

FINANCIAL REVIEW OF 2010

The University recorded a net operating result before impairment of available-for-sale financial assets of \$117.6 million for the year ended 31 December 2010 (\$70.1 million in 2009), an increase of \$47.5 million or 67.8 percent on the 2009 result.

After accounting for an impairment loss of \$3.9 million on available-for-sale assets (2009: \$8.5 million), the net operating result for the year ended 31 December 2010 was \$113.7 million (2009: \$61.6 million), an increase of \$52.1 million on the previous year's result.

Overall, the University completed 2010 with a very close position to its budget of \$119.2 million. The key contributors to this success can be attributed to the increased income from Commonwealth-supported places due to increased load, realised gains in investment income and strong cost management.

A comparison of the 2010 results to 2009 is set out below.

	2010		2009*		Increase for 2010
	\$M	\$M	\$M	\$M	\$M
Operating revenue		1,505.6		1,392.3	113.3
Operating expenses		1,388.0		1,322.2	65.8
Net operating result		117.6		70.1	47.5
Impairment of available-for-sale assets		(3.9)		(8.5)	4.6
Operating result after impairment		113.7		61.6	52.1
Adjusted for:					
Realised revaluation loss/(gain) on disposal of investments		(37.6)		(6.8)	
Research income received with specific restrictions on use	(166.0)		(139.9)		
Research expenditure on those projects	160.0		157.7		
Overspent/(unexpended) research grants		(6.0)		17.8	
Net operating result available for appropriation		70.1		72.6	(2.5)
LESS					
Expenditure on assets					
Capital works program (including the acquisition of buildings)	62.2		113.6		
Equipment/IT	35.3		36.5		
Expenditure on assets		(97.5)		(150.1)	52.6
Surplus/(shortfall) for the year		(27.4)		(77.5)	52.2

* The comparatives for 2009 have changed due to a change in accounting policy (refer to Note 34 of the financial statements for detail).

NET OPERATING RESULT AFTER IMPAIRMENT (\$113.7 MILLION)

This general purpose financial report has been prepared in line with and is based on Department of Education, Employment and Workplace Relations (DEEWR) guidelines, which include adopting the Australian equivalents to International Financial Reporting Standards (AIFRS).

The net operating surplus of \$113.7 million was derived from operating revenue of \$1,505.6 million, less operating expenditure of \$1,388.0 million and impairment of available-for-sale assets of \$3.9 million.

OPERATING REVENUE

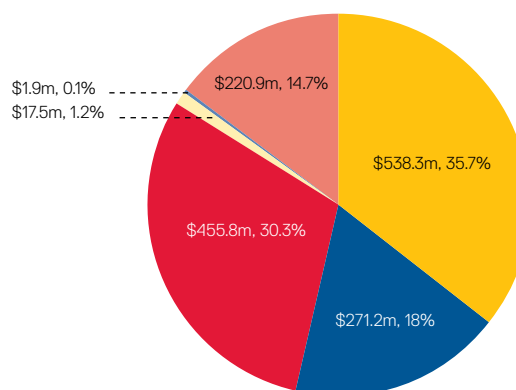
Operating revenue for 2010 of \$1,505.6 million was \$113.3 million more than in 2009. The major components of the increased revenue were as follows.

	2010	2009	Increase for 2010	
	\$M	\$M	\$M	%
Income from students (incl. HECS & FEE-HELP)	538.3	481.7	56.6	11.8
Commonwealth Government operating grants	271.2	240.3	30.9	12.9
Research and consultancy activities	455.8	433.4	22.4	5.2
Capital grants	17.5	41.0	(23.5)	(57.3)
NSW government operating grant	1.9	1.9	(0.0)	(0.0)
Income from private sources	220.9	194.0	26.9	13.8
Total	1,505.6	1,392.3	113.3	8.1

NET OPERATING RESULT AVAILABLE FOR APPROPRIATION (\$70.1 MILLION)

In accordance with current accounting standards, the University is obliged to record all research income on receipt as income. At the end of 2010, the University had \$6.0 million of unspent government research grants with specific restrictions on their use (2009: overspent \$17.8 million).

