabilities							
Accounts payable	-	-	-	-	2,153	2,153	
	-	-	-	-	2,153	2,153	

	Floating interest rate \$000s	Fixed interest maturing 1 Year or Less \$000s	Fixed interest maturing 1-2 Years \$000s	Fixed interest maturing 2-3 Years \$000s	Non-interest bearing \$000s	Total \$000s	Interest rate Floating
2006							
Financial assets							
Cash and deposits	3,464	-	-	-	-	3,464	5.25%
Receivables	-	-	-	-	6,348	6,348	
Advances to clients	2,490	-	-	-	-	2,490	7.78%
Interests in managed investment scheme							
■ Cash Fund	-	-	-	-	5,040	5,040	
■ Fixed interest	-	-	-	-	4,400	4,400	
■ Equity	-	-	-	-	2,610	2,610	
■ International	-	-	-	-	887	887	
■ MLIM (external)	-	-	-	-	842	842	
	5,954	-	-	-	20,127	26,081	
Financial liabilities							
Accounts payable	-	-	-	-	2,109	2,109	
	-	-	-	-	2,109	2,109	

Fair value of financial assets and liabilities

We carry the financial assets and liabilities included in the balance sheet at fair value.

We determine the fair values of financial assets and liabilities:

- with standard terms and conditions and traded on active liquid markets as determined with reference to quoted market prices, and
- as determined according to generally accepted pricing models based on discounted cash flow analysis.

Directors' declaration

In accordance with a resolution of the directors of State Trustees Limited, we state that:

In the opinion of the directors:

- a The financial statements and notes of the company and the consolidated entity are in accordance with the Corporations Act 2001 including:
 - i giving a true and fair view of the company and consolidated entity's financial positions as at 30 June 2007, and of their performances for the year ended on that date,
 - ii complying with Accounting Standards and the Corporations Regulations 2001, and
- b there are reasonable grounds to believe that State Trustees Limited will be able to pay its debts when they become due and payable.

On behalf of the Board of State Trustees Limited



John HM Marcard Chairman of Directors



Anthony G Fitzgerald Managing Director

Melbourne, 27 August 2007

VAGO

Victorian Auditor-General's Office
Auditing in the Public Interest

Auditor-General's Report

To the Members of the Parliament of Victoria and members of the company.

The Financial Report

The accompanying financial report for the year ended 30 June 2007 of State Trustees Limited which comprises an income statement, balance sheet, statement of changes in equity, cash flow statement, a summary of significant accounting policies and other explanatory notes to and forming part of the financial report, and the director's declaration has been audited.

The Responsibility of the Company Directors for the Financial Report

The Directors' of State Trustees Limited are responsible for the preparation and the fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the financial reporting requirements of the Corporations Act 2001. This responsibility includes:

- establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error
- selecting and applying appropriate accounting policies
- making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

As required by the Corporations Act 2001 and Audit Act 1994, my responsibility is to express an opinion on the financial report based on the audit, which has been conducted in accordance with Australian Auditing Standards. These Standards require compliance with relevant ethical requirements relating to audit engagements and that the audit be planned and performed to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The audit procedures selected depend on judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, consideration is given to internal control relevant to the Company Directors' preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of the accounting policies used, and the reasonableness of accounting estimates made by the Company Directors, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

The Auditor-General's independence is established by the Constitution Act 1975. The Auditor-General is not subject to direction by any person about the way in which his powers and responsibilities are to be exercised. The Auditor-General, his staff and delegates comply with all applicable independence requirements of the Australian accounting profession.

Auditor's Opinion

In my opinion, the financial report of State Trustees Limited is in accordance with: the Corporations Act 2001, including:

- a giving a true and fair view of the Company's financial position as at 30 June 2007 and of its financial performance for the year ended on that date; and
- b complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the Corporations Regulations 2001.



DDR Pearson Auditor-General

Melbourne, 27 August 2007

\$29,943,000

[Current assets]

\$38,778,000

[total equity at financial year end]