Revenue from continuing operations 2010

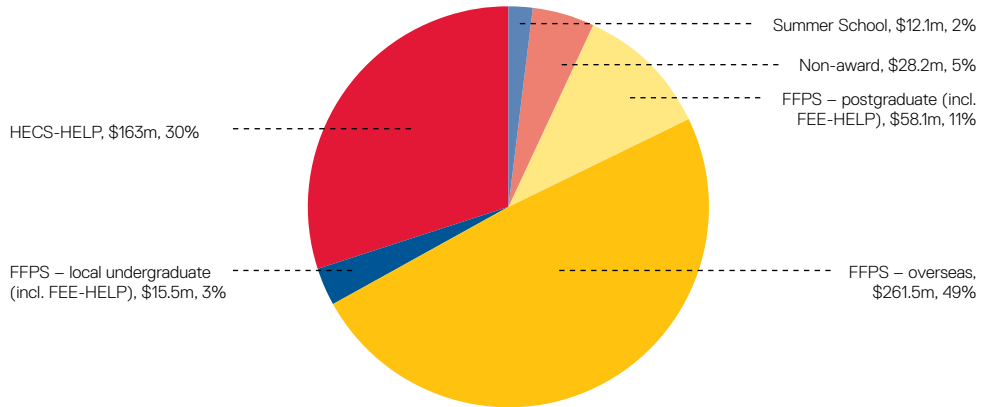


INCOME FROM STUDENTS

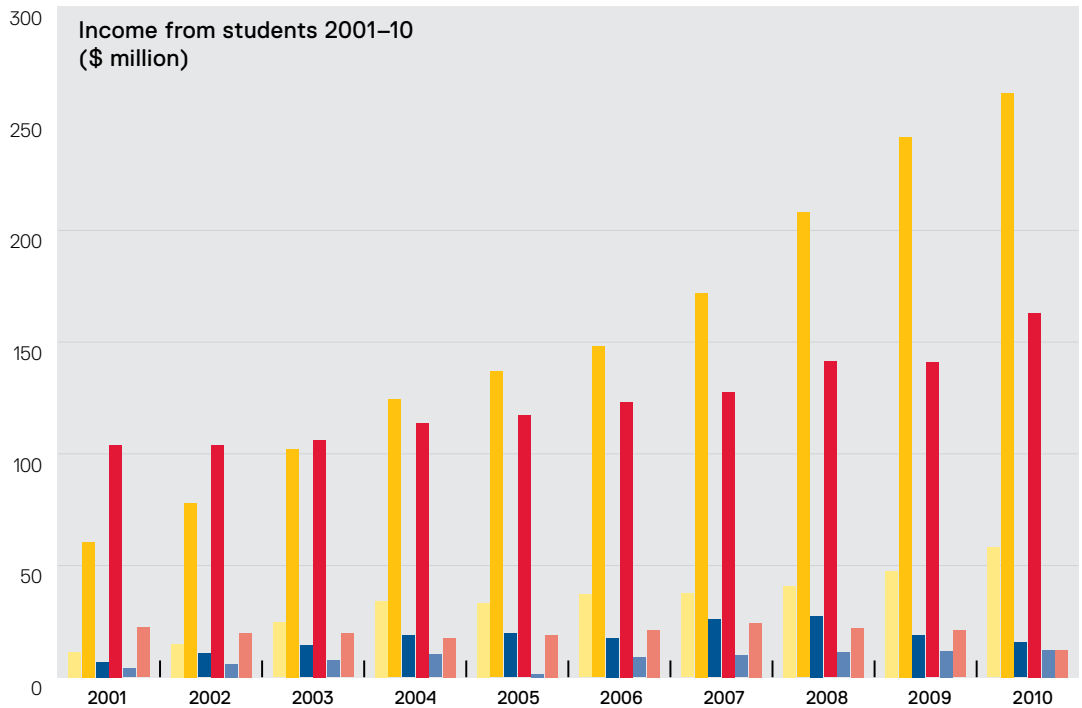
The increased revenue from students of \$56.6 million was mainly attributable to additional fees from overseas students of \$19.6 million (up 8.1 percent) and an increase of \$29.7 million in HECS-HELP and FEE-HELP.

Full fee-paying students (FFPS) continued to provide significant sources of income to the University, and remain a larger source of income than that derived from HECS-HELP payments.

Income from students 2010



Income from students 2001-10 (\$ million)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
FFPS - postgraduate (incl. FEE-HELP)	11.2	14.9	24.5	34.1	33.2	37.1	37.6	40.8	47.5	58.1
FFPS - overseas	60.6	77.9	102.2	124.3	136.8	148.1	171.9	208.1	241.8	261.5
FFPS - local undergraduate (incl. FEE-HELP)	6.8	10.7	14.2	18.6	19.6	17.6	25.9	27.4	18.9	15.5
HECS-HELP	104.0	103.9	106.2	113.8	117.1	123.3	127.6	141.3	140.8	163.0
Summer School	3.8	6.0	7.6	10.2	1.5	8.8	9.7	11.0	11.8	12.1
Non-award	22.2	19.7	19.6	17.5	19.0	21.2	24.3	22.0	20.8	28.2

COMMONWEALTH GOVERNMENT FUNDING

The overall level of funding from the Commonwealth increased by \$32.2 million in 2010, or 5.3 percent, to \$642.0 million.

Income from the Department of Innovation, Industry, Science and Research (DIISR) research funding and other scholarships increased by \$13.5 million, or 9.5 percent, to

\$156.3 million and accounted for 54 percent of the overall additional Commonwealth research funding of \$24.8 million. Funds from the Teaching and Learning Commonwealth Grants Scheme increased by \$30.9 million to \$271.2 million, whereas capital funding dropped by \$23.5 million, or 57.3 percent, to \$17.5 million.

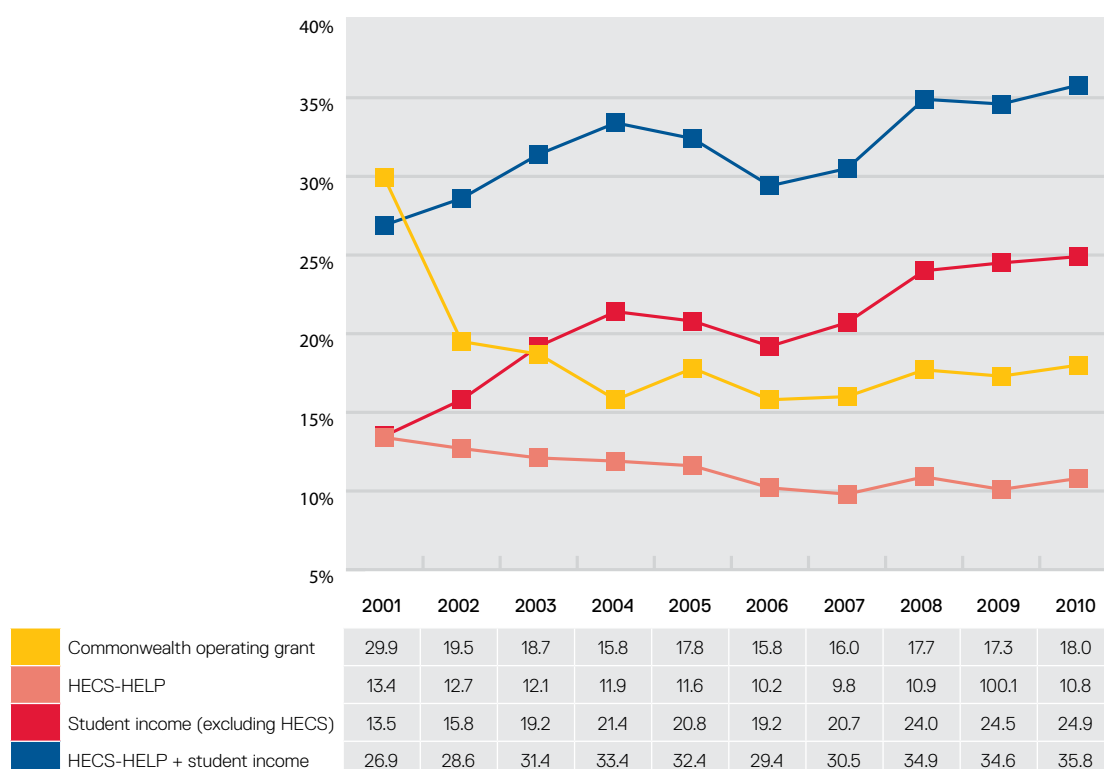
	2010	2009	Increase for 2010
	\$M	\$M	\$M
Australian Research Council	66.8	62.7	4.1
DIISR research funding and other scholarships	156.3	142.8	13.5
Other Commonwealth agencies – research	130.1	123.0	7.1
Subtotal Commonwealth research funding	353.2	328.5	24.7
Teaching and learning operating grants	271.3	240.3	31.0
Capital funding	17.5	41.0	(23.5)
Total Commonwealth funding	642.0	609.8	32.2

The continued growth in student fee income/HECS and the relative decline of funding through the Commonwealth operating grant meant that the proportion of the University revenue from HECS and student income, at 35.8 percent (2009: 34.6 percent), is considerably more than the 26.9 percent in 2001, with most of the increase attributable to student income. On the other hand, the Commonwealth

operating grants proportion of 18 percent (2009: 17.3 percent) is considerably less than the 29.9 percent in 2001.

The following graph sets out the continual financial pressure on the University arising from the ongoing decline in financial support from the Commonwealth.

University revenue sources as a percentage of total revenue



RESEARCH AND CONSULTANCY ACTIVITIES

Income received by the University for research, collaborative research and consultancy activities increased by \$19.8 million, or 4.5 percent, to \$455.8 million. Commonwealth research funding of \$353.2 million represented 77.5 percent of the total funding in this category.

The major sources of funding within research and consultancy activities were as follows.

	2010	2009	Increase for 2010
	\$M	\$M	\$M
Australian Research Council	66.8	62.7	4.1
National Health and Medical Research Council	97.5	77.2	20.3
DIISR – Research Training Scheme	62.6	60.7	1.9
– Joint Research Engagement Program	36.8	36.3	0.5
– Infrastructure funding	26.8	25.5	1.3
– Postgraduate funding	19.4	19.0	0.4
– Other research schemes	10.6	1.3	9.3
Other Commonwealth agencies	32.7	45.8	(13.1)
Subtotal Commonwealth research funding	353.2	328.5	24.7
NSW government research grants	14.1	11.5	2.6
Industry research grants	17.2	7.7	9.5
Foundations and individual research grants	19.1	33.0	(13.9)
Local collaborative research funds	22.4	20.6	1.8
Overseas collaborative research funds	19.5	20.2	(0.7)
Consultancies	10.3	11.9	(1.6)
Total research and consultancy income	455.8	433.4	22.4

NSW STATE GOVERNMENT GRANTS

Grants provided by the NSW government increased by \$2.6 million, or 19.4 percent, to \$16.0 million in 2010, attributable to an increase in research grants received.

	2010	2009	Increase for 2010
	\$M	\$M	\$M
Research grants	14.1	11.5	2.6
Operating grants	1.9	1.9	0
Total NSW government grants	16.0	13.4	2.6

INCOME FROM PRIVATE SOURCES

Income from private sources was \$220.9 million in 2010, an increase of \$26.9 million, or 13.8 percent, from the previous year. There was an increase across the board in all areas, including investment income, contributions from external organisations and commercial and other activities.

The income from philanthropic activities increased by \$8.7 million, or 24.6 percent, from the previous year.

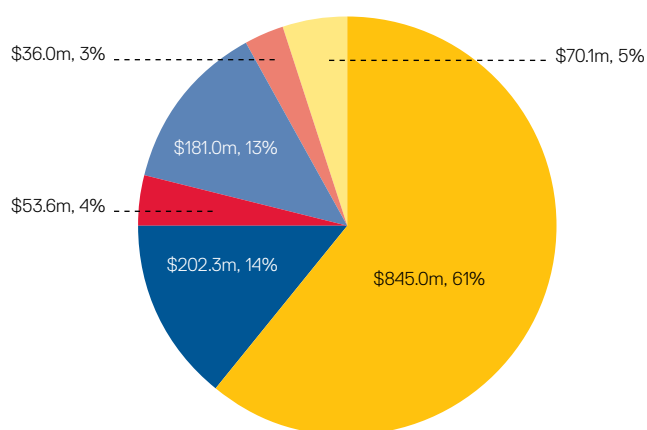
The major components of this income group were as follows.

	2010	2009	Increase for 2010
	\$M	\$M	\$M
Investment income (including gains/(losses) on disposal of assets)	89.0	81.0	8.0
Contributions from external organisations	27.8	22.6	5.2
Commercial and other activities	45.7	38.7	7.0
Other fees and charges	14.3	16.3	(2.0)
Donations and bequests	44.1	35.4	8.7
Total income from private sources	220.9	194.0	26.9

OPERATING EXPENSES

The 2010 operating expenditure of \$1,388.0 million was \$65.8 million, or 5 percent, greater than that for 2009.

	2010	2009	Increase for 2010	
	\$M	\$M	\$M	%
Salaries	679.3	642.9	36.4	5.7
Payroll on-costs	165.7	160.2	5.5	3.4
Total employee benefits	845.0	803.1	41.9	5.2
■ Payments for consumables and non-capitalised equipment, travel and staff development	202.3	201.3	1.0	0.5
■ Buildings and grounds maintenance	53.6	53.5	0.1	0.2
■ Teaching/research grants and scholarships	181.0	161.0	20.0	12.4
■ Consultants and contractors	36.0	40.8	(4.8)	(11.8)
■ Depreciation and amortisation	70.1	62.5	7.6	12.2
Total expenses	1,388.0	1,322.2	65.8	5.0

Expenses from continuing operations 2010

The increase of \$41.9 million in salary payments was 5.2 percent higher than the expenses for 2009. Of the overall increase in salaries, \$26.1 million related to academic salaries and \$10.3 million to non-academic salary costs. The increase in employee-related costs was mainly due to salary increases of 2 percent in January 2010 and 2.5 percent in July 2010.

Expenditure on teaching/research grants and scholarships increased by \$20.0 million from 2009, or 12.4 percent. The major components of the increase included student stipends (\$5.9 million), which increased both in number as well as the payment rate, and an increase in payment of grants to external organisations, which include payments to institutes, centres and other universities (\$12.4 million).

Buildings and grounds expenses, at \$53.6 million, held constant compared to the previous year. This expenditure needs to be considered along with the expenditure on capital works in the year to gain a true picture of the overall level of building and infrastructure construction, refurbishment and maintenance activity across the University.

The combined maintenance and capital works expenditure on buildings and infrastructure was \$50.9 million lower than the previous year, due mostly to the completion of the Campus 2010 project.

The mix of expenditure in this area between maintenance (operating expense) and asset improvements (non-current asset – works in progress) is shown in the following table.

	2010	2009	Increase for 2010
	\$M	\$M	\$M
Buildings and grounds (operating expense – income statement)	53.6	53.5	0.1
Capital works in progress (non-current asset – balance sheet)	42.1	93.1	(51.0)
	95.7	146.6	(50.9)

In addition, the University has entered into commitments totalling \$70.7 million (2009: \$19.0 million) for capital expenditure.

EXPENDITURE ON ASSETS

The net operating surplus of \$117.6 million provided the University with funding for its \$97.5 million expenditure on assets. The major areas of expenditure are shown in the following table.

	2010	2009	Increase for 2010
	\$M	\$M	\$M
Non-current assets			
Land and buildings	3.5	1.7	1.8
Equipment	19.5	24.6	(5.1)
Capital works – software	20.1	20.6	(0.5)
Capital works – buildings	42.1	93.1	(51.0)
Other	12.3	10.1	2.2
	97.5	150.1	(52.6)

The reduction in capital expenditure in 2010 is mainly due to the completion of prior years' capital projects. A new program of capital expenditure is under development as part of implementing the strategic plan.

Where the capital expenditure is greater than the operating surplus, the balance has been funded from reserves.

EQUITY

The total equity of the University at 31 December 2010, at \$3,308.3 million, was \$87.7 million higher than in 2009.

The three major components of the total equity are as follows.

Restricted funds, which include the unexpended portion of funds received through the income statement and which have specific statutory restrictions on their use. The net operating income included \$24.0 million of restricted use funds relating to unspent research grants, bequests, capital preserved trusts, scholarships and prizes.

Reserves, which are revaluation reserves and relate to revaluation of land and buildings and available-for-sale financial assets. There was a net decrease of \$23.5 million in 2010 in these reserves.

Retained earnings of \$2,250.0 million is made up of the initial revaluation reserve of \$1,660.5 million created in 1992 and the cumulative net operating surpluses excluding reserves at 31 December 2010.

A comparison of balances with 2009 and their movement is set out in the following table.

	2010	2009	Increase for 2010
	\$M	\$M	\$M
Restricted funds	781.1	757.1	24.0
Reserves	277.2	300.7	(23.5)
Retained earnings	2,250.0	2,162.8	87.2
Total equity	3,308.3	3,220.6	87.7

THE UNIVERSITY OF SYDNEY OPERATING STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

Comparison to budget

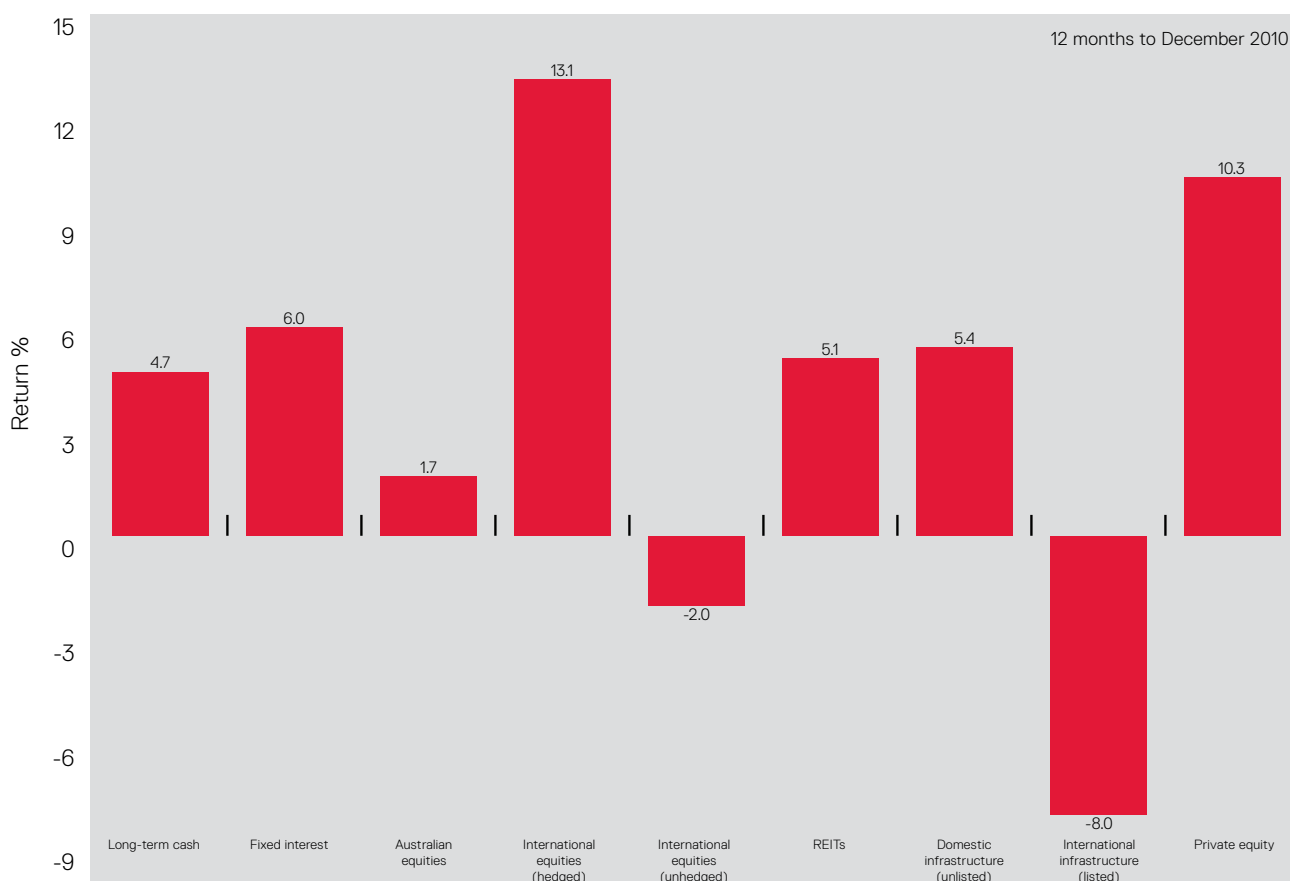
Parent entity – University	[2010]			[2011]
	Budget \$'000	Forecast \$'000	Actual \$'000	Budget \$'000
Revenue and income from continuing operations				
Australian government financial assistance:				
Australian government grants	577,972	632,244	642,012	691,541
HECS-HELP – Australian government payments	113,940	132,115	126,746	136,931
FEE-HELP	35,276	42,331	42,838	42,852
New South Wales government financial assistance	8,798	16,771	15,936	14,988
HECS-HELP – student payments	34,251	37,874	36,336	39,254
Fees and charges	362,925	338,340	346,680	362,571
Investment revenue	60,488	72,600	88,477	62,962
Royalties, trademarks and licences	2,253	3,179	2,619	2,409
Consultancy and contract research	115,343	91,826	88,464	82,550
Other revenue	62,550	43,711	44,077	42,034
Other income	81,946	78,368	70,943	88,587
Gains/(losses) on disposal of assets	80	(304)	510 ¹	(1,430)
Total revenue and income from continuing operations	1,455,822	1,489,055	1,505,638	1,565,249
Expenses from continuing operations				
Employee-related expenses	822,689	848,755	845,039	892,221
Depreciation and amortisation	62,000	69,000	70,103	73,423
Repairs and maintenance	79,421	54,240	53,550	55,251
Impairment of assets	0	0	5,987	0
Other expenses	176,992	205,685	196,336	206,289
Grant and scholarship expenses	79,721	82,144	85,009	89,319
Consultants and contractors	38,603	38,814	35,988	32,099
Teaching and research grants	77,242	78,054	95,951	83,507
Total expenses from continuing operations	1,336,668	1,376,692	1,387,963	1,432,109
Operating result before income tax	119,154	112,363	117,675	133,140
Income tax benefit/(expense)				
Impairment of available-for-sale assets	0	(2,300)	(3,939)	0
Operating result after income tax and impairment of available-for-sale assets for the period	119,154	112,363	113,736	133,140
Operating result attributable to members of the University of Sydney	119,154	112,363	113,736	133,140

¹ Net gain/(loss) on sale of shares, managed funds and fixed income securities.

INVESTMENTS AND INVESTMENT PERFORMANCE

As detailed in Chart 1 below, 2010 was mostly a positive year from an asset class return perspective, particularly after taking into account the strong appreciation of the Australian dollar. This contrast is perhaps best demonstrated by the difference in the hedged and unhedged annual returns for the international equities sector, where the annual market return difference was a little over 15 percent. Some 88 percent of this return divergence reflects the strengthening of the Australian dollar, which appreciated by around 13.3 percent over the year.

Chart 1: The investment environment: asset class returns



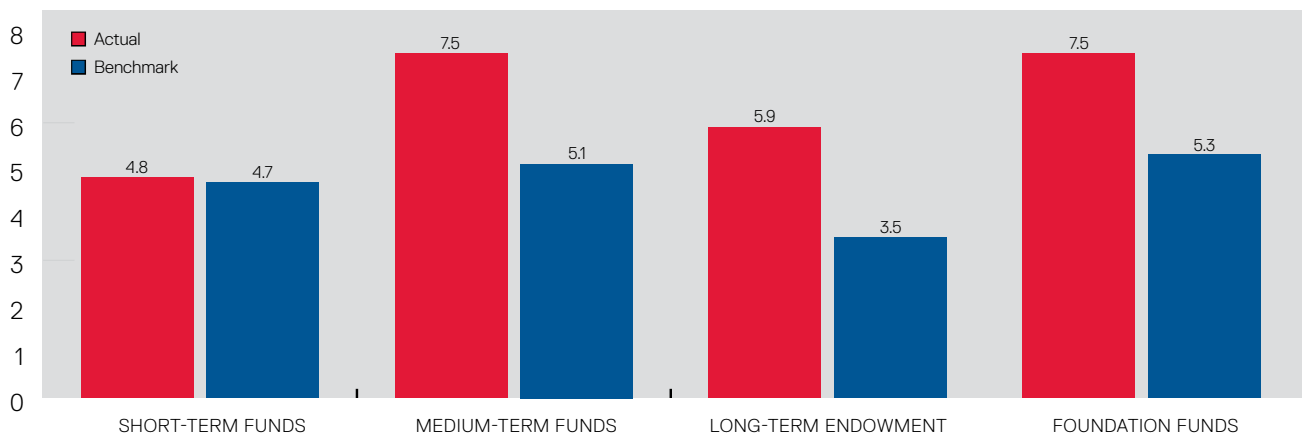
Notwithstanding the standout performance of the Australian economy in weathering the impacts of the global financial crisis, the strong rise in commodity prices and Australia's markedly improved terms of trade, the Australian share market underperformed the hedged international equities sector by 11.4 percent over the year. This underperformance is not easily explained, but can to some degree be attributed to Australia's more restrictive monetary policy, the impact of the stronger Australian dollar on exporters and the higher potential for corporate earnings to rebound in overseas economies, particularly in the United States where substantial labour shedding occurred.

Investment performance relative to internal approved benchmarks for the key aggregate portfolios managed by the Investment and Capital Management team was favourable (see Chart 2 below). All four categories of funds outperformed benchmarks over rolling one and three-year periods. The Long-Term Endowment Portfolio, which amounts to approximately \$725 million and makes up the majority of the Investment Portfolio, outperformed the internal benchmark by 2.4 percent in 2010 (before external manager fees).¹

¹The outperformance relative to benchmark after external manager fees and equivalent NSW Treasury Corporation administration fees for the debt and cash sectors was around 1.6 percent.

Table 1 below provides a peer-based comparison (on an after-fees basis) of the University's Long-Term Endowment Portfolio's performance over one- and three-year rolling periods, including the performance relative to the NSW Treasury Corporation Long-Term Funds Facility which is the nominated statutory benchmark for the Endowment Portfolio.

Chart 2: Total portfolio performance – rolling 12-month returns as at end-December 2010



Notes

- All results are before fees.
- All benchmarks refer to Investment and Capital Management Internal benchmarks, which are approved by the Investment and Commercialisation Committee, a committee of Senate.

Table 1
Long-term funds performance against peers – rolling one and three-year periods ended December 2010

	University of Sydney Long-Term Endowment Funds (Mid-SAA target range: 60–80% growth, with 70% mid-target) ¹	Mercer Employer Super, Balanced Growth (60–80% growth) All Balanced Growth (68 funds reported one-year returns)	NSW T-Corp Hour-Glass Long-Term Growth Facility (mid-target of 70% growth)
1 yr	+5.1%	+3.9% [+5.0%]	+3.4%
3 yr, p.a.	+0.4%	(2.0)% [(0.1)%]	(1.6)%

Notes:

- All results are after fees.
- Superannuation returns are also net of tax. The University is a zero tax payer while the investment earnings of superannuation funds are presumably taxed at 15 percent.
- Mercer Survey results are median returns except figures in square brackets [] which represent the upper quartile cut-offs.

¹ The mid-term strategic asset allocation (SAA) target for growth is currently 69 percent (with a 25 percent target for fixed interest and a temporary target of 6 percent for long-term cash). The mid-term SAA target range for growth assets is 60–80 percent.

CREDITORS' PAYMENT PERFORMANCE FOR THE YEAR ENDED 31 DECEMBER 2010

	March quarter 2010		June quarter 2010		September quarter 2010		December quarter 2010	
	Actual	Target	Actual	Target	Actual	Target	Actual	Target
Percentage of accounts paid on time:								
by number of invoices	92%	80%	90%	80%	95%	80%	96%	80%
by value	90%	80%	92%	80%	97%	80%	97%	80%
	(\$'000)		(\$'000)		(\$'000)		(\$'000)	
Amount of accounts paid on time (excluding investments)	\$118,938		\$122,782		\$292,762		\$122,370	
	(\$'000)		(\$'000)		(\$'000)		(\$'000)	
Total amount of accounts paid (excluding investments)	\$132,120		\$133,109		\$303,237		\$126,418	

– The University's standard payment terms are 30 days.

– Payment performance percentages exclude lead-time factors associated with invoices directly sent to the business unit.

SUMMARY OF REAL ESTATE OWNED OR OCCUPIED BY THE UNIVERSITY

The University classifies its land and buildings into the following categories:

- teaching and research land
- teaching and research leased land
- commercial farms
- student housing
- investment properties.

Teaching and research land

The major teaching and research facilities of the University, located on the Camperdown and Darlington campuses adjoining Parramatta Road and City Road in Sydney, cover a total of 50.6 hectares.

In addition, several teaching and research facilities are located away from these premises.

University-owned lands include:

- Former Law School Building, 173–175 Phillip Street, Sydney
- Faculty of Health Sciences, East Street, Lidcombe
- Brain & Mind Research Institute, Mallet Street, Camperdown
- Faculty of Veterinary Science, Camden Campus
- Australian Archaeological Institute at Athens and Thessaloniki, Greece
- University-owned and commercially operated farms throughout eastern Australia, comprising a total area of approximately 10,428 hectares that support the teaching and research activities of the faculties of Agriculture, Food and Natural Resources, Veterinary Science and Science.

The teaching and research lands are classified into two sub-categories by the University. The non-commercial teaching and research component represents land that is subject to specific restrictions including land grants, zoned special use and/or specific contractual arrangements. The book value of this land, on the accounting standards cost basis, was \$168.4 million (2009: \$165.7 million) as at 31 December 2010.

The balance of the land held for teaching and research, which is not subject to specific usage constraints, is

classified as 'commercial teaching and research' land. This land is valued on the accounting standards fair value basis at \$200.1 million (\$205.7 million 2009) as at 31 December 2010.

The total value of teaching and research land held by the University as at 31 December 2010 was \$368.5 million.

Teaching and research leased land

The University occupies a number of sites on long-term leases, licences and agreements in New South Wales for entities such as:

- Sydney College of the Arts (SCA) at Rozelle
- Sydney Conservatorium of Music in central Sydney
- the Plant Breeding Institute at Narrabri and other field stations
- University teaching and research hospitals
- science faculties at Australian Technology Park in Redfern.

Commercial farms

The University operates two commercial farms that support teaching and research activities. The farms, which are located in the north-west and Southern Highlands areas of New South Wales, are valued on a fair value basis. The value of these farms was \$18.6 million as at 31 December 2010.

Student housing

The University owns a total of 64 halls of residence properties providing student accommodation in the vicinity of the Camperdown and Darlington campuses. It also owns a 16-unit residential block at Kingswood, which accommodates 44 students studying at the Nepean Clinical School at Penrith.

The student housing halls of residence were valued on a fair value basis at \$68.3 million as at 31 December 2010.

Investment properties

At 31 December 2010 the University's investment portfolio included a 21-strata unit residential complex in Sydney. These units have subsequently been sold on 31 January 2011 and are valued on a net proceeds of sale basis at \$13.83 million as at 31 December 2010.

SUBSIDIARIES***The Wentworth Annexe Limited***

The Wentworth Annexe Limited administers the planning and construction of the Wentworth Annexe and other building work that the University of Sydney Union may wish to undertake. As this is a non-trading enterprise, performance and accrual performance measures are not applicable.

Sport Knowledge Australia Pty Limited

Sport Knowledge Australia Pty Limited was established as an International Centre of Excellence in Sport, Science and Technology. The company commenced operations in January 2005 with the University being one of three stakeholders. On 11 June 2008 the University of Sydney acquired the remaining shares to acquire 100 percent ownership.

The Bosch Institute

The Bosch Institute was incorporated in 2006 as an Australian public company limited by guarantee for the advancement of public health and medical research activities to improve the health of individuals and the community. It has not had any activity since incorporation and was deregistered on 4 July 2010.

SydneyLearning Pty Limited

SydneyLearning Pty Limited was established in April 2008 to enhance the capability of working adults, professionals and corporate enterprises by designing and delivering award and non-award continuing professional development and leadership programs. The company commenced trading in 2009.

Sydney Talent Pty Limited

Sydney Talent Pty Limited was incorporated in January 2008. It is a supporting service of the University of Sydney and an initiative in the University's quest to equip its future graduates for immediate and successful employment.

The Warren Centre for Advanced Engineering Limited

The Warren Centre for Advanced Engineering Limited was established in April 2008 to stimulate the application and further development of new engineering technology and provide independent comment and advice to government and industry on these and related issues.

WayAhead Pty Limited

WayAhead Pty Limited was incorporated in April 2008 to prepare students for university entry by designing and delivering pre-tertiary and tertiary level programs. It did not have any activity in 2010.

Bandwidth Foundry International Pty Ltd

Bandwidth Foundry International Pty Ltd became a subsidiary in October 2009. Its mission is to enable photonics innovation and commercialisation by providing prototyping facilities and services to developers of photonic integrated circuits.

The following subsidiary was deregistered in 2010:

The Bosch Institute

FINANCIAL STATEMENTS FOR SUBSIDIARIES

The financial statements for the subsidiaries, which form part of the University's annual report tabled in the NSW parliament, are available on request by contacting the University's Web and Print Production unit on +61 2 9351 4625, fax +61 2 9351 3289 or email wpp.info@sydney.edu.au.

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